Assembly Budget Committee
Preliminary Review of the Governor's Proposed 2013-2014 State Budget Act

Bob Blumenfield
Assembly Budget Committee Chair

STATE CAPITOL
P.O. BOX 942849
SACRAMENTO, CA 94249-0007
(916) 319-2099
FAX (916) 319-2199

Assembly
California Legislature

ASSEMBLY COMMITTEE ON BUDGET
BOB BLUMENFIELD, CHAIR
ASSEMBLYMEMBER, FORTIETH DISTRICT

CHIEF CONSULTANT
CHRISTIAN GRIFFITH

DEPUTY CHIEF CONSULTANTS
NICOLE VAZQUEZ
MISTY FEUSAHRENS

COMMITTEE SECRETARIES
SANDY PEREZ
CHRISTINA CORVERA
MATT CREMINS

CONSULTANTS
MARVIN DEON
ANDREA MARGOLIS
MARK MARTIN
GABRIELLE MEINDL
ZOE ADLER
GENEVIEVE MORELOS
ANTHONY MATTHEWS

January 31, 2013

Dear Colleagues and Friends:

I am pleased to present to you the Assembly Budget Committee's annual ***Preliminary Review of the Governor's Proposed 2013-14 State Budget***.

The ***Preliminary Review*** outlines and provides background for Governor Brown's major budget proposals and puts them in some perspective. It is organized by traditional topics of interest to us all, and highlights major provisions.

Crafting the state budget is perhaps the Legislature's greatest responsibility. Writing this year's budget will involve no less than making monumental decisions on the future of state government's role in educating our children, rebuilding our transportation infrastructure, protecting our unique environment and taking care of our aged and disabled residents.

The ***Preliminary Review*** is intended to serve as an effective tool for those interested in participating in this year's budget proceedings.

We hope that you find the ***Preliminary Review*** useful in understanding and discussing the Budget. If you have any questions or need additional information, please do not hesitate to contact me or the Assembly Budget Committee staff.

Sincerely,

BOB BLUMENFIELD, Chair

Printed on Recycled Paper

TABLE OF CONTENTS

BUDGET COMMITTEE STAFF

CHRISTIAN GRIFFITH .... CHIEF CONSULTANT
MISTY FEUSAHRENS .... DEPUTY CHIEF CONSULTANT
NICOLE VAZQUEZ .... DEPUTY CHIEF CONSULTANT

MISTY FEUSAHRENS .... K-12 EDUCATION
CHRISTIAN GRIFFITH .... CHILD CARE, GENERAL GOVERNMENT, AND TRANSPORTATION
MARK MARTIN .... HIGHER EDUCATION AND GENERAL GOVERNMENT
ANDREA MARGOLIS .... HEALTH SERVICES
NICOLE VAZQUEZ .... HUMAN SERVICES
GABRIELLE MEINDL .... NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION
GENEVIEVE MORELOS .... GENERAL GOVERNMENT, LOCAL GOVERNMENT, TAXES
ZOE ADLER .... GENERAL GOVERNMENT
MARVIN DEON .... PUBLIC SAFETY

ANTHONY MATTHEWS .... PRINCIPAL CONSULTANT
SANDY PEREZ .... COMMITTEE ASSISTANT
CHRISTINA CORVERA .... COMMITTEE ASSISTANT
MATTHEW CREMINS .... COMMITTEE ASSISTANT

OVERVIEW

On Thursday January 10, 2013, the Governor issued his proposed 2013-14 budget. This document provides a thorough review of the Governor's Budget proposals based on the release of the latest information available.

No Deficit
The Department of Finance expects no budget deficit in 2013-14 and projects budget surpluses through 2016-17. After years of massive structural deficits, the Governor's Budget reflects a return to stability and predictability in our budgeting, an achievement that came with a heavy price and sacrifice from all Californians over the last five years.

$1 Billion Reserve Proposed
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 end.

The major "reserve builders" are:

- $104 million--Suspend four newly identified mandates
- $310 million--Extend existing hospital quality assurance fee
- $364 million--Extend the gross premiums tax on Medi-Cal managed care plans
- $172 million--Count over-appropriated current year Prop 98 funds toward budget year repayment costs
- $67 million--Continue to use State Highway Account funds to pay for General Obligation Bond Debt

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, after accounting for encumbrances.

The Future Looks Bright

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 chart below details the five year forecast projected by the Department of Finance ($ in millions):

2013-14 Governor's Budget Multiyear Forecast

	2012-13	2013-14	2014-15	2015-16	2016-17
Revenues/Transfers					
Prior Year Balance	($1,615)	$785	$1,636	$1,683	$2,097
Revenues/Transfers	$95,394	$98,501	$105,853	$111,283	$117,341
Total Revenues	$93,779	$99,286	$107,489	$112,966	$119,438
Expenditures					
Proposition 98	$37,507	$40,870	$45,333	$47,995	$50,898
Non-Proposition 98	$55,487	$56,780	$60,473	$62,874	$65,449
Total Expenditures	$92,994	$97,650	$105,806	$110,869	$116,347
Fund Balance	$785	$1,636	$1,683	$2,097	$3,091
Encumbrance Reserve	$618	$618	$618	$618	$618
Final Reserve	**$167**	**$1,018**	**$1,065**	**$1,479**	**$2,473**
Operating Surplus	$2,400	$851	$47	$414	$994

Governor Prioritized Debt Repayment in Future Plans

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 under $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 with only minimal investment, restoration, or expansion of programs to occur in the budget.

The chart on the following page illustrates the proposed pay-down of the Wall of Debt:

Wall of Debt 2013-14 Governor's Budget
(Dollars in Millions)

	Total Debt as of the end of 2012-13	2012-13	2013-14	2014-15	2015-16	Remaining Amount
Prop 98 Deferrals to Schools and Community Colleges	8,205	1,950	2,986	3,137	132	-
Economic Recovery Bonds	5,150	1,474	1,558	1,664	293	-
Special Fund Loans	4,101	561	795	2,188	557	-
Unpaid Mandates to Schools, Local Governments, and Community Colleges	4,914	-	-	152	2,270	2,492
Under funding of Prop 98	2,365	-	247	-	2,118	-
Deferred MediCal Costs	1,664	130	286	119	-	1,129
Deferred State Payroll Cost from June to July	718	-	-	-	-	718
Deferred Payment to CalPERs	440	-	-	-	440	-
Prop 42 Trans Borrowing	251	83	83	85	-	-
Total	**27,808**	**4,198**	**5,955**	**7,345**	**5,810**	**4,339**

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. This report details these proposals individually in greater depth.

The Governor's Budget is now in the hands of the Legislature to review, analyze, debate, revise, and return to the Governor. Assembly Bill 73 (Blumenfield) and Senate Bill 65 (Leno) will serve as the budget bills for the Assembly and the Senate, respectively. Multiple “Trailer Bills” have also been introduced in both houses as vehicles for statutory changes necessary to implement the final budget agreement.

The Assembly Budget Committee will evaluate the Governor’s proposed budget as it crafts an on-time and balanced State budget.

Analysis and Context

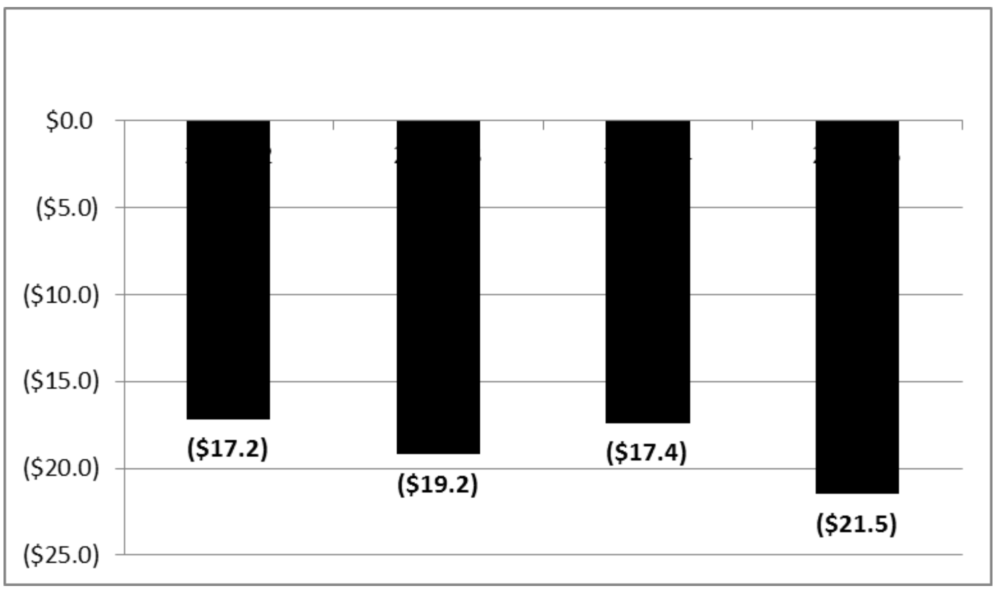
From this point forward, our budget process will be framed by an acknowledgement of the following concepts:

- California's favorable budget forecast is unprecedented and potentially volatile;
- Achieving financial stability in the context of our depressed economy has required cutting state spending to the lowest levels in 40 years;
- Over the next five years, as our economy recovers, the Legislature must balance repaying the state's debts with restoring investment in vital programs with building a prudent reserve; and,
- The Governor's budget and accompanying policy proposals will be vetted for cost and capacity to improve government performance.

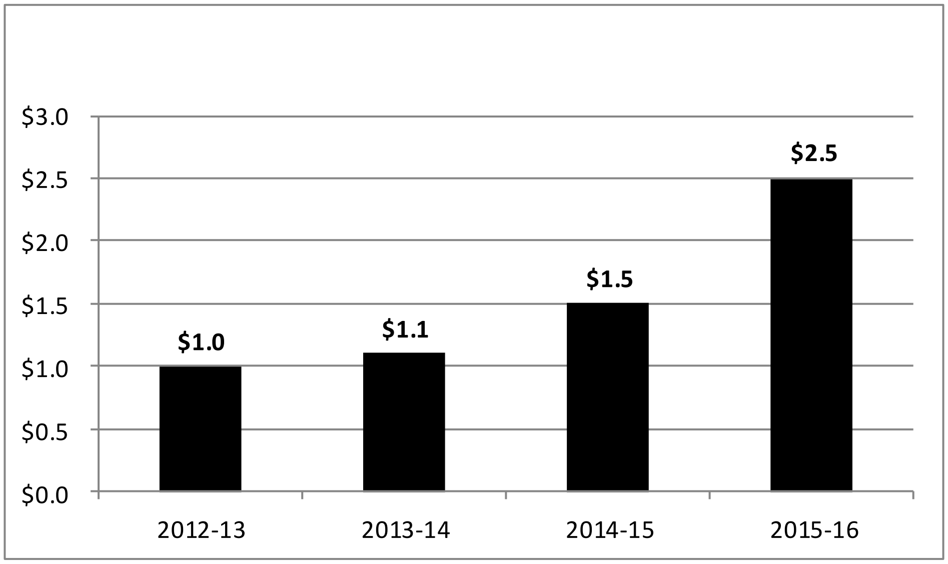
A more thorough analysis of these themes follows.

Given the Difficult Journey to this Point, Reflection on Our Progress is Warranted

Two years ago, DOF's five year budget outlook projected a bleak picture of unending deficits:



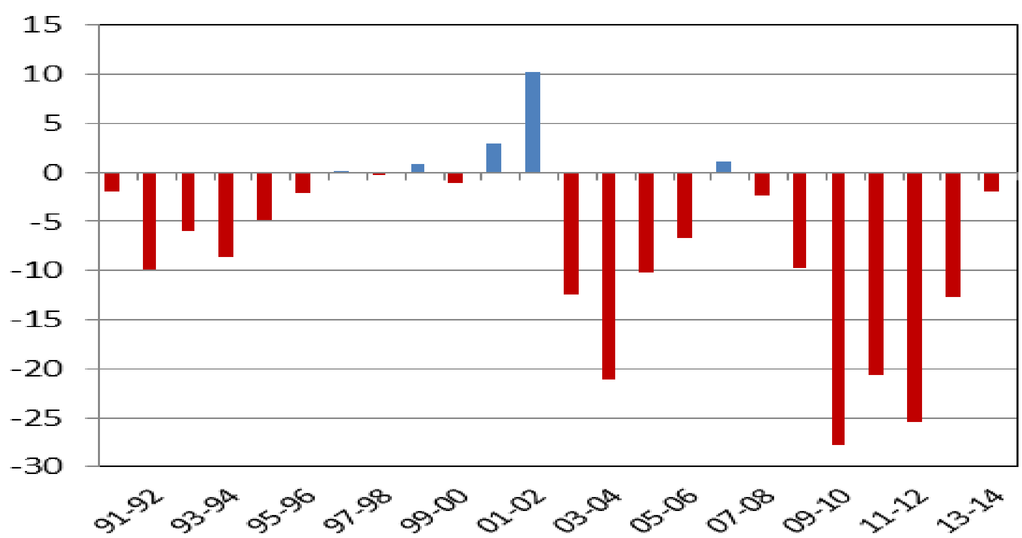
The chart below illustrates the five year outlook projected in the Governor's 2013-14 Budget proposals:



This transformation was made at great sacrifice by many, but demonstrates that California has the capacity to tackle any policy challenge placed before this State.

While There is Optimism, It's Too Soon for the "Mission Accomplished" Banner
Budget projections are notoriously off-mark and rarely match the economic experience over time. The State has not experienced the financial stability projected In the Governor's Budget at any point since 1990. While there is relief in a chart that looks optimistically toward the future, but if our budget actually followed these trends, it will be the first time in decades when we have actually had such stability in our state's finances.

The LAO prepared the chart on the following page to illustrate the last two decades of financial conditions, based upon their Fiscal Outlook document and Department of Finance data:



Over the last 23 years, there have been 19 years of deficits and 4 years with a projected surplus. In this context, the question is whether today's good-fortune is a one-time anomaly or a real trend? The History does not support the optimism--even the mythical abundance of the "Dotcom Boom" yielded only two years of consecutive surpluses, followed by a massive and prolonged series of large deficits.

As California's economic recovery starts to gain momentum, it is still highly susceptible to the uncertainty characterizing the global economy and the budget choices we make. Therefore, it is important to be very cautious about budget decisions in the 2013-14 Budget that could make it harder to insure that the State avoid the persistent trend of deficits that have marred our recent history.

For the Assembly the real legacy of the history over the last 23 years is that the overall policy discourse for many of these years was centered on the budget process issue of "how do we pay our bills?" rather than "what do we need to do to help Californians?" This resulted in too much focus on the budget itself at the expense of major policy issues that need the attention of the Legislature. Ensuring a stable and predictably strong budget provides the Legislature the time and space to consider the big problems—income inequity, achievement gap, climate change, water, traffic, housing, etc that has been on the back burner as the State reeled from crisis to crisis.

With a 9.8 Percent Unemployment Rate, California's Economy Remains Weak

It is hard to look at California's employment numbers and conclude that California has recovered from the Great Recession. Unemployment in May 2007 was 4.8 percent, almost half of the December 2012 rate of 9.8 percent. Since May 2007, California has added over 702,000 more workers to our labor force, but we still have 239,000 fewer jobs than that time-- resulting in nearly a million more unemployed workers than before the recession.

The November 2012 Department of Finance economic outlook forecast, which is the basis for the budget revenue estimates, foresees total employment reaching 2007 levels again in the summer of 2014. This is a much brighter outlook than last year, but the recovery is still considered sluggish and slow-paced. The growth in jobs is mirrored in a growth in the labor force, which means that not much progress is made to reduce our unemployment problem over that time period.

Over the last four years, one of the largest areas of job loss has been government, often driven by the massive reductions in State funding to school districts and counties. Since 2008, 157,000 government jobs have been eliminated in California, a 6.2 percent drop. Overall employment in all government jobs of 2,374,000 in December 2012 was roughly equivalent to the total employment in the sector in December 2000.

Income Inequity Remains a Lingering Problem

Many of the challenges and risks to California's budget are a direct result from the steady increase in the inequity of income and wealth over the last three decades. Our revenues have become more volatile as much of the growth in the economy is captured in unpredictable capital gains for high income earners. While on the expenditure side, State programs reflect the growing number of Californians who have nowhere else to turn for basic needs like food, shelter, and medical care because of the decline of income and economic mobility that has characterized the last two decades.

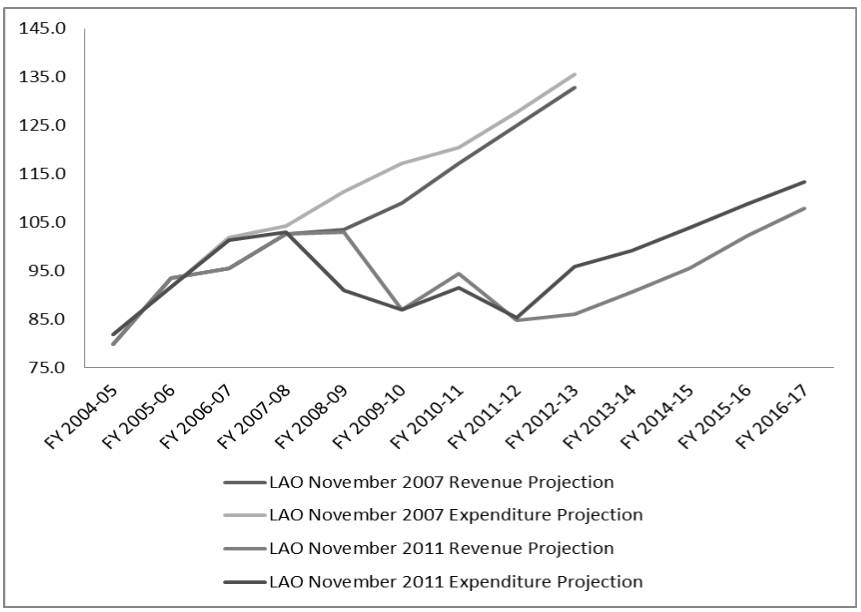
According to Census Data, California has the nation's sixth highest level of income inequity. During the Great Recession, this inequity grew by startling amounts, as the State's poorest saw dramatic drops in income while the concentration of income and wealth for the richest one percent of the State's population recovered and grew.

Research shows that the recession has impacted the poorest California families more than any other group. The lowest 10 percent of Californian income earners have seen income decline 21.5 percent since 2007, a drop that is three times larger than any other income group. Unlike other income levels, the lowest income population has not seen income rebound after the end of the recessions in the 1990 and early 2000's. This suggests that the loss of income is a permanent downward shift in the economic condition and quality of life for these families.

To the State's credit, when possible California invested in programs and services to combat income inequity through education and training. These investments include the expansion of the Cal Grant program in 1989-90 and the establishment of the program as an entitlement in 2000. In addition, the CalWORKs program, established in 1997, provided historic increases in training opportunities and supports for some of the State's poorest families. However, over the last six years, the State has had to divest in programs that would allow for economic mobility. From increased fees for higher education, to reduced offering and even elimination of local adult education programs, to the massive reduction in job training funding in CalWORKs, these programs have been substantially reduced.

Much was Sacrificed to Achieve the Current Budget Outlook

The recession has effectively reset the level of overall state services to a significantly lower level. This pattern can be seen when comparing the projected revenues and expenditures by the LAO in 2007 with the 2010 estimate a difference of nearly $40 billion in the budget year.



The proposed budget would provide one of the lowest levels of state spending in the last four decades, with $5.48 of General Fund expenditure per $100 in per capita income, almost 17 percent lower than the level in 2007-08. The 2012-13 and proposed 2013-14 budgets would provide levels of spending close to the 1972-73 in terms of expenditure per $100 in per capita income, reflecting the profound impact of the recession on California Government.

Debt Reduction Versus Investment Versus "Rainy Day Fund"
With the exception of a $250 million annual investment in UC and CSU, the Governor's five year financial outlook, all available funds generated through economic growth are dedicated to debt reduction as part of the Governor's "Wall of Debt" effort. The five year projection offers no adjustments for inflation, few Cost of Living Adjustments for programs, and no reinvestment in programs that have been severely diminished by the recession.

As the economy recovers, the Assembly may wish to embrace the Governor's "Wall-of-Debt" pay-down strategy in future fiscal years. Some of the scheduled repayment of these debts, like the Proposition 42 repayments, cannot be change. However for many of these debts the Legislature will have years to consider the best timing and strategy to meet these obligations. Additionally, some of these "debts" may be overstated, like local mandate liability.

In addition, the Assembly may wish to consider how to start putting funds aside in a "Rainy Day Fund", including creating larger reserves to cover potential economic slowdowns.

What is the State's Role in Governance of Locally Administered Programs?
Over 70 percent of State General Funds expenditures are passed through the State to be spent by local entities. The Governor's budget includes several proposals which cede discretion and decision-making power for funding decisions to local governments. From K-12 funding for school districts to mandate funding, the budget includes a proposal that will allow local entities to assume control over some or all of the funding and decisions—decisions that are currently made by, or in consultant with, the State.

The realignment/local control discussions have often been framed as a single decision point with only two options: "Should we give control to locals or not?" This suggests that the State responsibility for local programs is like a light switch, we can either: 1) maintain the existing relationships and keep the State role in the "on" positions, or 2) we flip down the switch and totally cede program control and turn "off" the State role in these programs. In the 2013-14 budget process, it is important to move the discussion beyond this simplistic framework.

In the last two years the policy discussions highlighted the benefits of increased local control, validating the policy direction overall. However, there has not been much discussion of how these changes define the State's role in oversight and accountability. In the 2011 Public Safety Realignment, it appears the State role is to act as a fiscal agent, with the State's primary responsibility to write checks and audit expenditures. The State still has a role in oversight, which has not been discussed or defined other than to suggest that it will require a different level of State resources.

Increased local flexibility will lead to increased local variation in the level and quality of services provided to Californians. But how much variation is in State interest? California has 58 counties, 1,107 local school districts and offices, and 482 cities. Some California local governments have been incredibly innovative paragons of governance; others have been victims of negligent and even corrupt leadership. The ideal arrangement is for the State to give innovative entities the flexibility to be innovative while giving less latitude to local governments that cannot demonstrate they deserve such flexibility.

The State could set minimum service levels or performance expectations in providing more flexibility. This would require more focus on this type of data from the State. It would also require discussion about what tools the State would retain to hold local governments accountable to these minimum levels of performance.

It is also important to consider what recourse the State has if our local partners do not act in the interest of the State. For example, in the 2011 Realignment, the State and counties share responsibility for custody of offenders with the State handling the serious and violent felons. What prevents a county from trying to find ways to cost-shift their responsibilities to the State?

The other danger is that counties actively look for ways to shift costly populations to other jurisdictions. A classic example is the program that was offered by some rural counties to purchase low income adults one-way bus tickets to large cities—thus passing off the responsibility for costly support and care for these individuals to another jurisdiction. A more contemporary example is hospitals in Los Angeles that discharged uninsured homeless patients directly to LA's Skid Row. Should the State have the ability to prevent county structures their programs to try to push costs to other counties?

As the Assembly considers moving more responsibilities to locals, it should be cautious in how fast these changes proceed because it will be difficult to reverse them. History shows that shifting local programs to the State is difficult. The State's awkward and expensive efforts to assume control over Trial Courts over the last two decades is an example of the difficulty of returning State control to a program operated by a local government. In the case of the Trial Court Realignment, the State was forced to step in because the provision of justice in California was not uniform across the State. As the deliberations continue regarding these current programs, such an outcome can be avoided if the State has a clearly defined role.

Assembly Budget Process Post-Proposition 25

Getting to fiscal stability between 2008 and 2011 included ad hoc budget processes that were needed to govern through crisis. Our new budget outlook enables the Assembly to resume a more deliberative budget process for 2013-14. The shift will also facilitate the open and transparent public budget process California deserves. No longer should the process be dominated by closed door meetings, like the "Big 5" process, or insiders using the leverage of budget votes to demand giveaways to special interests. As California exits its budget crisis, the Legislature has an excellent opportunity to improve the process itself.

This year may serve as a template for how the Legislature conducts its budget process in the future. Before Proposition 25, the budget process was geared toward enactment of a budget before June 30th, essentially treating the existing June 15th Constitutional deadline as advisory. This allowed the Assembly six weeks after the release of the May Revision to conduct a full May Revision hearing process followed by Budget Conference Committee that could last several weeks. Proposition 25 makes June 15th a firm deadline for enactment of the budget, which compresses this schedule to only four weeks. This change in deadlines will mean that May Revision and Conference Committee will need to be redefined to allow the Legislature to adopt the budget in a deliberative and transparent manner by the Constitutional deadline.

Most of the Governor's Budget Can Be Adopted With A Majority Vote

With the passage of Proposition 25, the Legislature can adopt the budget bill and implementing trailer bills with a majority vote, as long as these bills would not otherwise require a two-thirds vote, like a tax increase. Almost all provisions of the Governor's 2013-14 Budget can be implemented with a majority vote. There are a couple exceptions that have been identified. These include: 1) the extension of the managed care tax; and, 2) the proposal to extend the nursing home fee.

K-12 EDUCATION

Background on Proposition 98. Proposition 98 is a 1988 ballot initiative that amended the California constitution to establish a minimum annual funding level for K-12 education and Community Colleges (K-14 education). This funding formula is intended to provide K-14 education with a guaranteed funding source that generally grows each year with the economy and the number of students attending. Community Colleges receive roughly an 11 percent share of total Proposition 98 funding. The guaranteed funding is provided through a combination of state General Fund and local property tax revenues and is more commonly referred to as the "minimum guarantee." The State has the option of funding at the designated minimum guarantee, over-appropriating to provide funding above the guarantee, or "suspending" the guarantee to provide any level of funding the Legislature deems appropriate.

There are three formulas or "Tests" that, based on various inputs, determine the minimum level of funding required under Proposition 98. The 2012-13 Fiscal Year was a "Test 1" year. "Test 3" is expected to apply to the 2013-14 Fiscal Year.

Three Formulas ("Tests") Used to Determine K-14 Funding

Test 1—Share of General Fund. Provides roughly 40 percent of General Fund revenues to K-14 education. This minimum requirement must be met each year.

Test 2—Growth in Per Capita Personal Income. The Proposition 98 requirement is determined by growth in the economy (as measured by per capita personal income) and K-12 attendance. Applies in years when state General Fund growth is relatively healthy and formula yields more than under Test 1.

Test 3—Growth in General Fund Revenues. Adjusts prior-year funding for changes in attendance and per capita General Fund revenues. Generally, this test is operative when General Fund revenues grow more slowly than per capita personal income.

The underlying premise of Proposition 98 is to guarantee that per pupil funding keep pace with the cost of living (Test 2). In times of slow economic growth, when the State cannot provide the Test 2 level of funding, the State keeps track of this long term funding commitment and eventually restores Proposition 98 to what it otherwise would have been had education funding grown with the economy. This outstanding obligation is called "maintenance factor." Formulas under Proposition 98 dictate when and how much maintenance factor is restored in a given year. Maintenance factor for 2013-14 is projected to be $9 billion.

As noted above, the Proposition 98 formula also allows the Legislature to provide less than the formulas require. This is achieved through a two-third’s vote to suspend the State's obligation to provide education funding at the level dictated by the Proposition 98 formula. The Legislature has only invoked suspension on a few occasions. The most recent suspension was invoked under the 2010-11 Budget Act.

Overall Proposition 98 Funding. Since the national recession began in 2008, California has grappled with a decline in state revenues that in turn has negatively impacted state funding for education. However, with the passage of the Schools and Local Public Safety Protection Act of 2012 (Proposition 30), schools were spared from billions of dollars in mid-year trigger reductions and a reinvestment in California schools is on the horizon.

The Governor's Budget estimates a Proposition 98 minimum guarantee of $56.2 billion for 2013-14. This funding level is $2.7 billion above the current year funding level and represents a 5 percent increase year-over-year. Proposition 98 funding growth is greater for community colleges (10 percent) than for K-12 education (4 percent), however, about half of the additional increase for the community colleges is related to the Governor's proposal to restructure adult education.

Proposition 98 Funding
(Dollars in Millions)

	2011-12 Actual	2012-13 Revised	2013-14 Proposed	Change from 2012-13 Amount	Change from 2012-13 Percent
Preschool	$368	$481	$481	$0	0%
K-12 Education					
General fund	29,368	33,406	36,084	2,679	8%
Local property tax revenue	11,963	13,777	13,160	-618	-4%
Subtotals	41,331	47,183	49,244	2,061	4%
California Community Colleges					
General fund	3,279	3,543	4,226	683	19%
Local property tax revenue	1,974	2,256	2,171	-85	-4%
Subtotals	5,253	5,799	6,397	597	10%
Other Agencies	83	78	79	1	1%
Totals	**$47,035**	**$53,541**	**$56,200**	**$2,659**	**5%**
General Fund	33,097	37,507	40,870	3,362	9%
Local property tax revenue	13,937	16,034	15,331	-703	-4%

Source: Legislative Analyst's Office

The Governor's calculation of the Proposition 98 minimum guarantee also includes revenue raised by Proposition 39, passed by voters in November 2012. The Administration projects that Proposition 39 will increase state revenue by $440 million in 2012-13 and $900 million in 2013-14. According to the LAO, the Governor's Budget plan includes all revenue raised by Proposition 39 in Proposition 98 calculations, which has the effect of increasing the minimum guarantee by $426 million in 2012-13 and an additional $94 million (for a total increase of $520 million) in 2013-14.

Other technical adjustments. The Governor's Budget includes technical adjustments in the current year to account for the updated estimates of the Proposition 98 minimum guarantee for 2012-13. The Administration estimates the revised Proposition 98 minimum guarantee for 2012-13 is $53.5 billion—down $54 million from the budget act estimate. Proposition 98 spending, however, is estimated to be $163 million above the minimum guarantee. To bring spending down to the 2012-13 minimum guarantee, the Governor proposes to reclassify $163 million in Proposition 98 funds as non-98 General Fund and uses those funds to meet the *CTA v. Schwarzenegger* obligations.

Major Proposition 98 Spending Proposals. The Governor's Budget proposes to spend the increase in Proposition 98 funding on a mix of debt repayment and programmatic funding increases. Specifically, the Governor's Budget proposes a 1.65 percent cost–of–living adjustment for only a few K–12 categorical programs: $60.2 million for special education, $2.5 million for child nutrition and $74,000 for California American Indian education centers.

The budget proposes to provide $3 million for K–12 growth (a 0.10 percent increase) but assumes no increase in funded enrollment levels at the community colleges. The chart below outlines the specific changes in spending proposed by the Governor.

Proposition 98 Spending Changes
(In Millions)

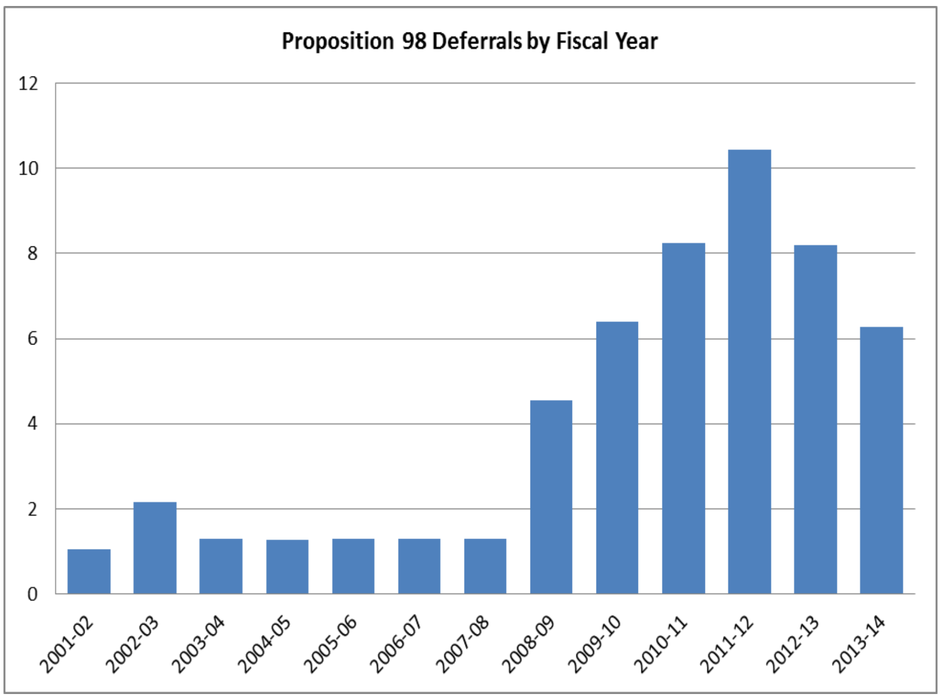
2012-13 Budget Act Spending		53,549
Fund revenue limit adjustments		256
Reclassify funding above minimum guarantee		-163
Make other technical adjustments		-101
Total Changes		-8
2012-13 Revised Spending		53,541
Technical Changes		
Backfill K-12 for one-time actions		163
Fund K-12 categorical growth		49
Fund K-12 revenue limit growth		3
Make technical adjustments		-15
Adjust for prior-year deferral payments		-2,225
Subtotal		-2,025
Policy Changes		
Pay down deferrals		1,944
Transition to new K-12 funding formula		1,630
Allocate money for energy efficiency	a	450
Create CCC adult education funding stream		300
Increase funding for CCC apportionments		197
Add two programs to K-12 mandate block grant	b	100
Provide COLA for certain K-12 programs	c	63
Fund new CCC online project		17
Swap one-time funds		-17
Subtotal		4,684
Total Changes		2,659
2013-14 Proposed Spending		56,200

(a) Pursuant to the passage of Proposition 39 on November 6, 2012.
(b) Adds Graduation Requirements and Behavioral Intervention Plans.
(c) Includes special education, child nutrition, and American Indian education programs.

Source: Legislative Analyst's Office

Major Provisions

Deferral Buy-Down. The State has relied heavily on deferring Proposition 98 payments as a way to achieve budgetary savings in difficult fiscal times. The first Proposition 98 deferrals were adopted in the middle of 2001–02, when $1.1 billion in K–12 payments were deferred from late June 2002 to early July 2002. This delay, while only a few weeks, allowed the state to achieve one–time savings by reducing Proposition 98 General Fund spending in 2001–02 without making programmatic reductions. Schools continued to operate a larger program using cash reserves. In 2008–09, facing an even larger budgetary shortfall, the state delayed $3.2 billion in Proposition 98 payments to achieve one–time General Fund savings. (To address the 2008–09 budget shortfall, the State also made $2 billion in midyear Proposition 98 programmatic reductions). The State adopted additional deferrals in 2009-10 ($1.8 billion), 2010–11 ($1.8 billion), and 2011–12 ($2.2 billion) to achieve one–time savings and avoid further programmatic reductions. At the end of 2011, a total of $10.4 billion in Proposition 98 payments were paid late (roughly 21 percent of total Proposition 98 support). The chart below illustrates the use of deferrals over time.



Source: Legislative Analyst's Office

The length of deferrals has also increased over time. Initial deferrals were only a few weeks. The state now defers payments over several months. These delays place a larger cash management burden on school districts. To access cash, districts can use existing budget reserves or special funds (although drawing down reserves also results in a loss of earned interest). If internal resources are insufficient, districts can try to borrow from private lenders, their County Office of Education (COE), or their County Treasurer. If districts borrow from other agencies, they are responsible for covering all transaction and interest costs.

The 2012-13 Budget Act began the process of retiring K-14 deferral payments by providing a total of $2.2 billion ($2.1 billion for K-12 schools and $160 million for community colleges) to reduce this obligation. This one-time payment in 2012-13 "freed up" $2.2 billion in the budget year for ongoing expenditures within Proposition 98.

The Governor's 2013-14 Budget proposes to continue to pay down K-14 deferrals by dedicating $1.9 billion for this purpose ($1.76 for K-12 and $179 million for community colleges). Adopting this proposal would reduce the state's "Wall of Debt" obligation, bringing the outstanding education deferrals down from $8.2 billion to $6.3 billion. The Administration's specific deferral schedule was still pending at the time this report was published.

Local Control Funding Formula. Similar to his "Weighted Student Formula" proposal from last year, the Governor's 2013-14 Budget proposes major changes to the way funding is allocated to schools. The Governor proposes to consolidate the state's roughly 60 categorical programs with the existing revenue limit structure to provide a new student formula phased in over seven years. The Governor's Budget provides $1.6 billion (Proposition 98) in 2013-14 to begin increasing district rates to a target "base rate" and provides supplemental funding for specific student populations. The following staff analysis of this proposal is preliminary. Specific statutory language was not available at the time this report was published. Further analysis of this proposal will develop through the subcommittee process.

Background. The California K-12 public school system is supported predominantly with state funds. Of the state funds that are provided to K-12 schools, there are two major types of funding: discretionary funds and categorical funds.

- *Discretionary funds*, or unrestricted funds, are provided to school districts to support the general costs of operating schools. They are provided on a continuous appropriation basis, meaning that the funds are provided on an ongoing basis and are not subject to an annual budget act appropriation. Funds are provided to school districts and county offices of education based on a formula that takes their average daily attendance over the course of the year and multiplies it by their individual funding rate (also known as a "revenue limit"). Each district has its own unique revenue limit based on historical spending. The end result is a school district's "apportionment funding." Although this funding does not require an annual appropriation in the budget, the State can still affect the amount of total funding that is provided for this purpose by increasing or decreasing the rates (revenue limits) that are used to calculate apportionments. In addition, the Legislature's ability to provide or not provide a cost-of-living adjustment for revenue limits also affects the total amount of funding that districts receive in discretionary funds.

- *Categorical funds* have been created over the years to provide school districts funding for specific purposes, such as improving school safety or improving the academic achievement of struggling students. Unlike discretionary funds, which are continuously appropriated, categorical funds (also known as "categorical programs") are funded through annual budget act appropriations. They are usually accompanied by regulations that require they be spent in specific ways or for specific purposes.

Local Contol Funding Formula proposal. The Governor's 2013-14 Budget proposes a new Local Control Funding Formula (LCFF) that would replace the existing revenue limit and categorical program funding structure with a "base grant" for each school district adjusted for grade spans and specific student population needs.

According to the Administration, "the average base grant when fully implemented will be equal to the current average undeficited school district revenue limit." The Administration estimates this average base grant amount to be $6,816 per pupil. A "Supplemental grant" is applied on top of the base grant, calculated per a district's unduplicated proportion of English language learners, free and reduced-price meal eligible students, and foster youth. This supplemental funding is equal to 35 percent of the base grant. When the proportion of English language learners and economically disadvantaged students exceeds 50 percent of its total student population, the school district will receive an additional "concentration grant" equal to 35 percent of the base grant for each English language learner and economically disadvantaged student above the 50−percent threshold.

The formula also includes an adjustment to the base grant for class size reduction (CSR) in grades K-3 and career technical education (CTE) in grades 9-12. (With regard to class size reduction, a student-to-teacher ratio of 24 to 1 is established as the maximum; however, this ratio may be exceeded if negotiated under local bargaining contracts).

Factors	**K-3**	**4-6**	**7-8**	**9-12**
Grade Span Base Grant per ADA	$6,342	$6,437	$6,628	$7,680
Add the following amounts to the base grant:				
• Supplemental Grant: 35% of the grade span base grant multiplied by the districtwide percentage of eligible students				
• Concentration Grant: 35% of the grade span base grant multiplied by the districtwide percentage of eligible students that exceed 50% of total enrollment				
Other Factors	**K-3**	**4-6**	**7-8**	**9-12**
Adjustment Factor applied to Base Grant	11.2% for CSR ($710)			2.8% CTE ($215)

Under the formula, charter schools are essentially treated the same as a district, except they cannot receive a higher concentration grant than the school district in which it resides. Generally, all funding provided under the formula would be flexible and could be used for any educational purpose.

While most categorical program funding is redistributed through the new funding formula, the following programs are an exception:

- Targeted Instructional Improvement Grants (TIIG) and Home-to-School Transportation funding allocations would be locked into districts' current allocations and provided as permanent "add-on" programs to the new funding formula. These funds will also be flexible and can be used for any educational purpose;

- Preschool, After School Education and Safety, special education, Quality Education Investment Act (QEIA) and child nutrition would all continue to be separately-budgeted;

- Funding not currently distributed to all districts (e.g., for high-speed internet access, Fiscal Crisis Management and Assistance Team, etc.) would continue to be separately-budgeted; and,

- Federally-mandated programs are budgeted separately from the LCFF.

The Governor's Budget also provides $28 million for a new two-part funding formula for county offices of education that will provide (1) per-ADA funding to support instruction of students who attend community schools and juvenile court schools, and, (2) unrestricted funding for general county office operations, distributed based on the total number of school districts in the county and the total ADA of all students in the county. Under the new formula, county offices of education will receive a base grant per-ADA for students served in alternative schools that acknowledge the higher cost of education in these settings, while also providing the same targeted supplemental grants for English language learner and low income students as proposed in the school district formula.

With regard to accountability, the Governor's Budget proposal would require that all school districts produce and adopt a District Plan for Student Achievement concurrent and aligned with each district's annual budget and spending plan. According to the Administration, while school districts will have some discretion regarding the content of the plan, all plans are required to address how districts will use state funding received through the new funding formula toward improvement in the following categories: Basic conditions for student achievement (having qualified teachers at each school site, sufficient instructional materials available for students, and school facilities in good repair); programs or instruction that benefit low-income students and English language learners; and Implementation of Common Core content standards and progress toward college and career readiness (as measured by the Academic Performance Index, graduation rates, and completion of college-preparatory and career technical education courses). The Administration indicates that most programmatic and compliance requirements that school districts, county offices of education, and charter schools are currently subject to under the existing system of school finance will be eliminated.

<u>2012-13 Weighted Student Formula and 2013-14 LCFF substantially similar.</u> The Governor's proposal is substantially similar to his "Weighted Student Formula" proposal from last year.

The chart below illustrates the differences between the two plans (based on preliminary information).

	May Revise 12-13 Weighted Student Formula Proposal	**2013-14 Local Control Funding Formula Proposal**
Base Grant statewide average	Base grant set at average undeficited revenue limit for unified school districts ($5,203).	Base grant equal to undeficited statewide average base revenue limit per ADA ($6,816)
Grade Span Base Rate per ADA	K-3: $4,862 4-6: $4,934 7-8: $5,081 9-12: $5,887	K-3: $6,342 4-6: $6,437 7-8: $6,628 9-12: $7,680
Adjustment Factors	12.4% K-3 grade span adjustment for Class Size Reduction. No CTE adjustment.	11.2% for K-3 for CSR 2.8% for CTE
Supplemental Factor	20% of base grant for unduplicated free and reduced price lunch (FRPL) or English learner student (EL).	35% of grade span base grant multiplied by the districtwide % of eligible students (EL or FRPL or Foster Youth)
Concentration Factor	40% of grade span base grant multiplied by the districtwide % eligible students that exceed 50% of total enrollment*	35% of grade span base grant multiplied by the districtwide % eligible students that exceed 50% of total enrollment*
COLA	COLA is applied to a districts TOTAL entitlement from the formula, except that no COLA is provided on the Home-To-School Transportation and TIIG "add-ons"	1.65% COLA is applied to a districts TOTAL entitlement from the formula, except that no COLA is provided on the Home-To-School Transportation and TIIG "add-ons"
Implementation	Phase in over seven years (12-13 through 2018-19). Proportions roll out as follows: 5% 12-13; 10% 13-14; 20% 14-15; 60% 15-16; 80% 17-18; 100% 18-19.	Phase in estimated to be seven years (13-14 through 2019-20). Implementation is dependent upon annual Proposition 98 growth. Annual movement toward full implementation will vary based on Proposition 98 Growth in that fiscal year.
Hold Harmless	For the 2012-13 fiscal year only, no local educational agency would have received less per ADA than they received per ADA in 2011-12 from programs consolidated into the Formula.	Commencing with the 2013-14 fiscal year, no local educational agency would receive less per ADA than they did in the 2012-13 fiscal year from programs consolidated into the Formula.
Deficit Factor restoration	22.272% deficit factor fully restored by 2017-18. Formula frozen at 80% of school funding until existing deficit factor restored.	Deficit Factor would be fully restored by 2019-20 as a component of the base grant only based on the LCFF implementation plan, however, total new funding provided through the LCFF is estimated to exceed the value of the deficit factor in 2017-18.
Targeted Instructional Improvement Block Grant and Home to school transportation	Eliminates programs but continues to provide same dollar amounts districts currently receive as an "add-on" to their base grant. Funding will not grow or be adjusted in out-years.	Same as Weighted Student Formula
Accountability	School districts and county offices of education would be held accountable to existing state and federal accountability requirements while the State Board of Education worked to adopt revised accountability measures. Further, school districts that would have met the revised accountability measures would have received a 2.5% base grant increase.	In addition to all existing state and federal accountability requirements, school districts and county offices of education would be required adopt plan for student achievement concurrent and aligned with their annual budget and spending plans. All plans are required to address how districts will use state funding received through the new funding formula toward improvement in the following categories: • Basic conditions for student achievement (qualified teachers at each school, sufficient instructional materials available for students, and school facilities in good repair). • Programs or instruction that benefit low-income students and English language learners. • Implementation of Common Core content standards and progress toward college and career readiness.

Some flexibility made permanent. The Governor's Budget seeks to permanently extend a few of the temporary program and funding flexibility options, which have been provided to local schools since 2008-09 and are set to expire over the next two fiscal years. These include: Elimination of the minimum contribution requirement for routine maintenance; elimination of the required local district set-aside for deferred maintenance contributions; and, allowing districts to use the proceeds from the sale of any real and personal surplus property for any one-time general fund purposes.

Currently most funding provided to schools is unrestricted. Prior to 2009, approximately 75 percent of state funding for school districts and county offices of education could be used for any educational purpose. This unrestricted funding consisted solely of revenue limit apportionments. In 2009, the Legislature adopted SB 4 X3 (Ducheny), Chapter 12 as a response to the state's budget problems. Among other provisions, the statute established "categorical flexibility" for approximately 40 programs that had previously been restricted. The statute allowed school districts to use categorical funding for these 40 programs for any educational purpose. According to the Legislative Analyst's Office, as a result of these changes, the share of unrestricted funding available to schools in 2012-13 increased to 85 percent (75 percent revenue limit apportionments and 10 percent categorical programs subject to flexibility). The five largest programs affected by Chapter 12 are as follows (parentheses indicate 2012-13 appropriation):

- Targeted Instructional Improvement Block Grant ($854 million)
- Adult Education ($634 million)
- Regional Occupational Centers and Programs ($384 million)
- School and Library Improvement Block Grant ($369 million)
- Instructional Materials Block Grant ($333 million)

Adopting the Governor's proposed funding formula would result in a further shift toward unrestricted funding. The proposal would provide 91 percent of Proposition 98 funding to schools without restrictions on its usage starting in 2013-14. The remaining restricted funding is largely special education funding. When compared to the prior year, this represents a small increase, only a 6 percent difference, in restricted versus unrestricted funds. The largest programs that would become unrestricted under the Governor's proposal are as follows (parentheses indicate 2012-13 appropriation):

- K-3 Class Size Reduction ($1,270 million)
- Economic Impact Aid ($944 million)
- Home-to-school Transportation ($495 million)

In terms of programmatic restrictions, prior to categorical flexibility, the level of restriction varied amongst programs. Some programs had very specific requirements, for example, the state provided schools with funding that could only be spent on intensive tutoring and services for 11th and 12th grade students who had failed the California High School Exit Examination. On the other hand some "restricted" funding was very flexible. For example, a portion of the funding associated with the School and Library Improvement Block Grant was available for any activities that would improve instruction and the school environment.

The Assembly may wish to consider the following questions with regard to this proposal:

1) *Policy or Budget?* This proposal includes major policy changes as well as budget impacts. The Assembly may wish to consider whether these proposals would benefit from larger policy discussions that could occur through a joint budget and policy process or through the bill process alone, outside of the budget process.

2) *What is the role of the State in locally administered programs?* Should the State have a defined role in oversight and accountability of how state dollars are spent? Given that there are 1,107 school districts, how can the state ensure quality education is provided across all districts? Should the State set minimum performance expectations if more flexibility is provided? What tools would the State retain to hold school districts accountable for student outcomes? Is the state's current accountability system sufficient for measuring success among all student populations? What is the role of the Department of Education?

3) *How will the Administration's proposal ensure greater transparency in school funding?* The Administration claims that the new formulas "will also greatly increase transparency in school funding, empowering parents and local communities to access information in a more user-friendly manner and enhance their ability to engage in local school financial matters." According to the Administration, districts will be required to approve an annual budget and spending plan. How will this be implemented and enforced? How will public access and transparency in budgeting be ensured? What assurances will be made that supplemental funding generated by disadvantaged students will be used to their benefit? Will disenfranchised communities have a voice?

4) *How do current revenue limit allocations compare to proposed base grant levels?* According to the Administration, "the average base grant when fully implemented will be equal to the current average undeficited school district revenue limit". What does this mean in terms of real numbers? Will the Administration provide a district-by-district example of how this proposal compares to projected funding allocations under existing law?

5) *What are the implications around reclassification of English learner students?* According to the Administration, local educational agencies cannot receive supplemental and concentration grant funding for an English language learner student for more than five years. What was the Administration's rationale behind this proposal? How might this impact reclassification of English learners?

6) *What was the rationale for excluding two large categorical programs from the new formula: Targeted Instructional Improvement Grants (TIIG) and Home-to-School Transportation?*

7) *How will the permanent extension of flexibility around school facility maintenance requirements affect the state's investment in these facilities?*

8) *What was the basis for the 35 percent supplemental and concentration grants, why that percentage? Are these supplemental grants sufficient to meet the needs of all disadvantaged students, for example, pregnant and parenting teens and other at risk youth?*

Proposition 39. Proposition 39, passed by the voters in November 2012, requires most multistate businesses to determine their California taxable income using a single sales factor method, which has the effect of increasing state corporate tax revenue. According to the ballot initiative analysis, the measure establishes a new state fund, the Clean Energy Job Creation Fund, to support projects intended to improve energy efficiency and expand the use of alternative energy. The measure states that the fund could be used to support: (1) energy efficiency retrofits and alternative energy projects in public schools, colleges, universities, and other public facilities; (2) financial and technical assistance for energy retrofits; and, (3) job training and workforce development programs related to energy efficiency and alternative energy. The Clean Energy Job Creation Fund is supported by some of the new revenue raised by moving to a mandatory single sales factor. Specifically, half of the revenues raised—up to a maximum of $550 million—are transferred annually to the Clean Energy Job Creation Fund. These transfers are to occur from 2013–14 through 2017–18.

As previously discussed, the Governor's calculation of the Proposition 98 minimum guarantee includes revenue raised by Proposition 39. The Governor's Budget includes all revenue raised by Proposition 39 in the Proposition 98 calculations. This has the effect of increasing the minimum guarantee by $426 million in 2012-13 and $520 million in 2013-14. Interestingly, this increase in the minimum guarantee is nearly the same amount that is required to be set aside for energy-related funding under the initiative.

The Governor's Budget proposes to provide $450 million from Proposition 39 to support investments in schools and community colleges, and $550 million in each of the next four years (this spending counts towards meeting the Proposition 98 minimum guarantee). The Administration proposes to allocate this funding on a per-student basis which is estimated to provide school districts roughly $67 per pupil and community colleges roughly $45 per student.

According to the Governor's Budget summary, the Department of Education and the Chancellor's Office for the California Community Colleges will distribute funding, and they may consult with both the California Energy Commission and the Public Utilities Commission to develop guidelines for prioritizing the use of the funds. The Administration indicates they will work with the Department of Education, the Chancellor's Office and the Citizens Oversight Board to ensure these funds are used by schools and community colleges in a manner that is consistent with Proposition 39. The CDE state operations budget includes one new position and $109,000 to implement Proposition 39 under the Administration's proposal.

Specific statutory language was not available at the time this report was published. Further analysis of this proposal will develop through the subcommittee process.

The Assembly may wish to consider the following questions with regard to this proposal:

1) *Should Proposition 39 revenues be included in the calculation of Proposition 98?* The Administration believes that because these funds flow through the General Fund, they are required to be included in the Proposition 98 calculation. On the other hand, the LAO claims that this treatment is a "serious departure" from their longstanding views of how revenues are to be treated for the purposes of calculating the minimum guarantee. According to the LAO, "revenues are to be excluded from the Proposition 98 calculation if the Legislature cannot use them for general purposes—typically due to restrictions created by a voter–approved initiative or constitutional amendment. The voter guide reflected this longstanding interpretation by indicating that funds required to be used for energy–related projects would be excluded from the Proposition 98 calculation."

2) *What are the benefits/trade-offs of providing this funding on a per pupil basis?*

3) *Is the Administration's proposal consistent with the intent of Proposition 39?*

Adult Education. Adult Education programs in California have a long history dating back nearly 150 years. The primary purpose of adult education is to provide adults with basic knowledge and skills they need to participate in society and the workplace. Adult education programs serve a variety of students and purposes including: assistance in gaining proficiency in reading, writing and mathematics to succeed in collegiate coursework; assistance with passing the oral and written exams for U.S. Citizenship, earning a high school diploma; job training; English language courses and literacy classes for immigrant and native English speakers. State law also allows adult education to serve various other purposes, including enrichment classes such as parenting techniques or classes for seniors to help them stay active.

While adult education falls under the purview of both community colleges and school districts, it is not the top statutory mission of either segment. The community college's core mission is to provide academic and vocational programs at the lower–division collegiate level. School districts' core statutory and constitutional responsibility is for kindergarten through high school (K–12). Furthermore, school districts are responsible for adult education only "to the extent" state support is provided. This matter was compounded in 2009 when the state included categorical program funds for Adult Education in the "categorical flexibility" provided to school districts. This meant that funds that were previously required to be spent on Adult Education could now be spent for any educational purpose. This has resulted in many school districts significantly scaling back or in some cases eliminating their adult education programs.

According to the Administration, the budget proposes to "eliminate the current bifurcated system and place community colleges in the position to improve coordination at the regional and state levels in order to create a more accountable and centralized adult education learning structure." The Administration claims that Community colleges are better positioned than K-12 schools to address the needs of adult learners because that is their core function. Under the Governor's restructuring plan, state support for adult education would be narrowed to core instructional programs, including adult elementary and secondary education, vocational training, English as a second language, and citizenship. The Administration proposes to provide $300 million in Proposition 98 funding for a new adult education block grant within the Community College budget. The Governor also proposes to shift funding for the Apprenticeship programs ($15.7 million) to the Community Colleges. The $588.9 million currently provided under the Adult Education categorical program would continue to be provided to school districts however the funding would be consolidated with all other K-12 categorical programs into the Governor's new LCFF funding formula. School districts would no longer be required to provide adult education.

Specific statutory language was not available at the time this report was published. Further analysis of this proposal will develop through the subcommittee process.

The Assembly may wish to consider the following questions with regard to this proposal:

1) *Policy or Budget?* This proposal includes major policy changes as well as budget impacts. The Assembly may wish to consider whether these proposals would benefit from larger policy discussions that could occur through a joint budget and policy process or through the bill process alone, outside of the budget process.

2) How will issues of capacity and continuity of service be addressed? Are all community college districts prepared to assume responsibility for adult education programs given the variation across the state in terms of the availability of adult education instruction?

3) Is the allocation of $300 million, based on existing service levels, sufficient funding for this transition of services?

4) Will distance and transportation become a barrier for certain student populations?

5) Are there federal or matching funds that K-12 schools receive that are not available to community colleges that could be in jeopardy under this proposal? For example, K-12 adult education programs currently get Workforce Investment Act Title II funds, Community colleges do not. Are these funds at risk?

6) Are there challenges with credentialing issues given that the requirements to teach at a community college are different than requirements under the K-12 system?

Mandate Block Grant. The Budget Act of 2012 created an alternative method for school and community college districts to receive compensation for performing state mandated activities by appropriating $200 million for two new block grants — one for school districts, county offices of education, and charter schools; and one for community college districts. According to the Administration, almost 77 percent of school districts and charter schools have opted for block grant funding, while 93 percent of community college districts have selected this option. The block grant statutes specify which mandates are funded through the block grants, and schools are provided with a per-student funding allocation to support the performance of those activities. Schools that choose to receive block grant funding may not submit reimbursement claims.

The Governor's Budget proposes to provide an additional $100 million (for a total of $300 million) for the mandate block grant and expand the block grant to include two additional mandates: the High School Graduation Requirement mandate and the Behavioral Intervention Plan mandate. According to the Administration, their proposal will restructure requirements for the Behavioral Intervention Plan program, which will eliminate almost all reimbursable costs for this mandate. No changes are proposed for the Graduation Requirements program and the Administration continues to believe that any costs associated with this activity have run their course in the almost 30 years since the inception of this requirement.

Charter Schools. The Administration proposes to build on a number of charter school policy changes that were introduced as part of the 2012-13 Budget Act. Specific statutory language was not available at the time this report was published. Further analysis of budget implications around this proposal will be evaluated during the budget process.

- Charter School Facility Grant Program. The Administration proposes shifting the Charter School Facility Grant Program and the Charter School Revolving Loan Fund from the Department of Education (CDE) to the California School Finance Authority (CSFA). The Budget proposes a decrease of $92 million Proposition 98 General Fund, a decrease of $12.4 million from the Charter School Revolving Loan Fund and a decrease of $175,000 non-Proposition 98 General Fund to reflect the realignment of the Charter School Facility Grant Program and the Charter School Revolving Loan Program to the California School Finance Authority.

The Governor also proposes to allow non-classroom based charter schools to be eligible for the Charter School Facility Grant Program. It is not clear how this program will affect existing grantees. Further detail is needed to adequately assess this proposal.

- Funding determinations for Non-Classroom Based Charters. The Administration proposes to modify the funding determination process for non-classroom based charter schools by limiting it to the first and third years of operation, in most instances. Charter schools found out of compliance will be required to comply with annual funding determinations. The Governor proposed to provide 100 percent funding for all non-classroom based charter schools as part of his 2012-13 budget proposal. The Legislature rejected this proposal.

- Surplus Property. The 2012-13 Budget Act required school districts with identified surplus property and facilities to first offer to sell those properties to charter schools before selling them to other entities or disposing of the assets. The Administration proposes to extend this authorization for five additional years.

Special Education Funding Formula Changes. According to the Legislative Analyst's Office recent *Overview of Special Education in California*, states generally use one of two approaches to distribute special education funding to the local level. Some use a "cost-based" model, with funding allocations driven by how many students with disabilities (SWD) are served or the magnitude of special education costs incurred. Other states rely primarily on a census-based funding methodology that is not linked to particular SWDs. Under this model, the special education funds are allocated based on the total number of students enrolled, regardless of students' disability status. Beginning in 1998-99, California switched from a "cost-based" to a "census-based" allocation funding model, commonly referred to as the "AB 602" formula after the authorizing legislation AB 602 (Poochigian and Davis), Chapter 854, Statutes of 1997.

Each special education local plan area (SELPA) has a unique per-pupil special education funding rate consisting of both state and federal funds. These "AB 602 rates" vary across SELPAs from about $500 per ADA to about $1,100 per ADA, based primarily on what the SELPA received before the AB 602 legislation was adopted. (In prior years the state invested some funding to equalize AB 602 rates, but large discrepancies remain).

The AB 602 base allocation—The Governor's 2013-14 budget proposes $2.9 billion (Proposition 98) and $1 billion (federal IDEA) for this purpose—is the largest source of funding SELPAs receive for special education.

The Governor's 2013-14 budget proposes to simplify and consolidate funding for special education programs and reduce funding inequities and inefficiencies by allocating federal funds separately from the state's AB 602 funding formula in order to streamline the calculation and ensure that SELPAs do not lose more funding when ADA declines than they gain when it rises. The Governor also proposes consolidating funding for three special education program earmarks into the base AB 602 formula calculation, and collapsing six other special education earmarks into three. Specific details around this proposal are still pending.

Other Special Education Adjustments:

- Growth and COLA adjustments**.** The Governor's Budget proposes to provide $3.6 (Proposition 98) million for special education average daily attendance (ADA) growth and $60.2 million (Proposition 98) for cost of living adjustments (COLA).

- Mental Health Funding Remains Constant. No changes are proposed to the existing funding for realignment of mental health services for special education: SELPAs will receive a total of $426 million ($357 million in Proposition 98 and $69 million in federal funds) to support these services.

Key Provisions

- **Asynchronous Online Courses.** According to the Governor's Budget summary, the Administration proposes statutory changes that will enable school districts to offer asynchronous online courses through a streamlined and outcome‑focused independent study agreement. Specific statutory language was not available at the time this report was published. Further analysis of budget implications around this proposal will be evaluated during the budget process.

- **Emergency Repair Program.** The Governor’s Budget proposes $9.7 million in one-time Proposition 98 funds for the Emergency Repair Program established by SB 6 (Alpert, McPherson, Scott , Vasconcellos) Chapter 899, Statutes of 2004.

- **Child Nutrition.** The Governor's Budget proposes an increase of $77 million in federal local assistance funds to support growth in child nutrition programs.

DEPARTMENT OF EDUCATION

California Department of Education (CDE). California's public education system is administered at the state level by the California Department of Education (CDE), under the direction of the Superintendent of Public Instruction and the State Board of Education (SBE). CDE is responsible for enforcing education laws and regulations, which guide the education of more than 6.2 million students in over 9,800 schools housed in 962 school districts and 58 county offices of education.

State Superintendent of Public Instruction Tom Torlakson oversees CDE operations. He is elected to four-year terms and is currently serving in his first term, which will end on January 4, 2015. The State Board of Education(SBE) is the governing and policy-making body of the CDE. The SBE sets K-12 education policy in the areas of standards, instructional materials, assessment, and accountability. The SBE adopts regulations to implement legislation and has authority to grant waivers of the Education Code. The SBE has 11 members appointed by the Governor.

CDE State Operations. CDE’s administrative branch (state operations) are funded with a mix of non-Proposition 98 General Fund and federal funds. CDE relies heavily on federal funds to maintain state operations. Nearly 70 percent of CDE state operations are funded with federal funds.

The primary duties of the Superintendent and the Department are to provide technical assistance to local school districts and to work with the educational community to improve academic performance. The functions of state operations include: Allocation of funds to local education agencies; curriculum and management leadership; assessment and program review; focused school improvement intervention; regulatory and compliance action; child development agency assistance; nutrition services and distribution of United States Department of Agriculture (USDA) surplus donated food.

CDE Fund Sources: State Operations (dollars in thousands)

CDE Fund Source	2011-12 Actuals	2012-13 Projected	2013-14 Proposed	BY to CY Change	% Change
General Fund					
CDE Headquarters	$38,490	40,534	41,536	1,002	2.4%
Federal Funds	$132,296	$160,893	$158,031	(2,862)	(1.8)%
Fee Revenue	$6,190	$6,732	$7,242	510	7.0%
Bond Funds	$2,291	$2,615	$2,727	112	4.1%
Other Funds	$10,788	$22,217	$21,682	(535)	(2.5)%
Total Expenditures	**$190,055**	**$232,991**	**$231,218**	**$3,312**	**1.0%**
Percentage of FF to					
Total Expenditures	69.61%	69.06%	68.35%		0.0%
Positions	**2331.5**	**2555.4**	**2556.4**	**1**	**0.0%**
** This table does not include the State Special Schools appropriations.*					
Source: California Department of Education					

The CDE also administers the State Special Schools, which includes a total of six facilities under its jurisdiction -- three residential schools and three diagnostic centers. The residential schools include the Schools for the Deaf in Riverside and Fremont and the School for the Blind in Fremont. The State Special Schools are funded with a mix of state and federal funds:

- The Governor's Budget proposes to provide $42.9 million (non-Proposition 98 General Fund) for all non-instructional activities required for students such as food services staff, nursing staff, dormitory personnel and school counselors. It also includes funding for lease fees, operations, business services, grounds keeping and janitorial functions.

- The Governor's Budget proposes to provide $49.4 million (Proposition 98) under this item for all instructional staff and programs (e.g., teachers, teacher specialists, classroom teaching assistants), administrative staff overseeing instructional programs (e.g., supervising teachers), and personnel conducting student assessments (e.g., teacher specialists). Also included in this funding is $12.8 million for the three diagnostic centers.

- The Governor's Budget proposes to provide $3.89 million (federal special education funds) for all student transportation costs related to transporting residential students from home to school and back each weekend. Use of federal funds for this purpose began in 2009-10.

Key Provisions

- The Governor's Budget requests the following new positions and associated funding. These positions are offset by a reduction of three positions for a net increase of one position overall.

- One new position and $109,000 to implement Proposition 39.

- Two positions and $217,000 to revise the Academic Performance Index pursuant to SB 1458 (Steinberg), Chapter 577, Statutes of 2012.

- One position and $109,000 for the Pupil Fee Complaint Process pursuant to SB 1575 (Lowenthal), Chapter 766, Statutes of 2012.

- The Governor's Budget proposes to shift $1.3 million (federal Title II funds) from the Administrator Training Program to the California Subject Matter Projects Program.

COMMISSION ON TEACHER CREDENTIALING

The Commission on Teacher Credentialing (CTC) was created in 1970 to establish and maintain high standards for the preparation and licensing of public school teachers and administrators. The CTC issues permits and credentials to classroom teachers, student services specialists, school administrators, and child care instructors and administrators. The CTC currently processes roughly 215,000 applications annually for nearly 200 different types of documents. The CTC also administers three local assistance programs: Alternative Certification, the Paraprofessional Teacher Training Program, and Teacher Misassignment Monitoring. These programs are funded with Proposition 98 General Funds and federal reimbursements from the California Department of Education. The Alternative Certification and Paraprofessional Teacher Training programs are currently included in the K-12 categorical flexibility program that allows districts to use these funds for any educational purpose. The CTC does not receive any General Fund support for administration of these programs.

In addition to setting teaching standards and processing credentials, the CTC performs accreditation reviews of teacher preparation programs. The CTC is responsible for accrediting 261 approved sponsors of educator preparation programs, including public and private institutions of higher education and local educational agencies in California.

The CTC is also required to review and take appropriate action on misconduct cases involving credential holders and applicants resulting from criminal charges, reports of misconduct by local educational agencies, and misconduct disclosed on applications.

State Operations. The CTC is a “special fund” agency whose state operations are supported by two special funds -- the Test Development and Administration Account (0408) and the Teacher Credentials Fund (0407). Of the CTC’s $18.8 million state operations budget in 2011-12, about 76 percent is supported by credential fees, which are a revenue source for the Teacher Credentials Fund; the remaining 24 percent is supported by educator exam fees, which fund the Test Development and Administration Account.

Fund Source	Actual 2011-12	Projected 2012-13	Proposed 2013-14	BY to CY Change	% Change
General Fund, Proposition 98	$26,190	$26,191	$-	(26,191)	(100%)*
Teacher Credentials Fund	14,742	14,437	15,067	630	4.364%
Test Development and Administration Account, Teacher Credentials Fund	4,653	4,146	4,169	23	.555%
Reimbursements	308	308	308	0	0
Total Expenditures (All Funds)	**$45,893**	**$45,082**	**$19,544**	**(25,538)**	**(56.648%)**
***Due to funding consolidation into Local Control Funding Formula**					

Key Provisions

- Proposes a decrease of $26.1 million Proposition 98 General Fund to reflect the consolidation of the Alternative Credentialing Program into the Local Control Funding Formula.

- Proposes an increase of $200,000 in the Teacher Credentials Fund for educator preparation program reviews.

CHILD CARE & DEVELOPMENT

Under current law, the State makes subsidized child care services available to: 1) families on public assistance and participating in work or job readiness programs; 2) families transitioning off public assistance programs; and, 3) other families with exceptional financial need.

Child care services provided within the California Work Opportunity and Responsibility to Kids (CalWORKs) program are administered by both the California Department of Social Services (DSS) and the California Department of Education (CDE); depending upon the "stage" of public assistance or transition the family is in.

CalWORKs Stage 1 child care services are administered by the DSS for families currently receiving public assistance, while Stages 2 and 3 are administered by the CDE. Families receiving ***CalWORKs Stage 2*** child care services are either (1) receiving a cash public assistance payment (and are deemed "stabilized"), or (2) in a two-year transitional period after leaving cash assistance. Child care for this population is an entitlement for twenty-four months under current law. The state allows counties flexibility in determining whether a CalWORKs family has been "stabilized" for purposes of assigning the family to either Stage 1 or Stage 2 child care. Depending on the county, some families may be transitioned to Stage 2 within the first six months of their time on aid, while in other counties a family may stay in Stage 1 until they leave aid entirely.

If a family is receiving ***CalWORKs Stage 3*** child care services, they have exhausted their two-year Stage 2 entitlement. The availability of Stage 3 care is contingent upon the amount of funding appropriated for the program in the annual Budget Act.

Non-CalWORKs Programs. In addition to CalWORKs Stage 2 and 3, CDE administers general and targeted child care programs to serve non-CalWORKs, low-income children at little or no cost to the family. The base eligibility criterion for these programs is family income at or below 75 percent of State Median Income (SMI) relative to family size. Because the number of eligible low-income families exceeds available child care slots, there are long waiting lists for care.

Child care providers are paid through either (1) direct contracts with CDE, or (2) vouchers through the Alternative Payment Program.

- Direct Contractors receive funding from the State at a Standard Reimbursement Rate, which pays for a fixed number of child care "slots." These are mostly licensed child care centers but also include some licensed family child care homes (FCCH). These caretakers provide an educational component that is developmentally, culturally, and linguistically appropriate for the children served. These centers and FCCH also provide nutrition education, parent education, staff development, and referrals for health and social services programs.

- Alternative Payment Programs (APs) act as an intermediary between CDE, the child care provider, and the family, to provide care through vouchers. Vouchers provide funding for a specific child to obtain care in a licensed child care center, licensed family day care home, or license-exempt care (kith and kin). With a voucher, the family has the choice of which type of care to utilize. Vouchers reimburse care providers based on the market rates charged by private providers in their region.

The 2013-14 Budget provides about $2.2 billion in state and federal funds to administer subsidized child care programs. The chart below, details all of the funding changes, by programs.

Child Care and Preschool Budget Summary					
(Dollars in Millions)	2011-12 Actual	2012-13 Revised	2013-14 Proposed	Change from 2012-13 Amount	Percent
Expenditures					
CalWORKs Child Care					
Stage 1	$435	$390	$417	$26	6%
Stage 2	$442	$419	$398	-$21	-5%
Stage 3	$152	$152	$173	$21	14%
Non-CalWORKs Child Care					
General Child Care[d]	$675	$465	$465	$0	0%
Alternative Payment	$213	$174	$174	$0	0%
Other child care	$30	$28	$27	$0	0%
Subtotals, Child Care	$1,948	$1,628	$1,654	$25	1%
State Preschool[d]	$368	$481	$481	$0	0%
Support Programs	$76	$76	$73	-$3	-4%
Total	**$2,392**	**$2,185**	**$2,207**	**$22**	**1%**
Funding					
State General Fund					
Proposition 98	$368	$481	$481	$0	0%
Non-Proposition 98	$1,068	$779	$791	$13	1%
Other state funds	$8	$4	$0	-$4	-44%
Federal funds					
CCDF	$533	$549	$536	-$13	-2%
TANF	$415 [b]	$372	$398	$26	6%

The changes in funding in the chart above reflect anticipated caseload changes in the CalWORKs program and the reduction in federal CCDF funds being reflected in the appropriate program areas.

Major Provisions

No Major Reforms or Reductions in Child Care Proposed At This Time

The Governor's 2013-14 budget proposes a relatively flat baseline funding level for child care programs. This is noteworthy, as over the last decade the budget has annually featured major reductions and/or policy changes to child development programs. After years of substantial program changes to child care programs, this proposal seems to offer the respite to allow oversight and fine tuning of the current system in budget deliberations.

However, the Governor's Budget Summary document makes an offhanded reference to child care in the discussion of the implementation of the Affordable Care Act that suggests that the State might want to explore the possibility of shifting all programmatic and funding responsibility for these programs to counties as part of a funding swap to facilitate the expansion of Medi-Cal eligibility.

In addition, the Governor's Budget references a stakeholder group to pursue "opportunity for streamlining and other improvements" in child care. This workgroup will be run by the Department of Social Services, and has yet to convene.

While the Governor's Budget has no policy changes worth noting at this time, the implementation of the Affordable Care Act and the stakeholder group have the potential to evolve into tangible proposals that will need to be discussed by the Assembly during this year's budget process.

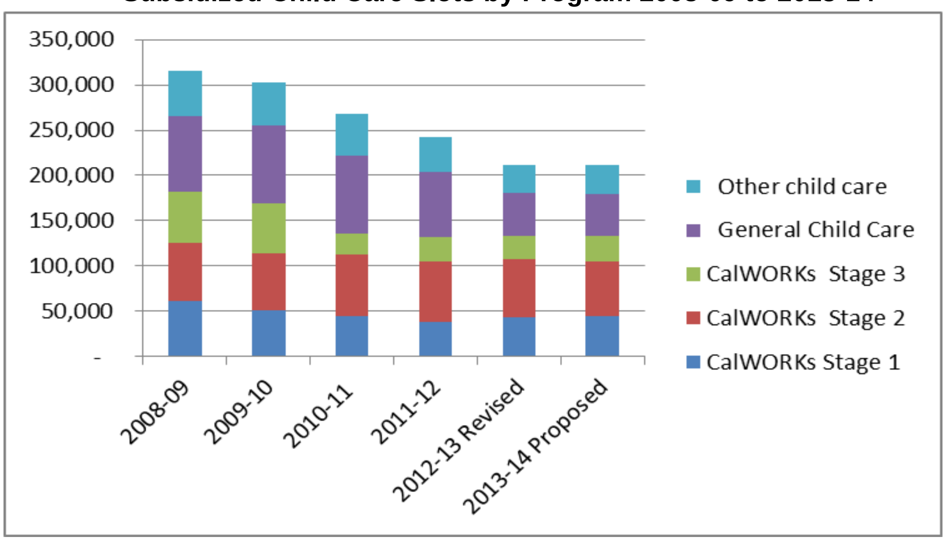
Child Care Programs Have a Long List of Unaddressed Policy Issues

One of the legacies of over a decade of dramatic and often sweeping policy discussions and cut proposals is that little time and energy has been devoted to fine-tuning and fixing small programs that plague the child care programs. Recently, the Assembly Select Committee on High Quality Early Childhood Education held productive hearings to identify some of these programs and to try to identify solutions to solve them. The lack of major proposals in the 2013-14 budget will hopefully allow room to finally allow for improvements to the programs that are not driven by budget reduction targets.

California's Subsidized Child Care System is a Shadow of its Former Self

The Assembly will need to consider future changes to child care programs in light of the impact to the dramatic reductions the program has experienced in the last five years. Since 2008-09, over 100,000 subsidized child care slots have been lost due to budget reductions and impacts related to CalWORKs policy changes. This reduction, a 33 percent drop, has significantly diminished the State programs. The chart below indicates the impact on child care programs from the policy, caseload, and funding reductions implemented over the last five years:

Subsidized Child Care Slots by Program 2008-09 to 2013-14



These figures exclude State Preschool programs, which will see total slots grown by about 13 percent over the same period.

The Legislative Analyst's Office (LAO) projects that in 2013-14 the State will purchase 211,785 subsidized child care slots, for both licensed and license exempt care. In the 2010 data, California had a total of 1,067,713 licensed child care slots, which means the State's role in the market overall is significant. The Assembly may want to further explore how the State's investment can improve the availability and quality of the care offered in the overall market in the coming year's deliberations.

HIGHER EDUCATION

California's higher education system is governed by the *Master Plan of Higher Education* (1960), which promises a high quality, affordable higher education for all California citizens who can benefit from it. The *Master Plan* also delineates different missions for each of the three segments – the University of California, the California State University, and the California Community Colleges.

The ***University of California (UC)*** provides undergraduate and graduate instruction; it has jurisdiction over professional training including law, medicine, dentistry, and veterinary medicine, and it serves as the State's primary agency for research.

The ***California State University (CSU)*** provides undergraduate and graduate instruction through the master's degree in the liberal arts and sciences and professional education including teacher education. The system is also authorized to offer selected doctoral programs jointly with UC and private institutions and support research.

The ***California Community Colleges (CCC)*** provide academic and vocational instruction at the lower division level. Studies in these fields may lead to the Associate in Arts or Associate in Science degree. The colleges also engage in promoting regional economic development and conducting research on student learning and retention.

The ***California Student Aid Commission (CSAC)*** also plays an integral role in implementing the goals of the Master Plan, with CSAC providing and overseeing the state's financial aid programs, including Cal Grants.

After seven years of fluctuating General Fund support, the Governor's Budget proposes a major increase in overall state funding for higher education: about a 13 percent increase over the 2012 Budget Act. Since 2007-08, the last year in which standard increases to support cost-of-living adjustments and enrollment growth were included in the budget, state support has wavered dramatically. In response to the changes in state support, all three segments now rely much more heavily on student tuition and fees.

The Governor's proposal allows the Assembly the chance to review its higher education priorities in a much different context than recent years, in which cutting back state support has been the dominant theme. A look at the state-of-the-state for higher education:

- **Tuition Has Increased Dramatically.** Community college fees more than doubled since 2007-08, and tuition at UC and CSU nearly doubled. Community college fees are now $46 per unit, while annual tuition is now $5,472 at CSU and $12,192 at UC. This growth in tuition and fees has led to major costs increases in state-supported financial aid, as a large portion of aid covers tuition and fees: expenditures for the California Student Aid Commission have grown from $866.7 million in 2007-08 to a projected $1.8 billion in 2013-14.

- **Access Has Been Impacted.** Students in the community college and CSU systems have found it more difficult to access colleges and specific classes. The Community College Chancellor's Office announced last summer that enrollment in community colleges had dropped by more than 485,000 students between Fall 2008 and Fall 2011, or 17 percent. Nearly 11 percent of applicants to CSU in Fall 2011 were turned away, compared to 3.6 percent in Fall 2008.

- **Graduation and Completion Rates Are Low.** Only about 30 percent of community college students who seek to transfer or graduate actually do so within 6 years. Only 50 percent of CSU students graduate within 6 years. About 80 percent of UC students graduate within 6 years.

Higher Education Core Funding, 2007/08 – 2013/14 *(Dollars in Millions)*

System	Fund	2007-08 Actual	2008-09 Actual	2009-10 Actual	2010-11 Actual	2011-12 Actual	2012-13 Projected	2013-14 Proposed
UC	General Fund	$3,257	$ 2,418	$2,591	$2,911	$2,504	$2,567	$2,846
	Tuition and Fees	$1,842	$1,948	$2,356	$2,537	$3,427	$3,408	$3,460
	Other UC Core Funds	$329	$346	$325	$367	$388	$441	$385
	ARRA	$0	$717	0	$107	0	0	0
	Lottery	$26	$25	$26	$27	$30	$37	$37
	Total UC	**5,453**	**$5,453**	**$5,298**	**$5,948**	**$6,349**	**$6,453**	**$6,728**
CSU	General Fund	$2,971	$2,155	$2,346	$2,578	$2,228	$2,492	$2,809
	Tuition and Fees	$1,329	$1,568	$1,751	$1,810	$2,568	$2,514	$2,514
	ARRA	$0	$717	0	$107	0	0	0
	Lottery	$58	$42	$42	$42	$42	$56	$56
	Total CSU	**$4,358**	**$4,482**	**$4,139**	**$4,537**	**$4,838**	**$5,062**	**$5,379**
CCC	General Fund	$4,367	$4,194	$4,030	$4,242	$3,606	$3,821	$4,504
	Local Property Tax	$1,971	$2,029	$1,993	$1,965	$1,974	$2,256	$2,171
	Fees	$291	$303	$354	$317	$361	$387	$387
	ARRA	0	0	$35	$4	0	0	0
	Lottery	$169	$149	$163	$173	$197	$186	$186
	Total CCC	**$6,798**	**$6,674**	**$6,574**	**$6,701**	**$6,138**	**$6,649**	**$7,247**

The Governor's proposal seeks to increase funding to all three higher education segments during the next four years but tie it to flat tuition rates and improved outcomes. Additionally, there are numerous significant policy changes. Among the broad questions the Assembly should consider as it reviews these proposals are:

- ***Policy or Budget?*** Several budget proposals, including one to move adult education programs from the K-12 system to community colleges and another to cap the number of units students can take, include major policy changes as well as budget impacts. The Assembly may wish to consider whether these proposals would benefit from larger policy discussions that could occur through the bill process, instead of the budget process.

- ***Should the Assembly accept the 2012 Budget Act as a baseline?*** The Governor vetoed significant pieces of the 2012 Budget Act pertaining to higher education, and the proposal for 2013-14 assumes those vetoes will remain. The Governor stripped several earmarks out of the UC and CSU budgets, including requirements that some funding go to UC Merced and other programs such as the California Institutes for Science and Innovation, the Charles R. Drew Medical Program, AIDS research, and CSU nursing programs. He also vetoed out of the budget bill enrollment targets for UC and CSU, and made several reductions to Cal Grants, reducing specific awards by 5 percent. The reductions – for students attending private and independent institutions, and Cal Grant B and C award recipients – could have a major impact on students at a time when college costs are rising. The Assembly must decide if the changes made through these vetoes should stand or be re-inserted into the 2013 Budget Act. In addition, the Governor's proposal continues and increases a fund shift used in the 2012 Budget Act that transfers funding from the Temporary Assistance for Needy Families (TANF) Program to support the Cal Grant program. The Governor's Budget proposes using $942.9 million of TANF funds to offset General Fund costs related to Cal Grants.

- ***Should policy changes punish students or incentivize institutions?*** Some proposals, such as a cap on the number of units students at each of the segments can take or a requirement that all community college students applying for Board of Governors' fee waiversalso fill out the federal student aid application, appear to target students as opposed to institutions. For example, unit caps may punish students who have accumulated a large number of courses because they have been unable to take courses they need. The Assembly may wish to consider whether the Governor's goals to improve timely graduation and student access to federal financial aid can be achieved through means that have less direct impacts on students and instead provide more incentives to institutions.

- ***What is the Assembly's role in shaping higher education priorities and improving higher education outcomes?*** A key component of the Governor's proposal is to provide funding increases to the segments during the next four years to help achieve goals such as preventing tuition increases and helping students progress through college more quickly and efficiently. The proposal does not provide specific details on performance metrics the Administration might use to determine whether the segments merit increased funding. In addition, the Governor proposes allowing the Community College Board of Governors to determine how to spend an increase of $196.9 million in apportionment funding.

  Absent from the Budget proposal so far is the legislative role in these funding increases and outcomes assessments. The Assembly can and should play a role in determining the goals the segments should focus on and where increased funding should go, both in 2013-14 and beyond

UNIVERSITY OF CALIFORNIA (UC)

The UC system includes ten campuses at Berkeley, Davis, Los Angeles, Merced, Riverside, San Diego, San Francisco, Santa Cruz, and Santa Barbara. Nine general campuses offer undergraduate, graduate, and professional education, with the San Francisco campus devoted exclusively to the health sciences. The University operates five teaching hospitals in the following counties: in Los Angeles, San Francisco, Sacramento, San Diego, and Orange. The University of California draws students from the top 12.5 percent of the state's high school graduates, educating an estimated 239,456 full-time equivalent students (FTES) in 2012-13, including undergraduate, graduate, and professional students.

The Governor's Budget proposes total spending of $25.4 billion ($2.8 billion General Fund), an increase of $1.3 billion (5.4 percent) compared to the current year, and 87,600.2 positions, the same as the current year. Among the changes in General Fund spending are:

- $125 million for not increasing tuition and fees in 2012-13, as required by the 2012 Budget Act;
- $125.1 million in new funding to negate the need for tuition and fee increases in 2013-14 and to incentivize UC to fund programs designed to help students graduate faster and improve efficiencies;
- $202 million to shift UC's bond debt service payments into its general appropriation; and,
- $6.4 million for increased costs related to retired annuitant benefits.

Fund Source (Dollars in thousands)	**2011-12 Actual**	**2012-13 Projected**	**2013-14 Proposed**	**BY to CY Change**	**% Change**
General Fund	$2,272,373	$2,377,339	$2,845,801	$468,462	19.7%
Tuition and Fees	$3,814,942	$3,849,047	$3,845,293	($3,754)	(0.1%)
University Funds – Unclassified	$11,266,419	$11,914,503	$12,665,677	$751,174	6.3%
Other Funds (15)	$6,220,953	$5,962,619	$6,044,781	$82,162	1.4%
Total Expenditures	$23,574,687	$24,103,508	$25,401,552	$1,298,044	5.4%
Positions	87,390.9	87,600.2	87,600.2	0	0%

Major Provisions

Establishes a Multi-Year Funding Plan

In a proposal somewhat similar to one made last year, the Governor's Budget proposes a plan that would provide 5 percent General Fund growth to UC in 2013-14 and 2014-15, and 4 percent growth during the following two years. The funding increases would be linked to UC holding tuition and fees flat for this four-year period, and also achieving gains in issues such as improving graduation rates, time-to-graduation and controlling costs.

The Administration has not released details on its specific priorities or how it would evaluate whether UC was achieving appropriate outcomes to warrant funding increases each year. It is unclear what the legislative role in this process would be. It also should be noted that state budgets are determined on a year-to-year basis, and therefore multi-year funding promises can be problematic.

In its budget proposal approved in November 2012, the UC Board of Regents proposed significant new expenditures allowing for 1 percent enrollment growth, 3 percent compensation increases for many faculty and staff, and the beginning of a multi-year "Reinvestment in Quality" plan that would focus on issues such as lowering the student-to-faculty ratio, increasing support for graduate students, and increasing salaries for faculty.

The Administration and the UC Regents appear to have somewhat different priorities for increased funding: while the Governor is seeking efficiencies and faster, improved graduation rates, the UC Regents are seeking funds for what they believe will better the quality of instruction.

The Assembly thus has the opportunity to determine its own priorities for UC as it engages in the budget dialogue going forward.

Funds On-Line Classes

Of the $125.1 million in new General Fund spending, the Governor's Budget proposes to earmark $10 million to allow UC to expand the number of on-line courses available to undergraduate students. Proposed budget language notes the funding should go to courses that have high demand, fill quickly and are prerequisites for many different degrees, and allow students to enroll in system wide classes regardless of which campus they attend.

The Administration believes expanding the use of technology throughout the higher education segments will improve time-to-degree. UC does already offer some for-credit on-line courses. According to a presentation to the UC Board of Regents this month, 27 on-line courses have been approved for credit for the current academic year. UC created UC Online Education (UCOE) in January 2012 following a two-year pilot project. UC believes on-line classes can improve time-to-degree for students and lower costs for the system. There are concerns, however, about maintaining the quality of instruction as expansion occurs, developing the system to allow for cross-campus classes, which UC predicts could take two or three years to fully develop, and the overall costs of funding a major expansion.

Merges Bond Costs with University Base Funding, Allows for UC Debt Restructuring

Currently the state separately funds general obligation bond debt service for UC capital improvement projects and list lease-revenue bond debt service in a separate budget item. Similar to last year, the Governor's Budget proposes moving these costs into the main appropriation for UC, which the Administration believes will require UC to factor these costs into the system's overall fiscal outlook when it makes decisions on capital projects. The Budget calls for $202 million in general obligation bond debt service payments in 2013-14, a $12 million increase over the current year. As part of this proposal, the Administration states that it will not provide further increases for debt service in future years.

In addition, the proposal notes that new UC capital expenditures would be subject to approval by the Administration and there would be a cap on the amount of the budget UC could spend on capital projects.

Finally, the proposal also would allow UC to restructure its state debt. UC believes that it can restructure the state's lease-revenue bond debt for UC projects and pay less debt service in the near and intermediate term, thus freeing up cash. UC estimates that restructuring would generate $80 million per year during the next 10 years, allowing that funding to be spent on other UC expenses.

UC does acknowledge that this strategy will likely lead to higher costs in the long-term, however. One potential scenario developed by UC shows additional costs of $383.8 million during a 40-year period under this proposal, when compared to current debt-service payments and taking into account the effects of inflation. UC officials believe that future restructuring could alleviate some or all of these costs, but that is difficult to predict. The strategy appears to simply extend the costs of debt service over a longer period of time than current practices, which could hamper future borrowing practices. This also seems to contradict the Governor's interest in reducing debt in the near-term, instead of extending debt costs.

The Assembly will have to consider whether the near-term benefits outweigh potentially higher costs in future years, and how UC would cover those costs through either state General Fund or tuition revenues, when evaluating this proposal.

HASTINGS COLLEGE OF THE LAW (HCL)

Hastings College of the Law was founded in 1878 by Serranus Clinton Hastings, California's first Chief Justice, and was affiliated with the University of California by the Legislature in the same year. A board of directors, appointed by the Governor for 12-year terms, oversees the college. The Juris Doctor degree is granted by the Regents of the University of California, and is signed by the President of the University of California and the Dean of Hastings College of the Law. Enrollment was 1,135 students for 2012-13.

The Governor's Budget proposes total spending of $71.7 million ($9.5 million General Fund), a decrease of $1.3 million (0.8 percent) compared to the current year, and 247.7 positions, the same as the current year. Among the changes to General Fund spending are:

- $392,000 to mitigate the need for increased tuition or fees in 2013-14 and to achieve similar goals as the Administration has outlined for UC, CSU and the community colleges; and,

- $1.2 million to shift Hastings' general obligation bond debt service payments into its main budget appropriation.

Fund Source (Dollars in thousands)	**2011-12 Actual**	**2012-13 Projected**	**2013-14 Proposed**	**BY to CY Change**	**% Change**
General Fund	$6,935	$7,849	$9,510	$1,661	21.2%
University Funds – Unclassified	$46,550	$49,454	$48,119	($1,335)	(2.7%)
Other Funds (2)	$13,619	$14,951	$14,036	$915	(6.1%)
Total Expenditures	$67,104	$72,254	$71,665	$1,298	(0.8%)
Positions	255.3	247.7	247.7	0	0%

CALIFORNIA STATE UNIVERSITY (CSU)

The California State University (CSU) system is comprised of 23 campuses, including 22 university campuses and the California Maritime Academy. While each campus in the system has its own unique geographic and curricular character, all campuses offer undergraduate and graduate instruction for professional and occupational goals, as well as broad liberal education programs. In addition to providing baccalaureate and master level instruction, the CSU trains approximately 60 percent of California's K-12 teachers and administrators, and a limited number of doctoral degrees are offered jointly by the CSU with the University of California, and with select private universities. The CSU system draws students from the top one-third of the state's high school graduates, as well as transfer students who have successfully completed specified college work, educating 410,324 students in 2012-13.

The Governor's Budget proposes total spending of $7.9 billion ($2.5 billion General Fund), an increase of $467.5 million (6.3 percent) compared to the current year, and 41,473.1 positions, the same as the current year. Among the changes to General Fund spending are:

- $125 million for not increasing tuition and fees in 2012-13, as proscribed by the 2012 Budget Act;

- $125.1 million in new funding to negate the need for tuition and fee increases in 2013-14 and to incentivize CSU to fund programs designed to help students graduate faster and improve efficiencies;

- $198.1 million to shift CSU's general obligation bond debt service payments into its general appropriation.

Fund Source (Dollars in thousands)	**2011-12 Actual**	**2012-13 Projected**	**2013-14 Proposed**	**BY to CY Change**	**% Change**
General Fund	$1,999,927	$2,063,550	$2,531,063	$467,513	22.7%
CSU Trust Fund	$2,567,699	$2,513,886	$2,513,886	$0	0%
Other Unclassified Funds	$1,210,859	$1,019,835	$1,019,835	$0	0%
Other Funds (7)	$1,705,137	$1,810,790	$1,810,790	$0	0%
Total Expenditures	$7,483,622	$7,408,061	$7,875,574	$467,513	6.3%
Positions	43,768.5	41,473.1	41,473.1	0	0%

Major Provisions

Establishes a Multi-Year Funding Plan

Similar to the proposal for UC, the Governor's Budget proposes a plan that would provide 5 percent General Fund growth to CSU in 2013-14 and 2014-15, and 4 percent growth during the following two years. The funding increases would be linked to CSU holding tuition and fees flat for this four-year period, and also achieving gains in issues such as improving graduation rates, time-to-graduation and controlling costs.

The Administration has not released details on its specific priorities or how it would evaluate whether CSU was achieving appropriate outcomes to warrant funding increases each year. It is unclear what the legislative role will be in the evaluation process. It also should be noted that state budgets are determined on a year-to-year basis, and therefore multi-year funding promises can be problematic.

In its budget proposal approved in November 2012, the CSU Board of Trustees proposed significant new expenditures allowing for 5 percent enrollment growth, 3 percent compensation increases for many faculty and staff, and funding for its Graduation Initiative and Student Success programs, which would pay for, among other things, filling vacant tenure/tenure-track faculty positions and programs to aid incoming freshman become more college-ready.

This allows the Assembly to compare the Governor's priorities and the Trustees' and determine its own values as funding increases.

Funds On-Line Classes

Of the $125.1 million in new General Fund spending, the Governor's Budget proposes to earmark $10 million to allow CSU to expand the number of on-line courses available to undergraduate students. Proposed budget language notes the funding should go to courses that have high demand, fill quickly and are prerequisites for many different degrees, and allow students to enroll in system wide classes regardless of which campus they attend.

The Administration believes expanding the use of technology throughout the higher education segments will improve time-to-degree. CSU does already offer some for-credit on-line courses.

About 17 percent of California State University, East Bay's student credit hours are taken in on-line classes, and the system is launching the Cal State Online program this spring. Just this month, San Jose State University announced a partnership with a Silicon Valley-based online education group to begin offering three for-credit online classes – algebra, college algebra, and elementary statistics.

There are concerns, however, about maintaining the quality of instruction as expansion occurs and the overall costs of funding a major expansion.

Caps Units

The Governor's Budget proposes a limit on the number of units a student can take before the student's costs per class would grow dramatically. For 2013–14 and 2014–15, the Governor proposes a cap of 150 percent of the standard units needed to complete most degrees at UC and CSU (180 semester–units at CSU). In subsequent years, the number would lower to a cap of 125 percent of the standard required units at UC and CSU—about one extra year of coursework. Students who exceeded these caps would be required to pay the full cost of instruction.

According to the Governor, the unit cap is intended to create an incentive for students to shorten their time–to–degree, reduce costs for students and the state, and increase access to more courses for other students.

However, the Assembly may wish to consider the reasons students may be accumulating large numbers of units before it determines whether to impose such a cap. Students with a high number of credits in recent years may be simply adapting to a dysfunctional system. Due to recent budget cuts, course offerings at CSU campuses have been cut back, limiting students' abilities to take the appropriate courses needed to secure a degree. It may be unfair to penalize current students in each of these systems for being unable to complete their educational goals in a timely manner. In addition, the Legislative Analyst's Office notes that requirements of specific majors may also lead to large course-loads for some students.

While the Governor proposes this cap for both UC and CSU students, both UC officials and the Administration have noted that this issue would have virtually no impact on UC students because it is very rare for students to accumulate this many credits.

Merges Bond Costs with University Base Funding
Currently the state separately funds general obligation bond debt service for CSU capital improvement projects and lists lease-revenue bond debt service in a separate budget item. Similar to a proposal made last year, the Governor's Budget proposes moving these costs into the main appropriation for CSU, which the Administration believes will require UC to factor these costs into the system's overall fiscal outlook when it makes decisions on capital projects. The Budget calls for $198.1 million in general obligation bond debt service payments in 2013-14, a $10 million increase over the current year. As part of this proposal, the Administration states that it will not provide further increases for debt service in future years.

In addition, the proposal notes that new CSU capital expenditures would be subject to approval by the Administration and there would be a cap on the amount of the budget UC could spend on capital projects.

Freezes Retirement Costs at 2012-13 Employee and Compensation Levels
The Governor's Budget proposes an increase of $51.4 million to cover CSU employee retirement contribution costs for the California Public Employees Retirement System in 2012-13, bringing retirement costs to an estimated $436.6 million. The Governor also proposes that the state continue to fund retirement contributions for CSU employees based on the number of employees in 2012-13. If CSU chooses to add employees or increase wages beyond 2012-13 levels, CSU would be responsible for the additional costs. The Administration argues this will require CSU to factor these costs into their overall fiscal outlook before making personnel decisions.

Gives CSU the Authority to Set or Negotiate Employee Health Benefit Rates
The Governor's Budget proposes to give CSU the statutory authority to negotiate or set employee health care benefit rates. This process would be achieved through collective bargaining with represented employees. Currently CSU pays 100 percent of health care premiums for employees and 90 percent of premiums for employees' family members, a higher rate than other state agencies that bargain these rates. CSU currently does not bargain this rate, as it is set in statute.

CALIFORNIA COMMUNITY COLLEGES (CCC)

The California Community Colleges (CCC) provides general education and vocational certificate programs at 112 community colleges through 72 local districts, which serve approximately 2.6 million students. In addition to providing education, training, and services, the CCC contributes to continuous workforce improvement. The CCC also provides remedial instruction for hundreds of thousands of adults across the state through basic skills courses and adult non-credit instruction.

The Governor's Budget proposes total spending of $7.1 billion ($4.2 billion General Fund, Proposition 98), an increase of $594.3 million (9.2 percent) compared to the current year. Among the changes in General Fund spending are:

- $315.7 million to shift adult education and apprenticeship programs from the K-12 system to the community college system;
- $49.5 million to fund Proposition 39-related energy efficiency projects;
- $179 million to pay down deferral debt owed to the system;
- $196.9 million to increase apportionment funding; and,
- $16.9 million to fund increased use of technology.

Fund Source (Dollars in thousands)	**2011-12 Actual**	**2012-13 Projected**	**2013-14 Proposed**	**BY to CY Change**	**% Change**
General Fund, Proposition 98	$3,278,515	$3,542,844	$4,225,516	$682,672	19.3%
Local Property Tax Revenues	$1,960,362	$2,256,477	$2,171,022	($85,455)	(3.8%)
Higher Education Fees and Income	$353,854	$386,717	$386,717	$0	0%
Other Funds (10)	$312,555	$301,210	$298,290	($2,920)	(1.0%)
Total Expenditures	$5,905,286	$6,487,248	$7,081,545	$594,297	9.2%

Major Provisions

Increases Apportionment Funding

The Governor's Budget proposes an increase of $196.9 million in apportionment funding for the community college system. This increase is part of the Governor's overall higher education proposal, which increases funding for all of the segments to freeze tuition and fee levels and improve outcomes and efficiencies. According to the Administration, the community college proposal would allow the California Community Colleges Board of Governors the discretion as to how this additional funding would be spent. The funding could support any number of needs in the system, including enrollment growth, restoring previous cuts to categorical programs, or cost-of-living adjustments.

This proposal would leave the Legislature out of the important decision-making process related to re-investing in the community college system after several years of cutbacks. The Assembly may wish to alter this proposal to better direct this new funding based on existing priorities. For example, the Legislature in recent years has focused on improving completion and transfer rates among community college students. SB 1456 (Lowenthal), Chapter 624, Statutes of 2012 included legislative intent language that notes that additional resources may be needed in the system to improve student support services and other categorical programs, which in turn could improve completion and transfer rates. Legislative interest also has focused on creating a common assessment instrument to place incoming community college students into appropriate classes and system wide electronic student transcripts to improve campus record-keeping and efficiencies. While the Board of Governors may share these priorities, it also could direct funding to other areas that are less of a legislative priority.

Shifts Adult Education and Apprenticeship Programs from K-12 to Community Colleges
The Governor's Budget proposes to shift administration and responsibility for adult education and apprenticeship programs from the K-12 system to community colleges. The proposal would provide $300 million in new Proposition 98 funding for an adult education block grant. Unlike the current adult education system, which allows funding for 10 programs, the new block grant would only fund four, plus the apprenticeship program.

Current Adult Education Programs	Proposed Adult Education Programs
Elementary and Secondary Education	Elementary and Secondary Education
Vocational Education	Vocational Training
English as a Second Language	English as a Second Language
Immigrant Education (citizenship and workforce preparation)	Citizenship
Apprenticeship	Apprenticeship (Separate Funding Stream)
Adults with Disabilities	
Health and Safety	
Home Economics	
Older Adults	
Parenting	

The $588.9 million currently provided under the Adult Education K-12 categorical program would continue to be provided to school districts, but the funding would be consolidated with all other K-12 categorical programs under the Governor's proposal to restructure K-12 funding. The K-12 system would no longer be required to provide any adult education programs.

The Administration envisions a system in which adult education programs are administered by community colleges, which could operate classes or contract out with K-12 systems or others to operate classes. Trailer bill language providing a more detailed proposal has yet to be released.

There is little argument that the current adult education system is dysfunctional. Because adult education currently falls under the purview of both community colleges and school districts, it is not the top statutory mission of either segment. A December 2012 report by the Legislative Analyst's Office noted numerous problems with the system:

- An overly broad mission;
- A lack of clear delineations between adult education and collegiate coursework at community colleges;
- Inconsistent state-level policies;
- Widespread lack of coordination among providers; and,
- Limited student data, leading to little accountability.

Compounding these problems is a 2009 budgetary decision to include categorical program funds for Adult Education in the "categorical flexibility" provided to K-12 school districts, allowing them to forego spending on the program. This has resulted in many school districts significantly scaling back or in some cases eliminating their adult education programs: the LAO notes in its report that it is likely that only 40 to 50 percent of the funding provided for adult education is now going to the program.

Despite these problems, the Assembly will need to carefully vet the Governor's proposal. Shifting an entire program such as this will include many complexities, including teacher-credentialing issues, facilities issues, whether the proposed funding is the correct amount to support the program, and whether the narrower focus on only four subject areas is appropriate.

Provides Proposition 39 Funding

The Governor's Budget proposes directing $49.5 million in Proposition 39 funds to community colleges to undertake clean energy projects as well as fund career technical educational training and on-the-job training related to the clean-energy sector. Like the Proposition 39 funding proposal for the K-12 system, the Governor proposes distributing funding to community colleges on a per-student basis. This would provide community colleges with roughly $45 per student.

A description of Proposition 39 and the Governor's rationale for using Proposition 39 funds as part of the Proposition 98 minimum guarantee are provided in the Proposition 98 section of this report. The Administration will provide specific policy proposal guiding the use of these funds with the release of their trailer bill language, likely in February.

Community colleges have a significant list of projects that could be funded with this new money. A December 2012 report noted $390 million in needs, including energy management systems at all 112 colleges, energy efficiency projects throughout the system, renewable energy projects throughout the system, and expanded clean energy-related job training programs.

The Legislative Analyst's Office has raised concerns with the Administration's Proposition 39 proposal and how it relates to Proposition 98. The Assembly will have to weigh this issue, and if it does chose to spend the funds on K-12 and community colleges, whether the per-pupil spending proposal, or some other methodology to prioritize projects, is the best manner to distribute funding.

Changes Board of Governor's Fee Waiver Process

The Governor's Budget proposes requiring students who are seeking a Board of Governor's (BOG) Fee Waiver to fill out the Free Application for Federal Student Aid (FAFSA). The Administration argues that this will create more assurance that only financially-needy students are receiving the waiver, and also could help generate more federal financial aid for students. This is a policy change with no projected budget impact in the 2013-14 Budget Proposal.

Created more than 25 years ago when community college fees were first established, the BOG Fee Waiver Program is intended to allow low-income students to attend community college without paying fees. The Governor's Budget summary notes that approximately 60 percent of all credit course fees in the system are waived annually through this program, and the Administration argues that the fee waiver is granted with "limited verification of financial need."

In contrast, the FAFSA, which is required for any student wishing to receive federal financial aid, requires a more thorough accounting of a student's finances.

While this proposal may warrant discussion, the Assembly should consider the following:

- Community College officials note that about 80 percent of BOG Fee Waiver students already fill out the FAFSA, so this change may not have much of an impact on the system;

- Through SB 1456 (Lowenthal), Chapter 624, Statutes of 2012, the Legislature last year approved reforms to the BOG Fee Waiver program that have yet to take effect. The legislation authorized the Board of Governors to adopt regulations requiring minimum academic and progress standards for students receiving the waiver. The Assembly may wish to wait to determine the effectiveness of those reforms before adding another.

- Financial aid offices at community colleges are severely under-staffed. It is possible that requiring this new form would increase the workload of already swamped offices.

- Some students, such as Dream Act students, who could qualify for the BOG Fee Waiver are not allowed to fill out the FAFSA. While the Administration states that its proposal would allow Dream Act students to fill out a Dream Act application instead of a FAFSA, specific language has not been proposed and the Assembly may wish to ensure that this new requirement does not unfairly prevent students from seeking the waiver.

Changes Census Accounting Practices

The Governor's Budget proposes a major shift in per-student community college funding by changing the date in which students are counted. The Administration argues their proposal will provide incentives for colleges to ensure students complete courses.

Currently, community colleges report their student numbers based on a census taken during the 20-percent mark of the term, typically the third or fourth week of the semester. Beginning in 2013-14, the Governor proposes adding a second census at the end of each term, and over a five-year period, attaching more funding weight to the second census. By 2017-18, the first census would be eliminated. As part of this proposal, the Administration states that it intends to restore funding to any college that loses funding due to this census shift by transferring the savings to categorical programs designed to promote student success. Thus, the Administration argues, colleges that have traditionally enrolled hard-to-serve students would not be penalized.

While the idea of providing incentives for community colleges to help student's complete courses warrants consideration, the Legislative Analyst's Office notes that this proposal could create potential unintended consequences, such as grade inflation or reductions in course rigor. In addition, it should be noted that the Community College Student Success Task Force examined the completion issue thoroughly, and provided other recommendations, such as changing system wide enrollment priorities and requiring students to address basic skills needs earlier in their community college career. They did not recommend a change in the timing of the census.

Caps Units

The Governor's Budget proposes capping the number of credit units for community college students, similar to a proposal for UC and CSU students. Students would be allowed to take no more than 90 semester credit units, or 150 percent of the 60 semester credit units required to earn an associate's degree or credits for transfer. Students who enrolled in credit courses beyond this cap, beginning in 2013-14, would be required to pay the full cost of instruction.

Like the UC and CSU proposal, the Administration argues this cap will improve time-to-completion rates for students and allow more students to take classes. However, the Assembly may wish to consider why students have accumulated large numbers of credits. Until recently, the community college system actually rewarded students with a large number of credits by allowing them enrollment priority. "As a result, there is a perverse incentive for students to enroll in classes, even if they do not further their educational objectives, simply to gain a higher place in the enrollment queue," noted the California Community Colleges Student Success Task Force in a January 2012 report.

This issue has been addressed by the Board of Governors, which adopted new regulations in September 2012 stating that students with more than 100 units would lose enrollment priority. That reform may address the same issue the Governor seeks to address. In addition, this cap may penalize older students who are returning to community college for more training, re-training or seeking to switch careers.

Funding Augmentation for On-line Classes

Similar to proposals for UC and CSU, the Governor's Budget proposes funding for technology improvements in the community college system. The proposal would direct $16.9 million to increase the number of courses available to students. This is slightly more than the $10 million each for UC and CSU.

While trailer bill language detailing this proposal for the community colleges has not been released, the Administration states that its intent is to have a centralized "virtual campus" that would offer needed classes for students throughout the system. The intent would be to provide classes with the highest demand and classes that are needed for many degrees.

Funding for Deferral Debt

The Governor's Budget proposes an increase of $179 million Proposition 98 General Fund to further reduce deferral debt owed to community colleges. The state reduced its debt to community colleges to $801 million in the 2012 Budget Act, and this would bring the debt down to $622 million. The Administration notes that this funding level is proportional to the debt payment proposed for the K-12 system.

CALIFORNIA STUDENT AID COMMISSION (CSAC)

The California Student Aid Commission is responsible for making higher education affordable and accessible to students in California. CSAC accomplishes this mission by administering a variety of student aid and loan programs, including the Cal Grant Program, which is the primary state source of financial aid.

The Commission is composed of 15 members: 11 members are appointed by the Governor and confirmed by the Senate, 2 members are appointed by the Senate Rules Committee, and 2 members are appointed by the Speaker of the Assembly. Members serve four-year terms except the two student members, appointed by the Governor, who serve two-year terms.

The Governor's Budget proposes total spending of $1.8 billion ($719.6 million General Fund), an increase of $98.2 million (5.9 percent) compared to the current year, and 107.7 positions, a 1.8 percent decrease compared to the current year. Funding growth reflects increased participation in the Cal Grant program and increasing use of Temporary Assistance to Needy Families (TANF) funds for the Cal Grant program, which is reflected in the Reimbursements category in the table below.

Fund Source (Dollars in thousands)	**2011-12 Actual**	**2012-13 Projected**	**2013-14 Proposed**	**BY to CY Change**	**% Change**
General Fund	$1,470,684	$735,624	$719,570	($16,054)	(2.2%)
Reimbursements	$15,076	$818,793	$957,951	$139,158	17.0%
Other Funds (3)	$76,992	$99,908	$75,034	($24,874)	(24.9%)
Total Expenditures	$1,562,752	$1,654,325	$1,752,555	$98,230	5.9%
Positions	101.6	109.7	107.7	(2)	(1.8%)

Major Provisions

Maintains 2012 Budget Act Regarding Cal Grant Amounts

Expenditures for the Cal Grant program have risen by 85 percent during the past four years, largely reflecting increases in tuition at the state's public universities. The Governor's Budget proposes no new policy changes to the Cal Grant program, instead maintaining policies enacted during the past two years either through legislative action or gubernatorial vetoes. These policies have been intended to lower costs in the program and ensure that state subsidies do not go to institutions with low graduation rates and high student loan default rates. Below is a brief description of Cal Grant awards and a table illustrating individual award amounts during the past three years.

- Cal Grant A: Provides tuition and fee funding to eligible lower income high school graduates who have at least a 3.0 grade point average (GPA) on a four-point scale;

- Cal Grant B: Provides funds to eligible low-income disadvantaged high school graduates who have at least a 2.0 GPA on a four-point scale. The award provides funding for book and living expenses for the first year and each year following for up to four years. After the first year, the award also provides for tuition and fees at qualifying postsecondary institutions.

- California Community College Transfer Award: Provides a Cal Grant A or B award to eligible high school graduates who have a community college GPA of at least 2.4 on a four-point scale.

- Cal Grant C: Provides funding for financially eligible lower income students preparing for occupational or technical training. The authorized number of new awards is 7,761.

CAL GRANT INDIVIDUAL AWARD AMOUNTS

Award Type	**2011-12**	**2012-13**	**2013-14**
Cal Grant A and B for Nonprofit and WASC-accredited for-profit institutions	$9,708	$9,223	$9,084
Cal Grant A and B for all other for-profit institutions	$9,708	$9,223	$4,000
Cal Grant B access awards	$1,551	$1,473	$1,473
Cal Grant C tuition and fee awards	$2,592	$2,462	$2,462
Cal Grant C book and supply award	$576	$547	$547

Funds Cal Grant Participation Growth
The Governor's Budget proposes an increase of $61 million General Fund in 2012-13 and $161.1 million in 2013-14 to reflect increased participation in the Cal Grant program. Of the 2013-14 amount, the Administration projects $19.5 million will be attributable to the first year of implementation of the California Dream Act.

Continues Major Financial Aid Fund Shift
The Governor's proposal shifts $942.9 million in Cal Grant costs from the General Fund to federal TANF funds through an interagency agreement with the Department of Social Services. This process was first used in the 2012 Budget Act to achieve General Fund savings. The new proposal would increase the amount of TANF dollars used for Cal Grants by $139.2 million.

Technical Adjustments
- Proposes a shift of $60 million of Cal Grant Program costs from the General Fund to the Student Loan Operating Fund.

- Maintains the phase-out of Student Loan Assumption Programs for Teachers and Nurses, while continuing to fund remaining renewal awards through 2015-16. Generates $6.6 million in General Fund savings.

CALIFORNIA STATE LIBRARY (CSL)

The California State Library is the state's information hub, preserving California's cultural heritage and connecting people, libraries and government to the resources and tools they need to succeed and to build a strong California.

Founded in 1850, the California State Library is the oldest and most continuous cultural agency in the State of California. Decades before there was a university system or a public library system, there was the California State Library.

The Governor's Budget proposes total spending of $41.5 million ($17 million General Fund), a decrease of $4 million (8.8 percent) compared to the current year, and 138.8 positions, the same as the current year.

Fund Source	2011-12 Actual	2012-13 Projected	2013-14 Proposed	Change from CY	% Change
General Fund	$12,582	$21,312	$17,024	($4,288)	(20.1%)
Federal Trust Fund	$14,923	$19,833	$19,902	$69	0.3%
Proposition 40	$804	$554	$1,825	$1,271	229.4%
Other Funds (5)	$3,241	$3,821	$2,561	($1,260)	(33%)
Total	$31,550	$45,520	$41,492	($4,028)	(8.8%)

Key Provisions

California Cultural and Historical Endowment Grant Funding
- The Governor's Budget proposes an appropriation of $1.4 million from the Proposition 40 sub fund for Historical and Cultural Resource Preservation to fund grants. AB 716 (Firebaugh), Chapter 1126, Statutes of 2002 created the California Cultural and Historical Endowment within the California State Library. The endowment has so far expended $122 million in preservation grants. This request would allow the State Library to fund $1.4 million in additional grants.

HEALTH SERVICES

As mentioned earlier in this report, the State budget achieved stability through many difficult sacrifices in terms of program cuts. Health care was particularly hit hard by these reductions over the last five years. California has survived this recession, but it has done so, in large part, by making life more difficult for many, many Californians in terms of reduced health care services. The following list of reductions and cost-saving policy reforms, just in health, that have been adopted since 2008 is painful:

- **Medi-Cal**. Elimination of many “optional benefits” (dental, psychology, audiology, speech therapy, optometry, podiatry, Adult Day Health Care (ADHC), and others). Adoption of the first-ever mandatory co-pays in Medi-Cal and a utilization cap of 7 physician visits per patient per year (both pending federal approval). Elimination of coverage of enteral nutrition products. Implementation of mid-year status reports. Repeated suspensions of annual COLAs, coupled with multiple additional funding reductions, to counties for eligibility administration. Substantial reductions to hospitals and clinics. Multiple provider rate reductions.

- **Healthy Families**. Repeated increases in premiums and copayments. Elimination of payments for application assistors. Elimination of the program, one of state government's most popular and effective.

- **Public Health**. Funding cuts to the Black Infant Health Program, Adolescent Family Life Program, Maternal and Child Health program, rural health clinics, the Expanded Access to Primary Care Program, and the Seasonal Migratory Worker Clinic program. Elimination of all Office of AIDS programs and services (excluding the AIDS Drug Assistance Program (ADAP)), including HIV education, prevention, counseling and testing, early intervention, therapeutic monitoring, and home and community-based care. Funding reductions to domestic violence shelters and Alzheimer's Research Centers. Elimination of the Dental Disease Prevention Program, the Asthma Public Health Initiative and injury prevention funding.

- **Mental Health**. Reduced funding for various community mental health programs, including all of the funding for the Early Mental Health Initiative, the state's only school-based mental health prevention program.

Fortunately, it seems that 2013 will not be dominated by another round of harmful cuts and instead will be remembered for the implementation of President Obama's Affordable Care Act (ACA). The ACA is a complex labyrinth of new laws and policies, some of which were addressed through legislation last year and much more will be dealt with through a myriad of primarily policy bills this year. How much, if any, will be dealt with through the budget remains to be seen and will be negotiated between the Legislature and Governor. In either case, the ACA holds great promise for a helpful, rather than harmful, year in health policy in California.

DEPARTMENT OF HEALTH CARE SERVICES

The Department of Health Care Services' (DHCS) mission is to protect and improve the health of all Californians by operating and financing programs delivering personal health care services to eligible individuals. DHCS's programs provide services to ensure low-income Californians have access to health care services and that those services are delivered in a cost effective manner.

Medi-Cal. The Medi-Cal program is a health care program for low-income and low-resource individuals and families who meet defined eligibility requirements. Medi-Cal coordinates and directs the delivery of health care services to approximately 8.3 million qualified individuals, including low-income families, seniors and persons with disabilities, children in families with low-incomes or in foster care, pregnant women, and low income people with specific diseases.

Children's Medical Services (CMS). CMS coordinates and directs the delivery of health services to low-income and seriously ill children and adults with specific genetic diseases; its programs include the Genetically Handicapped Persons Program, California Children's Services Program, and Newborn Hearing Screening Program.

Primary and Rural Health. Primary and Rural Health coordinates and directs the delivery of health care to Californians in rural areas and to underserved populations, and it includes the Indian Health Program, the Rural Health Services Development Program, the Seasonal Agricultural and Migratory Workers Program, the State Office of Rural Health (CalSORH), the Medicare Rural Hospital Flexibility Program (FLEX)/Critical Access Hospital (CAH) Program, the Small Rural Hospital Improvement Program (SHIP), and the J-1 Visa Waiver Program.

Mental Health & Substance Abuse. As adopted in the 2011 and 2012 Budget Acts, the DHCS is also overseeing the delivery of community mental health and substance use disorder services.

New Programs. As approved through the 2012 Budget, DHCS also oversees family planning services, cancer screening services to low income under-insured or uninsured women and prostate cancer treatment services to low-income, uninsured men, through the Every Woman Counts Program, the Family Planning Access Care and Treatment Program and the Prostate Cancer Treatment Program.

DHCS Budget

For Fiscal Year (FY) 2013-14, the Governor's Budget proposes $63 billion for the support of DHCS programs (primarily Medi-Cal, which is discussed in more detail below). Of this amount, $518,432 is budgeted for state operations, while the remaining $62.5 billion is for local assistance. The proposed budget reflects a very small increase (.6 percent) over the current year budget.

DEPARTMENT OF HEALTH CARE SERVICES
(Dollars in Thousands)

Fund Source	2011-12 Actual	2012-13 Projected	2013-14 Proposed	BY to CY Change	% Change
General Fund	$15,287,064	$15,328,164	$15,942,266	$614,102	4%
Federal Fund	24,693,118	37,945,375	37,220,657	(724,718)	(2%)
Special Funds & Reimbursements	4,019,615	9,365,490	9,891,302	525,812	5.6%
Total Expenditures	**$43,999,797**	**$62,639,029**	**$63,036,225**	**$397,196**	**.6%**
Positions	**2,762.9**	**3,258.7**	**3,475.2**	**216.5**	**6%**

The Medi-Cal Program. Medi-Cal is California's version of the federal Medicaid program. Medicaid is a 47-year-old joint federal and state program offering a variety of health and long-term services to low-income women and children, elderly, and people with disabilities. Each state has discretion to structure benefits, eligibility, service delivery, and payment rates under requirements established by federal law. State Medicaid spending is "matched" by the federal government, at a rate averaging about 57 percent for California, based largely on average per capita income in the State. California uses a combination of state and county funds augmented by a small amount of private provider tax funds as the state match of the federal funds.

Medicaid is the single largest health care program in the United States. According to the Kaiser Family Foundation (KFF), in 2011 the average monthly enrollment was projected to exceed 55 million, and a projected 70 million people, roughly 20 percent of Americans, were expected to be covered by the Medicaid program for one or more months during the year. In California, the estimated average monthly enrollment is eight million or roughly one seventh of the national total program enrollment. Approximately 29 percent of Californians are on Medi-Cal.

Beginning in 2014, the federal Affordable Care Act (ACA) will support the expansion of Medicaid coverage to nearly all non-elderly Americans and legal immigrants who have been in the United States at least five years and who have incomes below 133 percent of the Federal Poverty Level. This is estimated to expand Medi-Cal by 1.4 million by 2019.

Funding for the Medi-Cal program is summarized in the table below. Medi-Cal costs have grown about six-percent annually since 2006-07 due to a combination of health care cost inflation and caseload growth. The proposed 2013-14 Medi-Cal local assistance budget is slightly lower than the estimated 2012-13 budget which reflects savings achieved through the myriad of reductions made over the past few years, as described on the first page of this section of the report.

Medi-Cal Funding Summary (000s)	2012-13 Estimate	2013-14 Proposed	CY to BY $ Change	% Change
Medical Care Services	$56,939.6	$55,901.3	($1,038.3)	(1.8%)
County Administration (Eligibility)	2,769.1	3,564.4	795.3	28.7%
Fiscal Intermediaries (Claims Processing)	337.7	312.7	25.0	(7.4%)
Total Local Assistance	**$60,046.4**	**$59,778.4**	**($267.9)**	**(.4%)**
General Fund	14,897.1	15,251.1	354.0	2.4%
Federal Funds	37,264.2	35,918.0	(1,346.2)	(3.6%)
Other Funds	7,885.0	8,609.3	724.3	9.2%

DHCS in 2013

Over the past few years, DHCS has undergone a substantial transformation into a much larger department, though not in terms of dollars or positions. DHCS has undertaken a massive increase in authority and responsibility in terms of both programs that have been transferred from other departments to DHCS as well as significant new Medi-Cal initiatives. The proposed 2013-14 budget for this department is modest in scope, compared to the last few years, yet the DHCS workload already underway is massive in scope. For the Legislature, 2013 will be characterized more by attention spent on oversight than on new budget proposals.

Indeed, vigilant oversight will be critical to the success of the myriad of new activities, initiatives and functions at DHCS, which include:

- **ACA Medi-Cal Expansion**. As mentioned above, the ACA funds an expansion to state Medicaid programs and the Governor has included a proposal to implement this through the budget. More detail below.

- **Healthy Families Transition**. In 2012 the Governor proposed and the Legislature approved of the transition of all children in the Healthy Families Program to Medi-Cal. This will add over 850,000 children to Medi-Cal. More detail below under MRMIB.

- **Coordinated Care Initiative**. In 2012, the Governor proposed and the Legislature approved a modified version of this integrated care model for "dual eligibles" (in Medicare and Medi-Cal), involving the creation of an entirely new way to provide care to this population. More detail below.

- **Seniors & Persons With Disabilities**. In 2011-12, DHCS transitioned 350,000 "SPDs" into managed care, from fee-for-service Medi-Cal. The full impact of this transition remains to be known and is still unfolding.

- **Rural Managed Care**. In 2012, the Governor proposed and the Legislature approved of providing DHCS authority to seek out and establish contracts with managed care organizations to serve Medi-Cal beneficiaries in California's 28 still-fee-for-service and primarily rural counties.

- **Community Mental Health Care**. The 2011-12 budget package moved Medi-Cal mental health programs, and the 2012-13 budget package moved several non-Medi-Cal community mental health programs, from the former Department of Mental Health to DHCS.

- **Substance Use Disorder Treatment Services**. The 2011-12 budget package moved Drug Medi-Cal from the Department of Alcohol and Drug Programs (DADP) to DHCS, and the proposed 2013-14 budget includes the transition of the remaining non-Medi-Cal DADP programs to DHCS.

- **Direct Services from the Department of Public Health (DPH)**. Last year's budget approved of the Governor's proposal to move the Every Woman Counts, Family Planning Access Care and Treatment, and Prostate Cancer Treatment Programs from DPH to DHCS.

The totality of program and policy changes at DHCS begs the following two questions:

1. Does DHCS have the capacity to implement and manage all of this, and to manage it well?

2. Does DHCS have the capacity and the leadership to manage all of this in a way that puts the interests of fragile, low-income, vulnerable Californians first, every time?

Coordinated Care Initiative

In 2012, the Governor proposed to enroll all persons eligible for both Medicare and Medi-Cal ("dual eligibles") into managed care plans. This initiative would have transitioned all 1.2 million dual eligibles into managed care within one year, beginning January 1, 2013. In addition, the dual eligible proposal sought to expand the existing dual eligible pilot program from four to ten counties, where Medi-Cal and Medicare services for this population would be coordinated and integrated. Managed care plans would receive both Medicare and Medi-Cal funds and combine them into one capitated payment per dual eligible. Furthermore, the initiative proposed to move various Medi-Cal long-term care and home and community based services into managed care, statewide, and in these ten counties, both Medi-Cal and Medicare services would be integrated into managed care. These services would include, among others, nursing home care, In-Home Supportive Services (IHSS), and Community–Based Adult Services (CBAS – the replacement for Adult Day Health Care).

The final 2012 budget package approved of this initiative, which became known as the Coordinated Care Initiative (CCI), as well as the managed care expansion into rural counties. The CCI, which was adopted through 2012 budget trailer bills SB 1008 and SB 1036, is limited to eight counties, requiring future legislative approval for any further expansion to the program.

The Governor's 2013-14 budget reflects the following changes that the Administration plans to incorporate into the implementation of the CCI: 1) makes 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.

Major Provisions

- **Federal Health Care Reform.** As provided for in the ACA, the Governor has proposed, through the budget, an expansion to Medi-Cal. The Governor's proposal characterizes the expansion as two expansions, one that is mandated and the other optional. Many health policy experts would instead describe this as one expansion that involves mandated simplifications to the program. The eligibility and enrollment simplifications include: 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. The proposed budget includes $350 million, as a place-holder, to cover the still-unknown costs of the caseload increase that is expected as a result of these changes, and states that a more refined estimate will be developed later this year.

The proposed budget also expands Medi-Cal eligibility to cover medically-indigent adults, currently not eligible for Medi-Cal, 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, and also excludes long-term care coverage.

The Legislature may want to consider alternatives to the two options that the Governor has put forth. This policy should be developed based on detailed information that can provide an accurate and realistic assessment of the savings that counties can be expected to experience as a result of an expansion to Medi-Cal. The Speaker will pursue the expansion through his policy bill, AB 1 X1.

- **Gross Premiums Tax**. The budget proposes to reauthorize 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.

- **Medi-Cal Managed Care Efficiencies**. The budget proposes to implement efficiencies in Medi-Cal managed care for General Fund savings of $135 million in 2013-14.

- **Annual Open Enrollment**. The budget proposes to implement an annual open enrollment period in Medi-Cal for General Fund savings of $1 million in 2013-14. Currently, Medi-Cal beneficiaries are allowed to change managed care plans on a monthly basis, and if approved, this would be limited to annually.

Key Provisions

- **Hospital Quality Assurance Fee**. The proposed budget assumes savings of $310 million General Fund in 2013-14 from extending the Hospital Quality Assurance Fee. The fee currently sunsets on December 31, 2013. The extension of this fee is being pursued through a policy bill.

- **Provider Rate Reduction**. The proposed budget assumes savings from implementing provider rate reductions that were approved through AB 97 (2011 budget trailer bill), for savings of $488.4 million General Fund in 2013-14. These rate reductions have not been implemented due to legal action against the state that resulted in a court injunction preventing implementation. More recently, a higher court reversed the injunction.

- **Drug & Alcohol Programs**. In 2011, the Governor first proposed to eliminate the Department of Alcohol and Drug Programs (DADP); the Legislature denied the full proposal, but approved of budget trailer bill that transferred just the Drug Medi-Cal program from DADP to DHCS. The Governor’s 2012 proposed budget also assumed the elimination of DADP, which the Legislature delayed for one year, pending a detailed transition plan and other requirements of the Administration. The Governor’s proposed 2013-14 budget again assumes elimination of DADP and proposes to transfer most substance use disorder treatment programs from DADP to DHCS.

- **Mental Health Licensing**. The proposed budget transfers mental health licensing and quality improvement functions from the Department of Social Services (DSS) to DHCS in an effort to consolidate functions pertaining to mental health programs. Mental health licensing moved from the Department of Mental Health (DMH) to DSS last year as part of the elimination of DMH.

- **Budget Change Proposals (BCPs).** The proposed 2013-14 budget for DHCS includes many BCPs that request funding and position authority for a wide range of programs and issues, including, but not limited to: 1115 Waiver activities, the California Medicaid Management Information System (CAMMIS) replacement project, Low-Income Health Programs, Coordinated Care Initiative, Public Assistance Reporting Information System (PARIS), mental health licensing, health information technology, Drug Medi-Cal, the Diagnostic Related Groups hospital payment system, and Non-Designated Public Hospitals.

MANAGED RISK MEDICAL INSURANCE BOARD

The Managed Risk Medical Insurance Board (MRMIB) administers five programs, which provide health care coverage through private health plans to certain populations without health insurance, as follows:

1. **Healthy Families Program (HFP).** The HFP, California's version of the federal Children's Health Insurance Program (CHIP), provides subsidized health, dental and vision coverage through managed care arrangements to children (up to age 19) in families with incomes up to 250 percent of the federal poverty level, who are not eligible for Medi-Cal but meet citizenship or immigration requirements. Eligibility is conducted on an annual basis. A 65 percent federal match is obtained through a federal allotment (Title XXI funds). As discussed in more detail below, the 2012 budget package approved of the Governor's proposal to discontinue this program by transitioning all children in the program to Medi-Cal.

2. **The Major Risk Medical Insurance Program (MRMIP).** MRMIP provides health insurance for Californians unable to obtain coverage in the individual health insurance market because of pre-existing conditions. Californians qualifying for the program participate in the cost of their coverage by paying premiums. Proposition 99 (tobacco tax) funds are used to supplement premiums paid by participants to cover the cost of care in MRMIP. MRMIP was the state's pre-existing conditions program (PCIP) prior to the passage of the federal Affordable Care Act (ACA), which included creation of the federal PCIP (described below).

3. **Pre-Existing Conditions Insurance Program (PCIP).** Created by the ACA, the PCIP offers health coverage to medically uninsurable individuals 18 years or older who live in California. It is available for people who have not had health coverage in the six months prior to applying. PCIP uses a preferred provider network that has contracted health providers in all 58 counties statewide. Monthly premium costs are based on the applicant's age and the region where the applicant lives.

4. **Access for Infants and Mothers (AIM).** AIM provides low cost insurance coverage to uninsured, low-income pregnant women. The subscriber cost is 1.5 percent of their adjusted annual household income. AIM is supported with Proposition 99 funds, as well as federal funds to supplement the participant's contribution to cover the cost.

5. **County Children's Health Initiative Matching Fund Program (CHIM).** The CHIM offers counties the opportunity to use local funds to obtain federal matching funds for their Healthy Children's Initiatives, which provide health coverage to uninsured children. Currently, San Francisco, San Mateo, and Santa Clara Counties participate in CHIM.

MRMIB
Program Caseloads

MRMIB PROGRAM	2011-12 Actual	2012-13 Estimated	2013-14 Projected
Healthy Families	873,442	200,464	4,002
Access for Infants and Mothers (AIM)	7,572	7,603	7,603
County Children's Health Insurance Matching (CHIM)	1,652	1,736	1,736
Managed Risk Medical Insurance (MRMIP)	5,957	5,713	7,000/0*
Pre-Existing Conditions Insurance (PCIP)	11,746	15,833	18,304/0**

**Due to budgetary constraints and a maintenance-of-effort requirement for MRMIP, MRMIB establishes enrollment caps in lieu of caseload estimates to manage the program within its budget allocation of $31.8 million. The enrollment cap for calendar year 2013 is 7,000, a decrease from 8,000. The reduction is due to the implementation of AB 1526 (Monning), Chapter 855, Statutes of 2012, which subsidizes subscriber premiums. It is anticipated that with implementation of the ACA, all subscribers will transition to the individual market or to the Health Benefit Exchange where, if eligible, they can receive premium subsidies.*

***PCIP is 100 percent federally funded and the coverage of health care services ends on December 31, 2013, due to the implementation of the ACA on January 1, 2014. PCIP is enrolling an average of 1,000 new subscribers each month. The projected caseload assumes the enrollment growth of 1,000 new subscribers each month and federal funding throughout 2013.*

Healthy Families Transition to Medi-Cal. Pursuant to AB 1494 (Committee on Budget), Chapter 28, Statutes of 2012, budget trailer bill, all approximately 860,000 children in the Healthy Families program are being transitioned into Medi-Cal. The transition is being rolled out in four phases in 2013, per the chart below. The first phase began on January 2, 2013. Dental services are being transitioned simultaneously with medical services for these children. In all counties, except Los Angeles and Sacramento, all children are transitioning to fee-for-service dental care, as there is no dental managed care in those counties. In Sacramento, there is no fee-for-service dental, so, therefore, all children will transition to dental managed care. In Los Angeles, children in Medi-Cal have a choice of either fee-for-service or managed care, and the Healthy Families children will have that same choice. The Department of Managed Health Care (DMHC) has completed network adequacy assessments in preparation for the first two phases of the transition, and has determined that there is sufficient network capacity to meet the following phased transition schedule.

Phase	Transition Start Date "No sooner than…"	Impacted Subscribers	# Impacted
I(a)	Jan 1 2013	HFP children with a "matching" Medi-Cal managed care plan. Phase I(a) includes the following counties: Alameda, Riverside, San Bernardino, San Francisco, Santa Clara, Orange, San Mateo, San Diego.	409,000 (All of Phase 1, a & b)
I(b)	March 1, 2013	Phase I(b) follows the same criteria as phase I(a); however these counties needed additional time to prepare. Phase I(b) includes the following counties: Contra Costa, Fresno, Kern, Kings, Los Angeles, Madera, Tulare, Sacramento, San Diego, Napa, Solano, Sonoma, Yolo, Monterey, Santa Cruz, Santa Barbara, San Luis Obispo.	
II	April 1, 2013	HFP children in a health plan that is a subcontractor of a Medi-Cal managed care plan.	259,000
III	August 1, 2013	HFP children in a health plan that is not a Medi-Cal plan or a subcontractor to a Medi-Cal plan.	151,000
IV	September 1, 2013	HFP children in counties w/o Medi-Cal managed care (fee-for-service only)	42,000

The Legislature has been providing focused oversight of this transition, and has participated consistently in a myriad of stakeholder meetings organized and facilitated by the Administration. The Legislature should continue to provide vigorous and diligent oversight of this transition in order to help minimize disruptions in care for these children. There are many aspects of the transition that warrant ongoing attention, such as the quality of the DMHC network assessments, the ease with which families can access assistance when they need help accessing care, the difficulty families experience in accessing dental care, and much more.

MRMIB Budget

The Governor's proposed budget for this department includes total funds of $611.3 million, a $143.9 million General Fund decrease over the current year budget, primarily reflecting the discontinuation of the HFP, as approved through the 2012 budget and described above. The chart below summarizes the proposed budget and reflects the transition of HFP children to Medi-Cal as well as the assumed "phasing out" of the MRMIP and PCIP programs due to the implementation of the ACA.

MANAGED RISK MEDICAL INSURANCE BOARD					
Fund Source	**2011-12 Actual**	**2012-13 Projected**	**2013-14 Proposed**	**BY to CY Change**	**% Change**
General Fund	$272,738,000	$165,508,000	$21,651,000	($143,857,000)	(87%)
Federal Trust Fund	811,594,000	643,286,000	126,394,000	(516,892,000)	(80%)
Special Funds & Reimbursements	206,264,000	252,374,000	114,557,000	(137,817,000)	(55%)
Federal Temporary High Risk Health Insurance Fund	214,766,000	350,982,000	348,682,000	(2,300,000)	(.6%)
Total Expenditures	**$1,505,362,000**	**$1,412,150,000**	**$611,284,000**	**($800,866,000)**	**(57%)**
Positions	90.0	104.9	104.90	0	0%

Major Provisions

While the Governor's proposed budget does not include significant new proposals affecting this department, the MRMIB will undergo a massive transformation over the next few years due to both the end of the HFP and the full implementation of the ACA. The Governor's Budget Summary states that the MRMIP and PCIP programs will "phase out" with the implementation of the ACA in 2014. Some questions include: Is it possible that a small portion of the enrollees in these two programs still will not qualify for Medi-Cal or for coverage through the exchange, upon full ACA implementation? And if so, what should be done for them?

DEPARTMENT OF PUBLIC HEALTH

The Department of Public Health (DPH) is dedicated to optimizing the health and well-being of the people in California, primarily through population-based programs, strategies, and initiatives. The DPH's goals are to achieve health equities and eliminate health disparities; eliminate preventable disease, disability, injury, and premature death; promote social and physical environments that support good health for all; prepare for, respond to, and recover from emerging public health threats and emergencies; improve the quality of the workforce and workplace; and promote and maintain an efficient and effective organization.

Reorganization

In 2012, the Governor proposed, and the Legislature approved, moving various programs between different departments, several of which involved the DPH, including:

1. ***Direct Services***. In order to maintain the focus of the DPH on prevention and population health, the following three direct-service programs were moved from the DPH to the DHCS: 1) Every

Woman Counts Program; 2) Prostate Cancer Treatment Program; and, 3) Family Planning Access Care and Treatment Program.

2. ***Mental Health***. As part of the elimination of the Department of Mental Health (DMH), the Office of multicultural Services and Disaster Services and Response were transferred to the DPH.

3. ***Office of Health Equity***. The 2012 budget created a new Office of Health Equity within the DPH to focus on health disparities between populations. This Office comprises the Office of Women's Health (formerly at DHCS), the Office of Multicultural Health, the Health in All Policies Task Force, the Health Places Team, and the Office of Multicultural Services (formerly at DMH).

DPH Budget

As summarized in the table below, the Governor's proposed 2013-14 budget provides $3.4 billion for CDPH programs and services, a decrease of 3 percent from the 2012-13 budget. General Fund dollars make up just 3.3 percent of the department's total budget. Federal funds make up approximately 58 percent of the total budget.

DEPARTMENT OF PUBLIC HEALTH					
Fund Source	**2011-12 Actual**	**2012-13 Projected**	**2013-14 Proposed**	**BY to CY Change**	**% Change**
General Fund	$125,304,000	$130,602,000	$114,499,000	($16,103,000)	(12%)
Federal Funds	1,882,227,000	2,009,497,000	2,014,499,000	5,002,000	.2%
Safe Drinking Water State Revolving Fund	50,977,000	-	-	-	-
WIC Manufacturer Rebate Fund	227,000,000	253,000,000	255,000,000	2,000,000	.8%
ADIS Drug Assistance Program Rebate Fund	289,045,000	309,583,000	265,075,000	(44,508,000)	(14%)
Special Funds & Reimbursements	757,546,000	837,321,000	787,385,000	(49,936)	(6%)
Total Expenditures	**$3,332,099,000**	**$3,540,003,000**	**$3,436,458,000**	**($103,545,000)**	**(3%)**
Positions	**3,229.2**	**3,762.2**	**3,777.5**	**15.3**	**.4%**

The General Fund in the DPH has been reduced dramatically over the past few years. In 2008-09, the DPH budget included approximately $350 million in General Fund, as compared to the currently proposed $115 million, a 67 percent reduction. Furthermore, the Governor's Budget estimate for the budget year for the DPH is $16 million General Fund less than the current year budget. This $16 million is primarily a reduction to the AIDS Drug Assistance Program (ADAP), reflecting an estimated decrease in caseload as people move from ADAP to newly-formed Low-Income Health Programs (LIHPs), county-based programs that are extending health insurance coverage to low-income people as a part of the state's new 1115 Medicaid "Bridge to Reform" Waiver. More information is needed in order to assess whether this estimate of caseload reduction is realistic and reasonable.

Major Provisions

- ***ADAP Reduction.*** As stated above, the Governor's Budget proposes a substantial General Fund reduction to the ADAP program, which reflects the anticipated decreased demand for the program given expected caseload shifts to both the existing county-operated Low-Income Health Programs (LIHPs) as well as through Medi-Cal and the health benefits exchange once the ACA is fully implemented in 2014.

  ADAP provides HIV/AIDS drugs for individuals who could not otherwise afford them (up to $50,000 annual income). Drugs on the ADAP formulary slow the progression of HIV disease, prevent and treat opportunistic infections, and treat the side effects of antiretroviral therapy.

ADAP LOCAL ASSISTANCE BUDGET (In thousands)					
Funding Source	**2011-12 Actual**	**2012-13 Projected**	**2013-14 Proposed**	**BY to CY Change**	**% Change**
General Fund	$4,651	$13,285	$0	($13,285)	(100%)
Federal Fund	118,767	125,876	105,179	(20,697)	(16%)
Special Fund	284,298	299,274	250,547	(48,727)	(16%)
Reimbursements	74,064	17,150	61,161	44,011	256%
Total Expenditures	**$481,780**	**$455,585**	**$416,887**	**($38,698)**	**(8%)**

As shown in the table above, the Governor's proposed budget reflects a net decrease in ADAP local assistance General Fund of $13.2 million from the 2012-13 budget. The General Fund reduction reflects the expected caseload shift from ADAP to LIHPs.

Caseload in ADAP is projected to be 37,167 in 2013-14 as compared to 40,464 in 2012-13, reflecting a net decrease resulting from clients transitioning to LIHPs and other new ACA-created coverage. The following table describes the cost and caseload assumptions made by the Administration associated with the LIHPs:

ADJUSTED LIHP IMPACTS		
Impact Estimates	FY 2012-13	FY 2013-14
Client Shift	6,269	2,530
Reduced Expenditures	$59,440,611	$164,819,698
Reduced Rebate Revenue	($3,830,066)	($43,996,352)
NET LIHP SAVINGS	**$55,610,544**	**$120,823,346**

- **Zero-Base Budgeting**. DPH was one of four departments selected to pilot zero-base budgeting (ZBB) for FY 2013-14. The ZBB approach differs significantly from traditional budgeting. Whereas in traditional budgeting a department incrementally builds upon its prior year budget by either adding or subtracting funds from existing programs, in zero-base budgeting, the department builds its budget from the ground up, reassessing how it currently spends and allocates resources within each program.

  DPH has begun the process of implementing zero-base budgeting in three of its programmatic areas: 1) contracting functions; 2) the Baby BIG program; and, 3) the Women, Infants and Children (WIC) program. This represents the first phase of implementing zero-base budgeting throughout DPH. DPH states that initial findings from these efforts will be provided to the Legislature in February 2013.

- **Office of Problem Gambling**. The Governor's proposed 2013-14 budget assumes elimination of DADP and proposes to transfer the Office of Problem Gambling to the DPH. Other DADP functions are proposed to be transferred to DHCS. The Administration proposes to shift $3.7 million and 4.0 positions from DADP to DPH for this purpose.

Key Provisions

- *Support Budget.* The Governor's Budget proposes $240.7 million for operating expenses and equipment, a $22.8 million (8 percent) reduction from the current year budget.

- *Conversion of Contract Positions to State Staff.* The Division of Environmental and Occupational Disease Control is requesting $48,000 (special funds) and authority to convert 11 contract positions into full-time permanent state positions, in order to minimize the use of contract staff.

- *Export Document Program.* The Food and Drug Branch is requesting permanent expenditure authority ($287,000 in 2013-14 and $281,000 ongoing) and three full-time permanent positions for the Export Document Program which is statutorily required to respond to requests for issuance of export documents within five working days of receipt of the request.

- *Water Recycling Criteria.* The DPH is requesting $700,000 in reimbursement and three one-year limited term positions for an interagency agreement between DPH and the State Water Resources Control Board to develop and adopt water recycling criteria for indirect potable reuse.

- *Proposition 50 Drinking Water.* The DPH is requesting a $22 million (Prop. 50 bond funds) appropriation for public water systems projects as part of the Water Security and Safe Drinking Water components of Proposition 50, the Water Security, Clean Drinking Water, Coastal and Beach Protection Act of 2002.

- *Proposition 84 Drinking Water*. The DPH is requesting a $48 million (Prop. 84 bond funds) appropriation for public water systems projects as part of Proposition 84, the Safe Drinking Water, Water Quality and Supply, Flood Control, River and Coastal Protection Act of 2006.

- *Stop Tobacco Access to Kids Enforcement (STAKE) Act.* The DPH is requesting $129,000 (special funds) and one permanent position to implement the provisions of AB 1301 (Hill), Chapter 335, Statutes of 2012, which requires the DPH to notify the Board of Equalization when a third, fourth, or fifth STAKE Act violation is committed by the same retailer within a five-year period.

- *Emergency Preparedness Limited-Term Positions.* The DPH is requesting $9.4 million (federal funds) and authority to extend 76.8 existing limited-term positions for an additional four years, which will align the positions with the federal grant period (2012/13–2016/17). These positions were originally established in 2003-04, and have been extended every two years since.

- *CalFresh Outreach Plan.* The Administration proposes to transfer, on January 1, 2013, the operational management of the CalFresh Outreach Plan from the DPH to the Department of Social Services (DSS). This would transfer 3.8 positions from DPH and establish two new positions at DSS.

DEPARTMENT OF MANAGED HEALTH CARE

The mission of the Department of Managed Health Care (DMHC) is to help California consumers resolve problems with their Health Maintenance Organizations (HMOs) and to ensure a better, more solvent and stable managed health care system through: 1) administration and enforcement of California's HMO patient rights laws; 2) operation of a 24-hour-a-day Help Center; and, 3) licensing and oversight of all HMOs in the state.

Formerly within the Business, Transportation, and Housing Agency, AB 922 (Monning), Chapter 552, Statutes of 2011, transferred the DMHC to the Health and Human Services (HHS) Agency effective January 1, 2012. Chapter 552 also removed the Office of Patient Advocate (OPA) from DMHC and established it as an independent entity under the HHS Agency effective July 1, 2012. The OPA offers information to consumers on choosing health plans, rankings of health plans and medical groups, and educates consumers about patient rights and responsibilities.

Premium Rate Review. The ACA directs states to establish a formal process for the annual review of health insurance premiums to protect consumers from unreasonable rate increases. In response, SB 1163 (Leno), Chapter 661, Statutes of 2010, was signed into law. As a result of the ACA and SB 1163, Knox-Keene licensed full-service health plans are now required to file premium rate data for their individual, small employer and large employer products with the DMHC, which is required to review these for unreasonable premium rate increases.

In support of rate review, the federal government established grant opportunities for states to help them meet this requirement. In 2010 the DMHC applied for and received a federal grant as part of Cycle I of the Health Insurance Premium Rate Review grant. California received $1 million which was shared between the DMHC and the Department of Insurance (DOI) ($392,000). Subsequently, the state was awarded $2.2 million to implement Cycle II of this grant, which the DMHC applied for in August of 2011. This grant was intended to enhance the DMHC's capacity to collect premium rate data, improve rate filing requirements, enhance the rate review process, report required data to the U.S. Department of Health and Human Services and the California Health Benefit Exchange, and disclose rate information to consumers. As with the Cycle I grant award, the Cycle II grant funds were split between the DMHC and DOI.

Network Capacity & Plan Oversight. The significance of the role, and workload, of this department can be expected to increase substantially over the next few years as a result of thousands of Californians enrolling in managed care plans for the first time. This increase in managed care is a result of several state initiatives as well as the federal ACA. In 2011, the state chose to transition 350,000 seniors and persons with disabilities from fee-for-service Medi-Cal into managed care. In 2012, budget trailer bill included the CCI, which will result in the transition of hundreds of thousands of “dual eligibles” from fee-for-service Medi-Cal into managed care. The CCI also transitions a range of Medi-Cal long-term care benefits into managed care for the first time. 2012 also brought the approval of the transition of nearly a million children in the Healthy Families Program into Medi-Cal, thereby requiring network assessment work by DMHC in preparation for the transition, as well as increased oversight of Medi-Cal’s dental managed care plans in Los Angeles and Sacramento. Finally in 2012, the budget trailer bill gave the DHCS authority to seek managed care contracts for California’s 28 remaining fee-for-service counties. Looking forward to 2014, the Governor has proposed to implement the ACA by increasing eligibility for Medi-Cal, which can be expected to bring another 1.4 million into Medi-Cal managed care coverage. Finally, the ACA, through California’s health benefits exchange (Covered California), will result in millions more Californians gaining coverage in the private market.

DMHC Budget

The DMHC receives no General Fund and is supported primarily by an annual assessment on each HMO. The annual assessment is based on the department's budget expenditure authority plus a reserve rate of 5 percent. The assessment amount is prorated at 65 percent and 35 percent to full-service and specialized plans respectively. The amount per plan is based on its reported enrollment as of March 31st of each year. The Knox-Keene Act requires each licensed plan to reimburse the department for all its costs and expenses.

As summarized in the table below, the Governor's 2013-14 Budget proposes total funding of $52,107,000, a decrease of $4,185,000 reflecting a $4.7 million decrease in federal funds.

DEPARTMENT OF MANAGED HEALTH CARE					
Fund Source	**2011-12 Actual**	**2012-13 Projected**	**2013-14 Proposed**	**BY to CY Change**	**% Change**
General Fund	$0	$0	$0	$0	0%
Federal Trust Fund	4,307,000	5,391,000	691,000	(4,700,000)	(87%)
Managed Care Fund	40,199,000	49,715,000	48,677,000	(1,038,000)	(2%)
Reimbursements	975,000	1,186,000	2,739,000	1,553,000	131%
Total Expenditures	**$45,481,000**	**$56,292,000**	**$52,107,000**	**($4,185,000)**	**(7%)**
Positions	**286.4**	**352.8**	**346.0**	**(6.8)**	**(2%)**

Major Provisions

The Governor's proposed budget does not include any major policy or fiscal proposals related to this department, however, the DMHC will be playing an increasingly significant role in both the implementation of the ACA as well as in the various transitions of large groups of people into Medi-Cal managed care, as described above.

Key Provisions

- *Support Budget*. The Governor's Budget proposes $17,723,000 for operating expenses and equipment, a $6 million decrease from the current year budget, represented by a decrease in external consulting services.

- *Coordinated Care Initiative*. In order to implement the CCI Dual Demonstration Project (approved through 2012 budget trailer bill), the DMHC is requesting increased position and funding authority as follows: 1) authority to extend 13.0 limited term positions (expiring June 30, 2013), and to add 3.5 new limited term positions, all to expire June 30, 2016; and, 2) $2.2 million for 2013-14 and $2.1 million for 2014-15 and 2015-16. These positions and funding will address increased workload associated with the transition of dual eligible enrollees in eight counties into managed care. The funding is to be split evenly between DMHC special funds and reimbursements from DHCS (i.e., federal funds).

- *Medi-Cal Dental Managed Care Program*. As a result of the transition of nearly one million children from the Healthy Families Program into Medi-Cal (as approved through 2012 budget trailer bill), the DMHC will be providing expanded oversight of the Medi-Cal dental managed care plans, and therefore is requesting authority to convert two limited term positions into permanent positions, and for $378,000 in 2013-14 funding authority, to support this increased workload. The funding is to be split evenly between DMHC special funds and reimbursements from DHCS (i.e., federal funds).

- *Premium Rate Review*. Related to the department's ongoing ACA-based premium rate review activities, the DMHC is requesting authority to convert two limited term positions (expiring June 30, 2013) to permanent and $344,000 (Special Funds) for 2013-2014 and ongoing.

- *Medi-Cal Managed Care Rural Expansion*. Related to the expansion of Medi-Cal managed care into California's 28 rural (still fee-for-service) counties, as proposed and approved through the 2012 budget, the DMHC is requesting 3.5 new positions and $510,000 for 2013-14 and $470,000 for 2014-15 and ongoing to address the department's increased workload.

DEPARTMENT OF STATE HOSPITALS

The Department of State Hospitals (DSH) is the lead agency overseeing and managing the state's system of mental hospitals. The DSH seeks to ensure the availability and accessibility of effective, efficient, and culturally competent services. DSH activities and functions include advocacy, education, innovation, outreach, understanding, oversight, monitoring, quality improvement, and the provision of direct services.

A New Department. The Governor's 2011 May Revision first proposed the elimination of the former Department of Mental Health (DMH), the creation of the new DSH, and the transfer of Medi-Cal and other community mental health programs to the DHCS. The 2011 Budget Act approved of just the transfer of Medi-Cal mental health programs from the DMH to the DHCS. In 2012, the Governor proposed, and the budget adopted the full elimination of the DMH and the creation of the DSH. All of the community mental health programs remaining at the DMH were transferred to other state departments as part of the 2012 budget package. The budget package also created the new DSH which has the singular focus of providing improved oversight, safety, and accountability to the state's mental hospitals and other psychiatric facilities.

State Hospitals. California has five state hospitals and three psychiatric programs that treat people with mental illness. Approximately 92 percent of the state hospitals' population is considered "forensic," in that they have been committed to a hospital by the criminal justice system. The state hospitals are as follows:

- Atascadero (ASH). ASH is located on the central coast. It is an all-male, maximum security, forensic facility (i.e., persons appointed by the court for criminal violations).

- Coalinga (CSH). Located in the City of Coalinga, CSH is the newest state hospital, opened in 2005, and treats forensically committed and sexually violent predators.

- Metropolitan (MSH). Located in Norwalk, MSH serves individuals placed for treatment pursuant to the Lanterman-Petris-Short Act (civil commitments), as well as court penal code commitments.

- Napa (NSH). Located in the City of Napa, NSH is a low- to moderate-security level state hospital.

- Patton (PSH). PSH is located in San Bernardino and cares for judicially committed, mentally disordered individuals.

- Vacaville & Salinas Valley Psychiatric Programs. These programs are located within state prisons. Combined, these programs treat under 700 inmates.

- Stockton Psychiatric Program. This is the newest facility that will begin operation in July of 2013, serving 432 High Custody/Level IV inmates/patients at the intermediate level of care, within the California Health Care Facility in Stockton.

Cost Over-Runs. For the past several years, state hospital costs have been rising at an alarming rate, and substantial current year deficiencies had become the norm and even expected from year to year. For example, in the 2010-11 FY, the deficiency rose from $50 million to $120 million and the then-DMH staff could not explain why. In general, the department lacked any clear understanding of what the major cost drivers were and how to curb or stabilize costs in the system. In 2011, DMH leadership facilitated and oversaw an in-depth exploration and analysis of state hospital costs, resulting in a lengthy report that is available on the department's website. The research team identified the following system-wide problems/cost drivers: increased patient aggression and violence; increased operational costs and significant overspending; inadequate data tracking and reporting systems; and inflexible treatment models and redundant staff work.

Based on the report described above, in 2012 the Administration proposed a comprehensive list of reforms, to reverse the rising cost trend, which addressed three stated goals: 1) improve mental health outcomes; 2) increase worker and patient safety; and, 3) increase fiscal transparency and accountability. Perhaps the most significant of these proposed reforms was the reduction of 600 positions from throughout the state hospital system. Of these 600 positions, 230 were vacant while 270 were filled. The department's goal with the 270 filled positions was to offer as many of these people as possible positions elsewhere in the system, in order to minimize layoffs. In addition to the reduction in positions, the 2012 budget package included key changes in the following areas:

1. Modified mall services, streamlined documentation, and reduced layers of management;

2. Flexible staffing ratios, focusing on front-line staff, and redirecting staff to direct patient care;

3. New models for contracting, purchasing, and reducing operational expenses; and,

4. Elimination of adult education. The Legislature strongly objected to the elimination of adult education in the state hospitals, but was unsuccessful in protecting it.

DSH Budget

The Governor's proposed 2013-14 budget includes total funds of nearly $1.6 billion, almost all of which is State General Fund. The proposed 2013-14 budget includes a 10 percent General Fund increase of $136 million, which primarily reflects: 1) the costs ($100.9 million) of fully staffing the new California Health Care Facility in Stockton, thereby activating 514 new beds; and, 2) the costs ($20.1 million) of an estimated increase in civil commitments. In the chart, several funding sources can be seen to have been discontinued, which reflects the following changes:

- General Fund/Prop 98 – This $14.8 million was specifically for the Early Mental Health Initiative (EMHI), a mental health prevention program in schools. In the 2012 budget, the Legislature relocated the program, and funding, from DMH to the Department of Education, however the Governor subsequently vetoed all of the funds leading to elimination of the program.

- Federal Trust Fund – Federal funding was the federal financial participation in Medi-Cal mental health programs, which have been moved to the DHCS, and therefore these funds are no longer part of the DSH budget.

- Mental Health Services Fund – All Mental Health Services Act programs were moved to other departments as part of the reorganization done in 2011 and 2012.

- Facility Licensing Fund – Licensing of community mental health facilities was also moved from DMH to the Department of Social Services (DSS) in 2012. In this year's budget, the Governor is proposing moving licensing from DSS to DHCS instead.

DEPARTMENT OF STATE HOSPITALS					
Fund Source	**2011-12 Actual**	**2012-13 Projected**	**2013-14 Proposed**	**BY to CY Change**	**% Change**
General Fund	$1,313,572,000	$1,320,859,000	$1,457,306,000	$136,447,000	10%
General Fund, Prop 98	14,878,000	-	-	-	-
CA State Lottery Education Fund	48,000	90,000	90,000	-	-
Federal Trust Fund	62,318,000	-	-	-	-
Reimbursements	793,316,000	119,036,000	121,491,000	2,455,000	2%
Mental Health Services Fund	1,824,585,000	-	-	-	-
Facility Licensing Fund	391,000	-	-	-	-
Total Expenditures	**$4,009,108,000**	**$1,439,985,000**	**$1,578,887,000**	**$138,902,000**	**9.6%**
Positions	**9,816.7**	**9,953.3**	**10,787.4**	**834.1**	**8**

Major Provisions

- **Stockton Facility**. The budget proposes $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.

- **Civil Commitments**. The budget includes $20.1 million (in reimbursements by counties) to cover the cost of the estimated increase in civil commitments.

Key Provisions

- *Support Budget*. The proposed 2013-14 budget for operating expenses and equipment (OE&E) for the state hospitals is $356.5 million, approximately $5 million more than the current year estimate, attributable to an increase in external consulting and professional services. OE&E for just the Department of State Hospitals is budgeted at $56.6 million, approximately $6 million over the current year, also attributable to an increase in external consulting and professional services.

- *Caseload Growth*. The Administration projects almost no caseload growth throughout the state hospitals system. The 2013-14 caseload estimate is 6,560 as compared to the current year estimate of 6,521. This projection assumes that approximately 450 patients will transfer from the psych programs in Vacaville and Salinas to the new facility in Stockton.

- *Personal Duress Alarms.* The budget proposes a reduction of $5.6 million General Fund for the personal duress alarm systems at Metropolitan and Patton State Hospitals, reflecting an updated project schedule.

- *Napa Security*. The budget proposes $863,000 to improve security in the courtyards at the patient housing building, including: replacing gates and raising the height of security fencing around specified buildings.

- *Patton Security.* The budget proposes $560,000 for the re-evaluation of existing working drawings and the construction phase of an upgraded security perimeter fencing project at Patton State Hospital. The overall project cost is $16.4 million with estimated annual savings of $4.8 million due to a reduction in security staff. The requested funding will cover the costs of demolition of existing facilities, and construction of a "Level II" design, double perimeter fence, fence detection system, 13 ground guard posts, two vehicle and pedestrian sally ports, and additional security improvements.

- *Metropolitan Fire Alarm.* The budget proposes $633,000 to upgrade the Notifier Fire Alarm System in psychiatric patient housing and to provide a new central monitoring system, as part of a project with a total cost of $8.9 million.

OFFICE OF STATEWIDE HEALTH PLANNING & DEVELOPMENT

The Office of Statewide Health Planning and Development (OSHPD) develops policies, plans and programs to meet current and future health needs of the people of California. Its programs provide health care quality and cost information, ensure safe health care facility construction, improve financing opportunities for health care facilities, and promote access to a culturally competent health care workforce.

Seismic Safety. One of OSHPD's responsibilities is to implement the state's hospital seismic safety requirements. The Alfred E. Alquist Hospital Facilities Seismic Safety Act of 1983 established a seismic safety building standards program under OSHPD's jurisdiction for hospitals built on or after March 7, 1973. Numerous pieces of legislation since then have amended the Alquist Act, by increasing OSHPD responsibilities and modifying seismic safety deadlines for hospitals. Most recently, SB 90 (Steinberg), Chapter 19, Statutes of 2011 sought to respond to the fiscal challenges facing many hospitals and the resulting difficulty for them to meet the current seismic deadline of 2013, thereby facing the real possibility of closure. Therefore, SB 90 authorized OSHPD to grant hospitals an extension of up to seven years beyond the 2013 deadline if specific milestones and public safety conditions are met.

Mental Health. As discussed above, the 2012-13 budget eliminated the Department of Mental Health (DMH) by creating a new Department of State Hospitals to oversee the state's mental hospitals and by shifting all remaining DMH programs to other state departments. As a part of this reorganization, the Workforce, Education and Training (WET) program (a component of the MHSA/Proposition 63) was transferred to OSHPD. The WET provides funding to improve the capacity of the mental health workforce. Even prior to this program transfer, OSHPD administered the Mental Health Loan Assumption Program (MHLAP). The MHLAP awards grants to mental health practitioners working in the public mental health system in hard to fill or retain positions.

OSHPD Budget

The OSHPD's proposed department budget is summarized in the table below. Overall expenditures are proposed to decrease by $13.8 million (10 percent), primarily reflecting a $15 million appropriation in one-time Mental Health Services Act (MHSA) funds, for WET programs, which are being continuously appropriated over three years, consistent with the 2012 Budget Act.

OFFICE OF STATEWIDE HEALTH PLANNING & DEVELOPMENT					
Fund Source	**2011-12 Actual**	**2012-13 Projected**	**2013-14 Proposed**	**BY to CY Change**	**% Change**
General Fund	$0	$74,000	$74,000	$0	0%
Federal Trust Fund	4,425,000	1,648,000	1,290,000	(358,000)	(21%)
Reimbursements	348,000	993,000	931,000	(62,000)	(6%)
Special Funds	86,050,000	94,870,000	96,270,000	1,400,000	1.5%
Mental Health Services Fund	6,613,000	38,925,000	24,121,000	(14,804,000)	(38%)
Total Expenditures	**$97,436,000**	**$136,510,000**	**$122,686,000**	**($13,824,000)**	**(10%)**
Positions	**415.1**	**475.2**	**471.6**	**(3.6)**	**(.7%)**

Major Provisions

The Governor's proposed 2013-14 budget contains no major policy or fiscal changes to this department.

Key Provisions

- Workforce Education & Training. In response to the 2012 Budget Act and related trailer bill transferring the MHSA WET program from the former DMH to OSHPD, the OSHPD is requesting increased budget authority of $196,000 (special funds) to contract with an independent evaluator, identify statewide needs for each mental health professional and educational category, and to develop a Five-Year WET Plan.

EMERGENCY MEDICAL SERVICES AUTHORITY

The Emergency Medical Services Authority's (EMSA) mission is to coordinate emergency medical services (EMS) statewide; develop guidelines for local EMS systems; regulate the education, training, and certification of EMS personnel; and coordinate the state's medical response to any disaster. The EMSA is comprised of the following three divisions:

- **Disaster Medical Services Division.** The Disaster Medical Services Division coordinates California's medical response to disasters. It is the responsibility of this division to carry out the EMS Authority's mandate to provide medical resources to local governments in support of their disaster response, and coordinate with the Governor's Office of Emergency Services, Office of Homeland Security, California National Guard, California Department of Public Health, other local, state, and federal agencies, private sector hospitals, ambulance companies and medical supply vendors to improve disaster preparedness and response.

- **EMS Personnel Division.** The EMS Personnel Division oversees licensure and enforcement functions for California's paramedics, personnel standards for pre-hospital emergency medical care personnel, trial studies involving pre-hospital emergency medical care personnel, first aid and CPR training programs for child day care providers and school bus drivers.

- **EMS Systems Division.** The EMS Systems Division oversees EMS system development and implementation by the local EMS agencies, trauma care and other specialty care system planning and development, EMS for Children program, California's Poison Control System, emergency medical dispatcher standards, EMS Data and Quality Improvement Programs, and EMS communication systems.

- **EMSA Budget.** The department's proposed 2013-14 budget is summarized in the table below. Overall expenditures are proposed to increase very slightly by just $590,000, including a General Fund increase of $62,000.

EMERGENCY MEDICAL SERVICES AUTHORITY *(In thousands)*					
Fund Source	**2011-12 Actual**	**2012-13 Projected**	**2013-14 Proposed**	**BY to CY Change**	**% Change**
General Fund	$6,644	$6,695	$6,757	$62	.9%
Federal Trust Fund	1,401	2,554	2,605	51	2%
Reimbursements	13,313	14,714	14,749	35	.2%
Special Funds	3,072	3,477	3,919	442	13%
Total Expenditures	**$24,430**	**$27,440**	**$28,030**	**$590**	**2%**
Positions	**65.7**	**64.3**	**64.3**	**0**	**0%**

Due to the state's severe fiscal crisis, substantial reductions have been made over the past few years to the state's emergency preparedness infrastructure, most of which falls under the authority of the EMSA. It would be extremely helpful and timely to have an analysis of the state's remaining emergency preparedness infrastructure and capacity as it is unclear what resources remain in light of the reductions outlined below:

Mobile Field Hospitals (MHFs). Since 2006, the EMSA has maintained three MFHs, each of which consists of approximately 30,000 square feet of tents, hundreds of beds, and sufficient medical supplies to respond to a major disaster in the state, such as a major earthquake in a densely populated area. The 2006 Budget Act allocated $18 million in one-time funds for the purchase of the MFHs and $1.7 million in on-going General Fund funding for the staffing, maintenance, storage, and purchase of pharmaceutical drugs, annual training exercises, and required medical equipment for the MFHs.

The original amount budgeted for the pharmaceutical drug cache was $23,000, which was later determined to be woefully inaccurate and inadequate. Recognizing that the value of the MFHs is quite limited in the absence of sufficient pharmaceutical supplies, the Governor put forth requests in 2009 and 2010 to augment the MFH budget by $448,000 General Fund, however the Legislature denied both requests. In 2011, the Governor instead proposed, and the Legislature approved, to eliminate the $1.7 million in on-going support for the MFHs.

Due to storage facility leases, there are on-going storage and maintenance costs for the MFHs. The EMSA explored various potential shared responsibility arrangements with various non-state entities, such as the Red Cross, in order to find an affordable way for the state to continue to have access to the MFHs in a major disaster. Ultimately, the EMSA did the following: 1) consolidated the MFHs into two storage facilities in order to reduce warehouse space costs; and, 2) entered into a 1-year, no-cost contract with Blu-Med (a subsidiary of Alaska Structures) to continue providing minimal maintenance for the MFHs, at no cost to the state, with the stipulation that Blu-Med could rent out one or two MFHs to any state or country dealing with a major disaster. The contract with Blu-Med has since ended, and EMSA has cobbled together sufficient resources to cover current year maintenance costs. A separate DPH reappropriation is covering storage costs, and this funding will run out in May of 2013.

Medical Stockpiles (Department of Public Health). In 2006-07, the state purchased a large supply of respirators, ventilators, and antivirals to be used in case of a natural disaster, act of terror or other public health emergency. In 2007-08, $8.5 million was re-appropriated to the Department of Public Health specifically to store and maintain that stockpile. That re-appropriation expired in FY 2010-11. In 2011, the Governor proposed, and the Legislature approved, to not provide the DPH with new General Fund of $4.1 million that they would need to continue storing and maintaining the stockpile.

Poison Control Centers. The State's system of poison control centers came close to being eliminated more than once during the past few years due to General Fund reductions to the program. The Poison Control Centers are a statewide network of experts that provide free treatment advice and assistance to people over the telephone in case of exposure to poisonous or hazardous substances. It provides poison help and information to both the public and health professionals and is accessible, toll-free, 24 hours a day, 7 days a week, and every day of the year. The system maintains interpreting services in over 100 languages. All fifty states have poison control systems.

The program was initially established in 1987 in ten different hospitals, which operated independently and served different geographic regions, without guidance or regulation by the state. The system was eventually consolidated into seven regional poison centers required to meet minimum operational standards. In 1997, a new statewide system was created to provide uniform poison control services, and EMSA contracted with the University of California San Francisco to administer the program.

The General Fund support for the program has been reduced from $6.9 million in 2007-08 to $2.95 million in 2009-10 and each year since then. In order to avoid closure, in 2009 the EMSA successfully sought out federal matching funds under the federal Children's Health Insurance Program (CHIP), which it has received since 2009. Without this new federal funding (which is matched with General Fund), the Poison Control Centers would have ceased operations in January 2010. The EMSA works closely with the Managed Risk Medical Insurance Board (MRMIB) to secure the federal CHIP funds.

Poison Control Centers Funding 2010-2011 through 2013-14	
General Fund	$2,950,000
Federal (CHIP) Funds	$5,300,000
Medi-Cal Reimbursements	$800,000*
Federal Stabilization Grant to UCSF	$1,800,000*
TOTAL (ALL FUNDS)	**$10,850,000**

***Approximate funding amounts**

Major Provisions

The Governor's proposed 2013-14 budget contains no major policy or fiscal changes to this department.

Key Provisions

- *Paramedic Licensing & Enforcement.* The EMSA is requesting increased Emergency Medical Services Personnel (EMSP) Fund authority of $270,000 (special funds) to: 1) decrease paramedic application processing time; 2) implement electronic payments for the paramedic licensing process; and, 3) increase travel for monitoring of paramedics on probation and streamline the investigatory process. The EMSA states that this increased authority will align the budget authority of the EMSP Fund with program expenditures.

HUMAN SERVICES

Human Services includes departments within the Health and Human Services Agency, including the Departments of Social Services, Developmental Services, Alcohol and Drug Programs, Child Support Services, Aging, Rehabilitation, Community Services and Development, and the Office of Systems Integration.

These programs serve the neediest of Californians, including adults with disabilities, seniors, the medically frail living in their homes, low-income parents and their children living in deep poverty, and children suffering from abuse and neglect. As part of the budget review, the Assembly will request that departments discuss the impact of programs, and their recent changes, on the clients they serve. This should include an assessment of client needs, administrative challenges, and outcomes that ultimately serve the welfare of Californians, or unveil circumstances that adversely affect their lives.

Budgets and Impacts. Programs within this arena, largely CalWORKs, In-Home Supportive Services, Supplemental Security Income/State Supplementary Payments, and Developmental Services, have been the targets of repeated spending reductions over the past several budget cycles. Huge segments of their funding have been cut, affecting entire caseloads of these vulnerable recipients. Corresponding to the spending reductions, policies structuring these programs have been significantly revamped, driven by decisions framed by fiscal pressures. However, fiscal imperatives do not anesthetize the very real human impacts inflicted by budget decision-making.

Poverty in California Today. Human services programs provide benefits primarily to those living in poverty in California. The U.S. Census Bureau has used an improved measurement of poverty that indicated in November 2012 that California has the highest poverty rate in the nation. Almost a quarter of Californians now live in poverty, according to the new Supplemental Poverty Measure. When factoring in living expenses utilizing this new measure, California's poverty rate increases from 16.3 to 23.5 percent of the population of 38 million people. Related projections estimate that nearly one in four of California's children live in poverty. CalWORKs is our state's primary program that strives to provide basic living support for families living in poverty and deep poverty, with the emphasis of providing the services needed to allow parents to overcome barriers that will move them toward sustainable employment in the long-term, when the economy can support their participation.

Vulnerable Californians. Developmental services seek to provide comprehensive support for consumers who are living in the community, resisting institutionalization. Medicare, Medicaid, and Home and Community-Based Services, such as the In-Home Supportive Services Program and Multipurpose Senior Services Program, strive to allow for more Californians, most of whom are living in poverty with little or no income, to live with dignity and independence, safely in their homes and communities. Child welfare programs seek to provide healthy, permanent, stable family environments for abused and neglected children in foster care or seeking adoption. These programs are values-based, interactive, complicated, and life-sustaining for the Californians they serve.

With this landscape in mind, this section of the "Preliminary Review" seeks to provide the following:

- Critical observations and questions for major human services programs, both reflected in this preface section and included in the parts of this section related to specific programs or departments.

- High-level summaries of the Governor's proposals for Human Services, with additional detail and analysis to be provided in the upcoming individual spring hearings that tackle subject matter in more depth.

- Historical information reviewing recent budget reductions and policy changes, to provide background and context for the current situation and these new proposals.

Observations and Questions for Major Human Services Programs.

The following section outlines in brief the most pertinent policy questions facing the Assembly in the Human Services area this year. They are repeated in the other components of this section where the programs and departments are discussed in more depth.

CALWORKS

- **Grants.** Grants for families are at historic lows, or at the real dollar amount they were at 25 years ago, in 1987. Are grants sufficient and what effect do they have on the poverty rate in California?

- **COLAs.** Cost of Living Adjustments (COLAs) were statutorily removed in 2009 under budget pressures to stave off long-term costs, so grants are not allowed to rise with inflation. How do suppressed grants factor into our state's poverty rate and the effects of poverty on California's children? Should COLAs be reinserted to keep grants at pace with economic changes?

- **Recent Program Changes.** Enormous, restrictive program changes were implemented January 1, 2013, with some effects that won't be experienced until 24 months pass (January 1, 2015). These dramatic changes require heavy oversight and responsiveness to impacts on families, children, and program effectiveness. What are the critical issues in implementation and how can they be addressed? What will be the long-term impacts?

- **Program Resources.** The sufficiency of budgeted funds for the program should be scrutinized to ensure that the tenets of the Welfare to Work program and case management services for clients facing multiple barriers are intact. What does the program need in order to genuinely assist unemployed parents to overcome personal barriers and develop or hone skills?

- **Early Engagement.** Restructuring of the basic program flow for clients is necessary and was an expected component of the 2012-13 changes. What are the near-term outcomes for Early Engagement changes that will redesign the program to make it more effective under the more constrained and complicated new policies? How does the administration reconcile starting the rule changes in effect January 1, 2013 without any redesign of the program?

IN-HOME SUPPORTIVE SERVICES (IHSS)

- **CCI.** Inclusion of IHSS in the Coordinated Care Initiative (CCI) required that the program remain essentially intact as long-term supports and services are otherwise integrated into managed care. What are the priority issues for consumers, providers, and counties as the CCI begins to roll out?

- **Statewide Public Authority.** Resources are being requested in the Governor's Budget to begin to build the capacity for the IHSS Statewide Public Authority for purposes of collective bargaining. What are the expected outcomes and what effects will this have on the program, providers, and consumers?

- **Lawsuits and Tie to 20 Percent Reduction in Hours.** The Governor's proposal assumes success in litigation to allow a historic and severe 20 percent reduction in IHSS hours, but is not definitive about this being the solution if savings are found elsewhere in the program. What innovations might be possible to achieve savings without an adverse impact on consumers?

- **CMIPS II Roll-Out.** Issues in implementation of the new payrolling system for IHSS providers (Case Management Information and Payrolling System II, or CMIPS II), have been seriously considered by the Administration, in partnership with stakeholders. What are the current outstanding issues and how should this affect the course of the roll out?

CHILD WELFARE SERVICES (CWS)

- **Realignment.** CWS programs devolved to the counties as part of 2011 Public Safety Realignment. What is the state's formal and proper role in ensuring California compliance with federal measures and to play a leadership role in the health and safety of at-risk youth?

- **Congregate Care Reform (CCR).** Realignment legislation further stressed CCR workload. What are the realistic policy and fiscal outputs to be developed in this endeavor?

ALCOHOL AND DRUG PROGRAMS (ADP)

- **Realignment.** ADP programs devolved to the counties as part of 2011 Public Safety Realignment. What is the state's formal and proper role in ensuring that Substance Use Disorder Services reach people in need?

- **Reorganization Proposal.** The Governor's revised proposal moves most functions to the Department of Health Care Services and eliminates ADP. What can be done to ensure a smooth transition that will create improved client access? How does the implementation of the Affordable Care Act affect this?

DEVELOPMENTAL SERVICES

- **Developmental Centers (DCs).** Lanterman DC is in the closure process and Sonoma DC is undergoing a remediation process for health and safety violations. How can the state help to ensure success in both program endeavors?

- **Tracking Recent Changes.** With policy around movement to the community now being implemented and with the prospective sunset of the provider rate reduction, how is the state tracking impacts to inform evaluation and assessment of the needs in the developmental system?

DEPARTMENT OF SOCIAL SERVICES

Department Description
The stated mission of the Department of Social Services (DSS) is to serve, aid, and protect needy and vulnerable children and adults in ways that strengthen and preserve families, encourage personal responsibility, and foster independence. The Department accomplishes its mission through the operation and oversight of a variety of programs that provide cash assistance, social services, disability evaluation, community care licensing, and other services.

Fiscal Overview. Due to the significant program areas within DSS, the major programs for this department have been broken out into separate sections within this report. By way of overview, this section simply presents the overall Department information.

Fund Source	2011-12 Actual	2012-13 Projected	2013-14 Proposed	BY to CY Change	% Change
General Fund	$6,405,990	$7,022,005	$7,599,448	577,443	8%
Emergency Food Assistance Program Fund	626	596	618	22	4%
Foster Family Home and Small Family Home Insurance Fund	-278	-	-		-
Continuing Care Provider Fee Fund	1,301	1,296	1,330	34	3%
Technical Assistance Fund	20,100	22,086	22,086	0	0%
Certification Fund	1,245	1,655	1,673	18	1%
Child Health and Safety Fund	1,722	5,112	5,314	202	4%
State Children's Trust Fund	2,580	1,296	1,297	1	0%
Federal Trust Fund	6,612,227	7,059,975	7,168,703	108,728	2%
Reimbursements	4,098,212	4,465,837	4,715,712	249,875	6%
Mental Health Facility Licensing Fund	-	391	-		-
Child Support Collections Recovery Fund	9,773	8,586	8,516	(70)	-1%
Child Welfare Services Program Improvement Fund	396	4,000	4,000	0	0%
Safely Surrendered Baby Fund	-	90	90	0	0%
Total Expenditures	**$17,153,894**	**$18,592,925**	**$19,528,787**	**$935,862**	5%
Positions	3,645.0	4,186.0	4,200.2	14.2	0.34%

DSS administers major programs, so for purposes of this report, the largest programs are each broken out and discussed separately. Other programs at DSS are discussed as a group at the end of this DSS section.

CALWORKS

Total CalWORKs expenditures of $7.1 billion (state, local, and federal funds) are proposed for 2013-14, including TANF Block Grant and maintenance-of-effort (MOE) countable expenditures. The amount budgeted includes $5.4 billion for CalWORKs program expenditures and $1.7 billion in other programs. Other programs primarily include expenditures for Cal Grants, Department of Education child care, Child Welfare Services, Foster Care, DDS programs, the Statewide Automated Welfare System, California Community Colleges child care and education services, and the Department of Child Support Services.

California received an annual $3.7 billion Temporary Assistance for Needy Families (TANF) block grant. To receive TANF funds, California must provide an MOE of $2.9 billion annually. State-only programs funded with state General Fund are countable towards the MOE requirement. Approximately 2.5 percent of assistance payments are county-funded.

Program Description and Background

The California Work Opportunity and Responsibility to Kids (CalWORKs) Program, our state's Temporary Aid for Needy Families (federal TANF) program, is a basic needs program that provides income support and services to eligible, needy California parents and their children. The program serves all 58 counties in the state and is operated locally by county welfare departments. Generally, services are available to:

- Families with a child(ren) when one or both parents are in the home but the principal earner is unemployed.

- Families that have a child(ren) in the home who has been deprived of parental support or care because of the absence, disability, or death of either parent.

- Needy caretaker relatives of a foster child(ren).

***Caseload*.** CalWORKs is largely a program that serves children living in poverty and deep poverty (below 50 percent of the poverty level). Of the more than 1 million recipients of the program, more than three out of four – 77 percent - are children.

Average monthly caseload is estimated to be 572,000 families in 2013-14, a 0.7 percent increase over the 2012 Budget Act projection.

The caseload experienced a large reduction in the years between the implementation of CalWORKs and its Welfare to Work (WTW) focus and the onset of the recent economic recession in 2007. Since this onset, and predictably, the caseload steadily increased as unemployment remained high. This growth has increased at a decreasing rate in recent year as program changes have taken effect.

Eligibility Determination. If a family has little or no cash and needs housing, food, utilities, clothing, or medical care, they may be eligible to receive immediate short-term help. Families that apply and qualify for ongoing assistance may receive aid each month to help pay for housing, food, and other basic living expenses. The county office will set up an interview with an eligibility worker to obtain facts and verify eligibility. Applicants must provide the county with proof of income and property, citizenship status, age, social security number, residence, shelter costs, work or school status, and other information. Similar information may be requested for all of the people in the home. Additionally, adult family members must also be fingerprinted and photo imaged.

Welfare to Work (WTW) and Income Support. At the interview, the county will advise applicants of the rules that must be met to be eligible for CalWORKs. Unless identified as not being able to maintain employment due to disability, caring for an ill relative, age, or another reason, the recipient develops a (WTW) plan toward employment preparedness. Once eligible, the family will receive monthly checks from the county welfare department until the entire family or adults in the family are determined ineligible. Any income of the family is considered in calculating the amount of cash aid the family receives and reduces the amount received from the Maximum Aid Payment (MAP) level.

All WTW participants receive an orientation to the program and an appraisal of their education and employment background. Initially, most individuals receive job search services. Additional employment-related services are provided based on an individual's education and work history. Individuals may be assigned to:

- Unpaid work experience/preparation.
- Vocational training placements.
- Adult education or community college programs.

In addition, program participants may be eligible for help with child care, transportation, and work-related or training-related expenses. Moreover, participants who find a job and are no longer eligible for welfare may continue to receive help with medical care and child care expenses. Unless exempt, applicants/recipients of CalWORKs are required to participate in WTW activities as a condition of receiving aid.

Current Work Requirements and Services. Until recent changes took effect January 1, 2013, adults in one-parent families had to spend at least 32 hours per week in WTW activities. The minimum participation requirement for two-parent families is 35 hours per week. Recipients eligible for child care services are entitled to receive subsidized child care while on cash aid and for two years after they are off cash aid in Stage 1 and Stage 2 child care programs. Former recipients who meet child care eligibility requirements are then eligible to transition to the Stage 3 child care program.

Federal Funding and State MOE. California receives a federal block grant to design and operate its CalWORKs Program to accomplish stated federal purposes, which are:

- Assisting needy families so that children can be cared for in their own homes;
- Reducing the dependency of needy parents by promoting job preparation, work, and marriage;
- Preventing out-of-wedlock pregnancies; and,
- Encouraging the formation and maintenance of two-parent families.

Monthly Grant Levels. Maximum Aid Payment (MAP), or CalWORKs grant, levels were reduced by 4 percent in July 2009, followed by an additional 8 percent reduction in July 2011. For a family of three living in a high-cost county, this equates to an $85 per month reduction in cash assistance from 2008 MAP levels. Current grant levels are only slightly above 1987-88 levels.

The average grant today for a family of three in a high-cost county is $471 per month, or $5,652 per year, up to a maximum of $638 per month and $7,656 per year for a family of three in a high-cost county with no other income.

Budget Context

Key, current observations and pertinent policy questions around CalWORKs include the following.

- **Grants.** Grants for families are at historic lows, or at the real dollar amount they were at 25 years ago, in 1987. Are grants sufficient and what effect do they have on the poverty rate in California?

- **COLAs.** Cost of Living Adjustments (COLAs) were statutorily removed in 2009 under budget pressures to stave off long-term costs, so grants are not allowed to rise with inflation. How do suppressed grants factor into our state's poverty rate and the effects of poverty on California's children? Should COLAs be reinserted to keep grants at pace with economic changes?

- **Recent Program Changes.** Enormous, restrictive program changes were implemented January 1, 2013, with some effects that won't be experienced until 24 months pass (January 1, 2015). These dramatic changes require heavy oversight and responsiveness to impacts on families, children, and program effectiveness. What are the critical issues in implementation and how can they be addressed? What will be the long-term impacts?

- **Program Resources.** The sufficiency of budgeted funds for the program should be scrutinized to ensure that the tenets of the Welfare to Work program and case management services for clients facing multiple barriers are intact. What does the program need in order to genuinely assist unemployed parents to overcome personal barriers and develop or hone skills?

- **Early Engagement.** Restructuring of the basic program flow for clients is necessary and was an expected component of the 2012-13 changes. What are the near-term outcomes for Early Engagement changes that will redesign the program to make it more effective under the more constrained and complicated new policies?

State budgets in recent years reflect vast and deep changes in the CalWORKs Program, at the same time that an increased caseload of parents and children have relied on its benefits for basic subsistence expenses, including housing, hygiene, and clothing costs. By way of additional context, the following is a summary of adopted budget reductions and program policy changes in CalWORKs as a result of past budget negotiations.

<table>
<tr><th colspan="2">CalWORKs - Review of Recent Budget Reductions and Policy Changes</th></tr>
<tr><td>2012-13</td><td>
The following program changes combine with an additional reduction to the single allocation for administration, employment services, and child care costs, are anticipated to result in $469.1 million General Fund savings in 2012-13:
Time Limits and Work Participation Requirement.

Modified the number of required welfare-to-work hours to conform to federal requirements.
Effective January 1, 2013, prospectively created a new 24-month time limit on welfare-to-work services.
After 24 months, non-exempt parents are required to meet more narrow federal participation requirements in order to access any additional months of eligibility toward a 48-month lifetime time limit.
Authorized counties to extend assistance for up to 20 percent of recipients who would otherwise lose services due to application of the 24-month time limit (and who still have time remaining under the 48-month limit) based on set criteria.

Families with Young Children.

Extended the sunset date for existing temporary exemptions and related policies--from July 1, 2012 to January 1, 2013. These temporary exemptions have been provided to a parent or other relative caring for one child who is from 12 to 24 months of age, or 2 or more children under age 6. Required counties to reengage recipients who received these exemptions in welfare-to-work activities over a period of two years.
Created an ongoing, one-time, young child exemption for caregivers of a child 24 months of age or younger, and provided that a month during which this exemption applies would not be counted as a month of aid for the recipient.

Phase-in of Cal-Learn Program.

Rejected the Governor's proposal to eliminate intensive case management services provided through the Cal-Learn program within CalWORKs. Authorized counties to provide full or partial year funding, depending on the pace of their progression to full implementation, which must occur by April 1, 2013.

Early Engagement and Other Changes.

Required DSS to convene a workgroup to identify best practices and strategies to improve early engagement and remove recipients' barriers to working and to report back to the Legislature. Also, required DSS to update the Legislature regarding the changes made to CalWORKs, and to contract with an independent, research-based institution for an evaluation and written report regarding the impacts of those changes.
Established an annual, rather than quarterly or semi-annual, report for cases with an unaided adult.
Transferred $803 million in TANF dollars to the California Student Aid Commission for use in the CalGrant program, and moved cases where a parent is unaided and not eligible for welfare to work services off of TANF and on to General Fund support.
Adopted the Work Incentive Nutritional Supplement (WINS) to provide a supplemental food benefit of $10 per month to approximately 171,000 working families by June 2014 who would otherwise CalFresh, but not CalWORKs, benefits each month. These recipient families can be counted in federal WPR calculations.

</td></tr>
<tr><td>2011-12</td><td>
Altogether, the changes adopted in the 2011-12 Budget deals (March and June) resulted in savings of approximately $1 billion in the CalWORKs program.

Reduction of Lifetime Time Limit from 60 to 48 Months - Approved Governor's proposal to cut CalWORKs from 60-months to 48-months for adults effective June 1, 2011.
Cut Grants by 8 Percent - Approved an 8 percent grant cut effective June 1, 2011, reducing the maximum grant for a family of three in a high cost county from $694 per month to $638 (lower in actual dollars than the grant level in 1987). It is important to note that the average grant for a family of three is closer to $474 per month after the 8 percent cut.
Further Continuation of the Single Allocation Reduction- Extended for a third year the

</td></tr>
</table>

	reduction to child care, employment services, and administration, retaining the associated young child exemptions. • ***Lower Earned Income Disregard, Reducing Income for Families*** - Approved a change to disregard the first $112 of relevant income, versus $225, and then 50 percent of all other relevant earnings, resulting in families keeping less of their own earned income. • ***Suspend CalLearn for Pregnant and Parenting Teens*** - Suspended, for one year, case management services otherwise available under the CalLearn program for pregnant and parenting teenagers. • ***Reduce Substance Abuse and Mental Health Funds, Reduce Funds for Automation*** - Adopted a reduction of $5 million for substance abuse and mental health services and a $5 million across the Statewide Automated Welfare System. • ***Cut in Stage 1 Child Care*** - Approved savings for Stage 1 child care conforming to actions related to reimbursement rates taken in the child care package. • ***Eliminate Community Challenge Grants*** - Eliminated $20 million for these grants related to teen pregnancy prevention.
2010-11	• Continue $375 Million Single Allocation Reduction – The final budget agreement instead continued the reduction in WTW and child care services for CalWORKs recipients, with exemptions for adults with young children, with $376.9 million in savings.
2009-10	• ***Reduction of Grants by 4 Percent*** - For a family of three in a high-cost county, this 4 percent reduction cut the maximum monthly grant from $723 to $694, for a monthly loss of $29. Together with the COLA elimination below, these grant reductions resulted in about $240 million in program savings. • ***Elimination of Cost of Living Adjustments (COLAs)*** - COLAs had been suspended in the program for some time; however, the 2009 budget deal resulted in the statutory elimination of COLAs for CalWORKs and SSI/SSP. • ***Significant Cut to Employment Services (WTW) and Child Care*** - This budget achieved $420 million in savings by reducing the Single Allocation by $377 million ($162 million from welfare-to-work services and $215 million from Stage 1 child care) and by reverting $43 million from 2008-09. The agreement was for a two-year cut of $375 million to the Single Allocation through the end of 2010-11. • ***Apply Program Exemptions Associated with the Single Allocation Reduction*** - To allow counties to absorb the Single Allocation reduction, budget legislation exempted families with a child under age two, or with two or more children under the age of six, from work participation requirements, although they are allowed to volunteer. The policy also stopped the 60-month lifetime time clock for those excused due to lack of supportive services.

Major Provisions in CalWORKs

- Increase in Single Allocation. The Governor's Budget includes $142.8 million in additional funding for CalWORKs services, funded through the county block grant commonly termed the Single Allocation. DSS states that the change is due to revisions in the methodology used by to calculate the cost per case, based off of a three-year average of the Single Allocation in prior years. The new methodology also incorporates additional time for case management and other client-centered services in an effort to acknowledge the increased workload and client interaction necessitated by the significant changes adopted in the program as part of the 2012-13 Budget.

- Early Engagement Changes Outstanding. The 2012 Budget required the administration to convene a workgroup to identify best practices and strategies to improve early engagement and remove recipients' barriers to working and to report back to the Legislature by January 10, 2013. The purpose of the report was to identify and outline the administrative and statutory changes necessary to ensure that the newly restricted 24-Month Welfare to Work Time Clock can work most effectively for participants who are job-ready, in need of skill-building, or facing multiple barriers. The 24-Month Clock implemented as of January 1, 2013 without these program changes in place to assist low-income families under the new circumstances. The Assembly takes great interest in this missing piece of program reform and will ask the administration for its intentions and plan to address this.

IN-HOME SUPPORTIVE SERVICES

The Budget includes $1.8 billion General Fund for the In-Home Supportive Services (IHSS) program in 2013-14, a 4.9 percent increase over the revised 2012-13 budget and 6.5 percent increase from the 2012 Budget Act. Average monthly caseload in this program is estimated to be 419,000 recipients in 2013-14, a 1-percent decrease from the 2012-13 projected level.

Program Description and Background

IHSS provides an alternative to out-of-home care for low-income seniors and persons with disabilities. IHSS consists of three programs: the Medi-Cal Personal Care Services Program (PCSP), the IHSS Plus Option (IPO) – a Medi-Cal State plan option that replaced the IHSS Plus Waiver Program (IPW) – and the IHSS Residual (IHSS-R) program. To qualify for PCSP and IPO services recipients must first meet eligibility requirements for the Medi-Cal program. The IHSS-R program serves individuals who are ineligible for Medi-Cal, but meet the SSI/SSP income standards.

To qualify for IHSS program services, recipients must have demonstrated a need for care and been personally assessed by a caseworker in order for them to remain safely in their home and avoid out-of-home care. IHSS services include domestic and related services (e.g. housework, meal preparation, laundry, shopping), personal care services, accompaniment to medical appointments, protective supervision for mentally impaired recipients who place themselves at risk for injury, hazard, or accident, and paramedical services when directed by a physician.

The IHSS program is administered through the counties. Individuals seeking to become a provider in the IHSS program must undergo a criminal background check and meet other requirements.

Program Costs and Comparison with Nursing Homes. Based on the most recent estimates of expenditure and caseload data, the average annual cost per person for IHSS is about $13,000 (total funds) in 2011-12. This estimate assumes a mid-year implementation of the 20 percent reduction in IHSS hours, so, without this reduction, the cost per person for IHSS would be higher. In comparison, the estimated average annual cost per user for nursing facilities is estimated to be $67,434 (total funds) for 2010-11. It is important to note that this is only the fee-for-service nursing facility cost and does not reflect managed care costs.

Budget Context

Key, current observations and pertinent policy questions around IHSS include the following.

- **CCI.** Inclusion of IHSS in the Coordinated Care Initiative (CCI) required that the program remain essentially intact as long-term supports and services are otherwise integrated into managed care. What are the priority issues for consumers, providers, and counties as the CCI begins to roll out?

- **Statewide Public Authority.** Resources are being requested in the Governor's Budget to begin to build the capacity for the IHSS Statewide Public Authority for purposes of collective bargaining. What are the expected outcomes and what effects will this have on the program, providers, and consumers?

- **Lawsuits and Tie to 20 Percent Reduction in Hours.** The Governor's proposal assumes success in litigation to allow a historic and severe 20 percent reduction in IHSS hours, but is not definitive about this being the solution if savings are found elsewhere in the program. What innovations might be possible to achieve savings without an adverse impact on consumers?

- **CMIPS II Roll-Out.** Issues in implementation of the new payrolling system for IHSS providers (Case Management Information and Payrolling System II, or CMIPS II), have been seriously considered by the Administration, in partnership with stakeholders. What are the current outstanding issues and how should this affect the course of the roll out?

Budgets in recent years included major program and policy changes in the IHSS program, responding to calls for expenditure controls and for additional program integrity assurances. By way of additional context, the following is a summary of adopted budget and policy changes included as part of past budget negotiations.

IHSS - Review of Recent Budget Reductions and Policy Changes	
2012-13	• ***Coordinated Care Initiative.*** As part of a demonstration project, approved the integration of IHSS into Medi-Cal managed care (described in greater detail under the Health section of this report). Further, established, as specified, a Statewide Authority for purposes of collective bargaining with respect to the wages and benefits for IHSS providers. • ***3.6 Percent Reduction in Authorized IHSS Hours.*** Extended, for the 2012-13 fiscal year, an existing reduction in authorized IHSS hours of 3.6 percent. The reduction would otherwise have sunset on July 1, 2013. Rejected the Governor's proposals to increase the reduction to 7 percent and to make the policy permanent. • ***Domestic & Related Services.*** Rejected the Governor's proposals to eliminate domestic and related services (e.g., heavy cleaning, meal preparation, and clean-up) for IHSS recipients who reside in shared living arrangements. • ***Medication Dispensing Pilot.*** Repealed a pilot project that would have required the Department of Health Care Services to identify individuals who receive Medi-Cal benefits on a fee-for-service basis who are at high risk of not taking their prescribed medications. • ***Sales Tax on Supportive Services.*** Adopted trailer bill language to change the effective date of a sales tax on supportive services and supplemental provider payments from no earlier than July 1, 2010 to no earlier than January 1, 2012. • ***Public Authorities.*** Adopted trailer bill language extending the timeframe specified in statute for use of a newly developed rate-setting methodology for Public Authority funding--to begin with the 2013-14 fiscal year, rather than 2012-13. • ***County Administration.*** Restored $4.7 million General Fund in resources for counties' administration of the IHSS program; however, this $4.7 million appropriation was vetoed by the Governor.
2011-12	Approved the following reductions to the IHSS program (some savings are embedded in the Medi-Cal budget), to achieve savings of $420.2 million General Fund: • ***Health Care Certification*****.** Approved the Governor's proposal to require a certification that personal care services are necessary to prevent out-of-home care. Allowed services to be authorized temporarily, pending receipt of the certification, when there is a risk of out-of-home placement. • ***Community First Choice Options*****.** Adopted savings due to expected approval of an additional six percent in FMAP as a result of IHSS qualifying under the new federal Community First Choice Option made available under section 1915(k) of the federal Social Security Act. • ***Medication Dispensing Pilot*****.** Established a pilot project that requires the Department of Health Care Services to identify individuals who receive Medi-Cal benefits on a fee-for-service basis and who are at high risk of not taking their prescribed medications. • ***Across-the-Board Trigger*****.** Created a trigger mechanism for alternative reductions if the Department of Finance determined that data reported regarding the medication assistance pilot project described above does not demonstrate the ability to achieve annualized net savings. If the pilot and any subsequent legislation are not anticipated to result in $140 million annualized General Fund savings, the Department of Social Services was required to implement an across-the-board reduction in IHSS services beginning October 1, 2012, with specified exceptions. • ***Caseload Savings*****.** Recognized savings of $83.4 million General Fund due to caseload savings both in 2010-11 and 2011-12, adjusting caseload trends for the current and budget year based on demonstrated and more recent numbers of recipients and hours paid. • ***Secondary Trigger Tied to Revenue*****.** Created a second trigger mechanism, if specified revenues are not obtained pursuant to the 2011 Budget Act, for implementing an across-the-

	board reduction in IHSS services of 20 percent, beginning January 1, 2012. The trigger was ultimately pulled by Governor Brown in December 2011, but this reduction was halted by a court order. • ***Advisory Committees***. Cut $1.4 million from IHSS Advisory Committees and eliminated the associated mandate, while retaining a modicum of support for each of the 56 Public Authorities (PAs), to support the continued operation of Advisory Committees for PAs. • ***Public Authority Funding***. Rejected a May Revision proposal that would have reduced administrative funding for Public Authorities and required DSS, in consultation with designated stakeholders, to develop a new rate-setting methodology for public authority IHSS administrative costs. • ***County District Attorney Activities***. Approved, subject to change by operation of a trigger mechanism, the Governor's January proposal to continue an augmentation of $28.4 million ($10.0 million General Fund) for additional county and district attorney anti-fraud activities related to IHSS. This funding was first included in the 2009-10 budget. The trigger was ultimately pulled by Governor Brown in December 2011 and the expenditure authority for these activities was eliminated. • ***CMIPS II Support***. Approved resources to support the final stages of development of a new Case Management Information and Payrolling (CMIPS II) system.
2010-11	• ***3.6 Percent Reduction in IHSS Hours***. All IHSS recipients received a 3.6 percent reduction in authorized service hours starting January 2011 through the end of the 2011-12 fiscal year. (The reduction was subsequently extended.) • ***Provider Exclusion and Exceptions Process***. Adopted additional provider exclusion policies, excluding a person from providing or being paid to provide IHSS if they have specified criminal convictions, including convictions for certain violent and serious felonies, fraud in the obtaining of aid, and designated felony sex offenses. Enabled a recipient to seek an individual waiver and allowed a provider applicant to seek a general exception in order to provide IHSS services. • ***Extension of Sales Tax***. Extended the imposition of a sales tax on IHSS providers, allowing the state to access additional Federal Medicaid matching funds.

2009-10	Legislation enacted for the 2009-10 budget year contained significant changes in the IHSS program, including:
	• ***Service Reductions and Eliminations***. Effective September, 2009: (1) restrictions in eligibility for domestic and related services, eliminating these services for 90,000 consumers and (2) the elimination of all services for a group of nearly 37,000 IHSS recipients with functional index (FI) scores under 2.0. These service reductions and eliminations never effect as a result of a federal court order, the most recent of which occurred on January 7, 2013.
	• ***Program Integrity Measures***. Included comprehensive policy changes regarding program integrity and fraud prevented and allocated funds to DHCS and DSS for a total of 25 new fraud investigation and program integrity-related positions. Included $10 million in additional funds to be allocated to counties based on approved plans. Chief among changes include:
	  ○ **Provider Enrollment.** Required documentation, included a revamped form, to be submitted in person by applicant providers to county offices.
	  ○ **Criminal Background Check**. Required criminal background checks to be completed for all prospective providers as of October 1, 2009.
	  ○ **Provider Orientation.** Required, effective November 1, 2009, that all prospective providers complete an orientation at the time of their enrollment as a provider.
	  ○ **Targeted Mailings.** Required DSS to develop protocols for mailings to providers and recipients to inform providers and recipients of program rules.
	  ○ **Unannounced Home Visits.** Authorized visits to a recipient's home in targeted cases where there is cause for concern regarding program integrity. Requires DSS to develop protocols for follow-up home visits and other actions.
	  ○ **Provider Notification of Hours.** Required DSS with counties to develop a process on or before December 31, 2011 to ensure that providers receive a list of approved duties.
	  ○ **Timesheet Changes.** Required that timesheets include (1) certification by the provider and recipient verifying that information is true and correct and (2) a statement that providers and recipients may be subject to criminal penalties if not. Additionally required the index fingerprint of providers and recipients be included on timesheets. Later legislation repealed these provisions.
	  ○ **Fingerprinting Requirements.** Required fingerprinting for new consumers to occur in the home at initial assessment as of April 1, 2010. Later legislation repealed these provisions.

Major Provisions in IHSS

The Governor's Budget proposes the following for 2013-14 in the IHSS program:

- 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. Reasons for this decrease and details on how the certification requirement is being implemented have been requested from the administration.

- Requests seven limited-term positions at DSS through 2014-15 to address workload associated with the Governor's Coordinated Care Initiative (CCI), for a cost in 2013-14 of $884,000 total funds ($442,000 General Fund). DSS states that these positions are needed to implement the provision for contracts between managed care health plans and agencies and for the development of a training curriculum. These positions will also certify agencies, create an appeal process, establish a fee structure, review and approve contracts, operationalize the activities associated with the CCI for the counties, and will be responsible for engaging with stakeholders at the federal, state, and county levels.

- 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. For more information on the CCI, please consult the "Health" section of this report.

- Requests the two-year extension of four existing limited-term positions to work with the Office of Systems Integration (OSI), the vendor (Hewlett Packard (HP)), and the counties in ensuring a smooth transition from Legacy CMIPS to CMIPS II and for ongoing CMIPS II Maintenance and Operations (M&O) activities. The cost of this in 2013-14 is $510,000 total funds ($255,000 General Fund). As implementation draws to a conclusion, these staff will maintain the CMIPS II system by providing ongoing technical assistance, timesheet processing with associated documents, oversight and maintenance of governmental interfaces for sharing of information, enhanced data extraction, fraud activities, monitoring county system management activities to oversee performance reviews, change management and configuration management activities, approve county requested changes, and provide support to the counties for all other issues.

SECURITY INCOME / STATE SUPPLEMENTARY PAYMENT

Program Description and Background

Supplemental Security Income/State Supplementary Payment (SSI/SSP) provides a monthly cash benefit to enable needy aged, blind, and disabled people to meet their basic living expenses for food, clothing, and shelter. The 2013-14 Governor's Budget includes $9.7 billion ($2.8 billion General Fund) for the SSI/SSP program. This represents a 1.9 percent increase from the revised 2012-13 budget.

Caseload

Caseload is estimated to be 1.3 million recipients in 2013-14, a 1.3 percent increase over the 2012-13 projected level. The SSI/SSP caseload consists of 27 percent aged, 2 percent blind, and 71 percent disabled persons.

Grants

SSI is a federally funded benefit; SSP is state-funded and added on to the SSI benefit. The maximum amount of aid is dependent on the following factors:

- Whether one is aged, blind, or disabled;
- The living arrangement;
- Marital status; and,
- Minor status.

Effective January 2012, maximum SSI/SSP grant levels are $854 per month for individuals ($10,248 per year) and $1,444 per month for couples ($17,328 per year). The Social Security Administration (SSA) applies an annual cost-of-living adjustment (COLA) to the SSI portion of the grat equivalent to the year-over-year increase in the Consumer Price Index (CPI). The current projected CPI growth factors are 1.7 percent for 2013 and 1.1 percent for 2014. Maximum SSI/SSP monthly grant levels would increase by $20 and $30 for individuals and couples, respectively. The grant increases associated with the SSI COLA become effective December 31, 2012 and January 1, 2014.

Cash Assistance Program for Immigrants

The Cash Assistance Program for Immigrants (CAPI) provides benefits to aged, blind, and disabled legal immigrants. The CAPI benefits are equivalent to SSI/SSP program benefits, less $10 per individual and $20 per couple. The CAPI recipients in the base program include immigrants who entered the United States (U.S.) prior to August 22, 1996, and are not eligible for SSI/SSP benefits solely due to their immigration status; and those who entered the U.S. on or after August 22, 1996, but meet special sponsor restrictions (have a sponsor who is disabled, deceased, or abusive). The extended CAPI caseload includes immigrants who entered the U.S. on or after August 22, 1996, who do not have a sponsor or have a sponsor who does not meet the sponsor restrictions of the base program.

Budget Context

- As part of the 2009-10 Budget agreement, state COLAs for SSI/SSP beneficiaries were indefinitely suspended, and depend upon future statutory authorization. This occurred after many years of COLA suspension, whereby SSI/SSP grants were reduced to minimal levels.

- As part of the 2011-12 Budget, the state chose to reduce the SSP standard of the SSI/SSP program to the federally required MOE level of the 1983 payment standards for individuals only. Prior actions had reduced the grant levels for couples to the MOE floor, leaving some margin on the grants for individuals given their level of poverty. The MOE refers to a federal provision that limits the reduction a state can make to their SSP benefit levels without penalty. If a state were to reduce its SSP benefit levels below MOE levels, it would lose federal funding for Medi-Cal. California is now at the MOE floor, or the lowest benefit level possible, for the entire SSI/SSP caseload.

- As part of the 2012-13 Budget, the state approved proposed changes in SSI/SSP grant levels, which included increases related to federal COLAs and to corresponding changes in grants under CAPI.

Major Provisions

There are no major changes associated with SSI/SSP in the Governor's Budget, however a review of the sufficiency of grant levels and the continued non-existence of a state COLA are topics that should be considered as the budget for this caseload is reviewed.

CHILD WELFARE SERVICES AND FOSTER CARE

Program Description

The Children and Family Services Division (CFSD) provides leadership and oversight of local county and community agencies in the implementation of an array of services designed to protect children from abuse and neglect, and to strengthen and preserve families. Toward this end, the CFSD meets federal and state requirements and attempts to promote best practices in child welfare services (CWS) through promulgation of regulations, and the delivery of training, technical assistance, fiscal resources, incentives, and program evaluations.

Realignment of 2011. The 2011 Budget included a major realignment of public safety programs from the state to local governments. The 2011 realignment moved program and fiscal responsibility to counties, providing a dedicated source of funding while eliminating duplication of effort, generating savings, and increasing flexibility. Realigned programs include local public safety programs, mental health, substance abuse, foster care, child welfare services, and adult protective services. The funding sources for realignment include the dedication of 1.0625 cents of a state special fund sales tax and the dedication of a portion of vehicle license fee revenues.

Overview of CWS's Major Areas

- **Emergency Response –** 24/7 assessment and/or investigation of reports of abuse, neglect, or exploitation of children.

- **Foster Care –** 24-hour board and care provided to minors under the jurisdiction of the county court and under the supervision of a local or tribal child welfare agency. Minors are typically removed from their family homes and placed into some form of out-of-home care as a result of known or suspected abuse or neglect (child welfare), or known or suspected commission of a crime (probation). Monthly maintenance payments are distributed to caretakers for board and care of eligible children.

- **Family Maintenance –** Time-limited protective services provided to families in crisis to prevent or remedy abuse or neglect, with the intent of preserving families and keeping children safely in their own homes, when possible.

- **Family Reunification –** Time-limited services to children in foster care and their families, with the goal of safely reuniting children with their families.

- **Permanent Placement (PP)/Adoption –** Alternative family structures and supports for children who cannot remain safely at home and/or who are unlikely to ever to return home. PP includes adoption, legal guardianship, and independent living.

Budget Context

Key, current observations and pertinent policy questions around CWS include the following.

- **Realignment.** CWS programs devolved to the counties as part of 2011 Public Safety Realignment. What is the state's formal and proper role in ensuring California compliance with federal measures and to play a leadership role in the health and safety of at-risk youth?

- **Congregate Care Reform (CCR).** Realignment legislation further stressed CCR workload. What are the realistic policy and fiscal outputs to be developed in this endeavor?

- The 2011-12 Budget realigned $1.6 billion in state funding for the CWS, foster care, and adoptions programs, to the counties. Among other provisions, the 2012-13 budget included the following related programmatic changes, which largely impact uses of 2011 realignment funding (as well as federal and county funds), and not the state General Fund:

- **Flexibility for Counties.** Revised or created more flexibility within the requirements of specified programs that had already offered some degree of county option.

- **Accountability and Oversight Provisions.** Required reporting related to the 2011 realignment of CWS programs, including an annual report that summarizes outcome and expenditure data to allow for tracking of program changes and performance on defined outcome measures over time. Further, required the Department and counties to develop agreed upon performance targets for improvements and clarified that the existing California Child & Family Services Review workgroup can reconvene as needed. Additionally, required a transparent, local, public process before a county can significantly change expenditures for specified optional programs.

- **Continuum of Care and Needs Assessment-Related Reforms.** Required DSS to establish workgroups, as specified, to develop and submit recommended revisions to the foster care ratesetting system, as well as performance standards and outcome measures for providers of out-of home care. Additionally, revised selection criteria for foster care placements and increased, on an interim basis, the monthly rates paid for Intensive Treatment Foster Care (ITFC), which is intended to offer lower-cost, family based care to children and youth who would otherwise be served in more expensive and restrictive settings.

- **Other Changes.**
  - Improved transitional services for 18 through 20-year olds exiting the foster care system by allowing specified non-minor dependents to receive assistance during a window of time in which they might otherwise have a gap in eligibility and by ensuring continued support of non-minor dependents who are 20-years-old, effective January 1, 2014.
  - Further, revised licensing or certification standards for transitional housing and increased basic care and supervision rates paid to foster families certified by foster family agencies.

Additionally, the CWS programmatic realignment accomplished the following:

- **Moratorium on Group Home Rate-Setting.** Permanently extended a moratorium on licensure of new group homes or approvals of specified changes to existing providers' licenses, with some exceptions. New provisions further limit, for one year, exceptions for any programs with rate classification levels below 10 to those associated with a program change.

- **Cost-of-Living Adjustment for Dual Agency Rates.** Required annual adjustment of rates payable for care and supervision of children who are dually eligible for the Child Welfare Services and Developmental Services systems. This change is consistent with changes made last year to foster family home and related rates in response to litigation.

- **DSS Staffing.** Reduced authorized staffing in the Child and Family Services Division of DSS by 42 positions in light of the transition from state to county-based administration of the Agency Adoptions program in a number of counties. Retained and repurposed an additional 11.5 positions to conduct specified oversight and monitoring, including oversight related to realignment, as well as policy and program development, including changes to the continuum of care and assessment of children's needs.

Major Provisions

The Governor's Budget proposes the following for 2013-14 in the CWS area:

- **Congregate Care Reform.** Requests resources ($249,000 total funds, $166,000 General Fund) to make permanent one Research Project Specialist (RPS) II limited term position to implement Congregate Care Reform as required by Senate Bill 1013 (Chapter 35, Statutes of 2012) and requests funding to contract with an outside consultant to assist in this reform effort.

  DSS states that the RPS II position would be responsible for the increased workload demands associated with implementing and administering the provisions of SB 1013, for example, convening a workgroup to include foster family agencies (FFAs) and group homes (GHs) that will identify and develop recommended revisions to the current rate setting system, services, and programs serving children and families in the continuum of foster care eligible placements. This work includes analysis and development of appropriate audit functions and methodologies that support fiscal monitoring and oversight of any reformed rate and program structure.

DSS states that the outside consultant will assist the RPS II in the workload associated with convening the workgroups. Specifically, the consultant will complete administrative tasks to schedule workgroup meetings, facilitate workgroup discussions, assist in the research of funding and rate methodologies, provide workgroup progress reports, and assist in the preparation and presentation of technical reports. The workgroup consultant services will cost $125,000 annually for two years.

- **Child Welfare Services – New System Project.** Requests funding ($1.03 million total funds, $482,000 General Fund) to support nine positions to develop and implement a new child welfare case management system, called the Child Welfare Services – New System (CWS-NS) Project, to replace the current system. Please see the Health and Human Services Agency (HHSA) Office of Systems Integration (OSI) section of this report for information on a related proposal in that area.

- **Capped Allocation Project.** Requests funding ($596,000 total funds, $298,000 General Fund) and the extension of two limited-term positions for the 2013-14 bridge extension for the Title IV-E Child Welfare Waiver Demonstration Capped Allocation Project (CAP) and continued contract funding, $358,000, for the federally-required CAP evaluation. DSS states that these positions are necessary to support and complete the negotiations with the Administration for Children and Families (ACF) in obtaining federal approval and new federal waiver terms and conditions for DSS's requested five-year extension of the CAP. These DSS resources will address operating the CAP and ensure continued compliance with federal waiver requirements during the bridge extension period and for implementation development and planning with the current and additional interested counties for the five-year waiver extension.

- **Resource Family Approval Project.** Requests funding ($207,000 total funds, $101,000 General Fund) and the establishment of two permanent positions to implement the Resource Family Approval (RFA) Project. DSS states that the RFA Project will result in the development and implementation of a single comprehensive resource family (i.e. foster, adoptive, kinship family) approval process. This single process is a systemic change intended to replace the existing process for licensing foster family homes, approving relative and non-related extended family members, and approving adoptive families. The RFA Project will begin with five counties. After the third full fiscal year from which the five participating counties commence implementation, the RFA Project will be authorized in all counties.

OTHER PROGRAM AREAS WITHIN DSS

Overview of the Department's Other Major Areas

- **CalFresh.** The CalFresh Program, formerly known as the Food Stamp Program and federally referred to as the Supplemental Nutrition Assistance Program (SNAP), provides for nutrition among eligible low-income households by offering them a benefit amount, posted to a debit card, for the purpose of purchasing food.

  The cost of CalFresh benefits is borne entirely by the United States Department of Agriculture (USDA). The CalFresh Employment and Training Program requires certain non-assistance CalFresh recipients to participate in employment and training activities. The Department also administers the state-only California Food Assistance Program to provide food benefits to legal immigrants who meet federal SNAP eligibility criteria except for their immigration status.

The California Food Assistance Program (CFAP) served legal noncitizens over the age of 18 and under the age of 65, who were legally in the U.S. prior to August 22, 1996, and met all federal food stamp eligibility criteria (except for their immigration status). The program also serves legal noncitizens who entered the country on or after August 22, 1996, who are otherwise eligible.

Budget Context for CalFresh. As part of the 2012-13 Budget, the state adopted a one-time reduction of $45 million General Fund in funding for program administration, with as much of the reduction to be achieved through reversions of unexpended funding from prior years as possible. To the extent that there is a reduction in 2012-13 funding, required the Department to consult with counties and report back to the Legislature regarding its allocation and impacts. Further, extended for one year a “match-waiver” that allows counties to access a portion of General Fund and federal fund support for program administration without fully matching those funds under standard sharing ratios. The Governor vetoed an additional $54 million ($23 million General Fund) in resources for program administration and automation projects.

Additionally, the 2012 Budget approved changes to modernize and streamline administrative practices and remove barriers to accessing the program. These changes include waiver of a face-to-face interview at recertification for households comprised of individuals who are aged or who have a disability and who do not have earnings, uses of automation (e.g., emailing certain notifications to recipients), and other changes.

- **Emergency Food Assistance Program.** The Emergency Food Assistance Program provides USDA commodities to local food banks for distribution to the working poor, low-income, unemployed, and homeless persons. This program is supplemented with food purchased by food banks using private donations and taxpayer contributions to the Emergency Food Assistance Program Fund made through a state income tax checkoff, as well as surplus fresh fruits and vegetables donated by farmers and businesses.

- **Adult Protective Services.** Each county has an APS agency to help elder adults (65 years and older) and dependent adults (18-64 who are disabled), when these adults are unable to meet their own needs, or are victims of abuse, neglect or exploitation. County APS agencies investigate reports of abuse of elders and dependent adults who live in private homes and hotels or hospitals and health clinics when the abuser is not at staff member. County APS staff evaluates abuse cases and arranges for services such as advocacy, counseling, money management, out-of-home placement, or conservatorship. Reports of abuse that occur in a nursing home, a board and care home, a residential facility for the elderly or at a long-term care facility are the responsibility of the Ombudsman's office, which is administered by the California Department of Aging.

  This program was also realigned in 2011-12 and funding consolidated and allocated to counties through realignment.

- **Community Care Licensing.** The Community Care Licensing Division (CCLD) is a licensing and enforcement program aimed at protecting the health and safety of vulnerable children, adults, and seniors in community care setting. Among other activities, CCLD conducts licensing activities and enforcement for the following community care setting programs:

  - Child Care Program: Family Child Care Home and Child Care Centers that provide care to children on a less than 24-hour basis.

- Children's Residential Program: Residential care settings or agencies (e.g. foster homes, group homes, small family homes, foster family agencies or adoption agencies) that provide temporary and long-term care to children on a 24-hour basis.

- Adult Care Program: Residential care and day program settings that provide care to adults, including persons with a developmental disability, mental illness, HIV/AIDS, special health care needs or hospice.

- Senior Care Program: Residential care for persons who are 60 years or older or adults with compatible needs and who need assistance with care and supervision including activities of daily living.

Budget Context for CCL. As part of the 2012-13 Budget, the state approved a proposal to continue to lift a statutory prohibition on charging a fingerprint licensing fee to applicants for a license to operate a small community care facility (other than a foster family home) or a family day care facility. This action resulted in avoidance of $1.4 million General Fund costs.

Additionally, the 2012 Budget approved the Governor's proposal to redirect $501,000 in Child Health & Safety Fund resources as additional support for day care licensing activities. Correspondingly, approved technical changes to proposed trailer bill language to clarify the intended impact of this action.

- **Disability Determination.** The Disability Determination Service Division (DDSD) is responsible for determining the medical eligibility of California residents for benefits under United States Codes, Title II (Disability Insurance), Title XVI (SSI), and Title XIX (Medically Needy Only) of the Social Security Act. The state augments the SSI with the State Supplementary Payment (SSP). The State Division of DDSD is responsible for the development, evaluation, and adjudication of Medi-Cal, Medically Needy Only cases under Title XIX, which establishes eligibility for the full range of Medi-Cal services for those found disabled.

- **State Hearings Division.** The State provides due process to recipients of public benefits through state hearings conducted by the DSS State Hearings Division (SHD). The SHD is required to provide full, impartial, and timely state hearings to recipients and applicants of various public assistance programs who have disputes with the state or their local county welfare departments. The primary programs involved include CalWORKs, CalFresh, Medi-Cal, and IHSS. Federal mandates require that all requests for hearings be adjudicated within 90 days of a recipient's request, with 60 days required for CalFresh. Two court orders, *King v. McMahon* and *Ball v. Swoap*, impose financial penalties on DSS for failure to adjudicate hearing decisions within the court mandated time frames on all decisions.

Key Provisions

- **CalFresh Administration.** The Governor's Budget does not extend the 2012-13 one-time veto of $23.0 million General Fund. The Budget additionally proposes to extend the county CalFresh match waiver for an additional year through 2013-14.

- **CalFresh Outreach.** The Governor's Budget proposes to transfer, as of January 1, 2013, the operational management of the CalFresh Outreach Plan from the Department of Public Health (DPH) to DSS. This would involve transferring 3.8 existing positions from DPH and establishing two positions at DSS for a total of 5.8 positions. All 5.8 positions are federally authorized and are 100 percent fully federally funded ($661,000 in federal funds). DSS states that the increase of two positions is to account for growth in the CalFresh Outreach Plan budget and activities as well as proper oversight of staff administering the program. DSS will retain federal funding that is currently provided to DPH via an Inter-Agency Agreement for positions and administrative costs associated with the CalFresh Outreach Plan and the administration of the program. The proposed new staffing structure will better align federal outreach funding with DSS CalFresh priorities.

- **Community Care Licensing.** The Governor's Budget requests four limited-term positions (two Investigators, one Associate Governmental Program Analyst, and one Staff Information Systems Analyst), at a cost of $470,000 total funds ($385,000 General Fund) to strengthen resources for client protections by reducing the risk of abuse of children and vulnerable adults in out-of-home care posed by the potential presence of registered sex offenders (RSOs). As part of this effort, the positions would administer and maintain a secure licensing informational website, conduct monthly analysis/review of RSO address data, and provide policy direction, education, and technical assistance.

- **State Hearings Division.** The Governor's Budget requests 21 positions, at a cost of $3.44 million total funds, $1.29 million General Fund, to meet state hearings caseload growth and mitigate late hearing penalties. The requested resources include $308,000 to permanently fully fund all of the Department's existing state hearings positions, 10 Administrative Law Judge Is, four Office Technicians, three Staff Services Analysts, one Staff Services Manager for caseload growth, two Administrative Law Judge II-Specialists, and one Staff Services Analyst for mandated rehearing reviews. The administration is proposing to backfill for the full General Fund cost of this proposal by proposing legislation to modify or suspend statutory penalties for a period of three years, thereby redirecting the General Fund anticipated to be collected in penalties toward the purposes of this proposal. The administration states that this would make the proposal General Fund-neutral.

DEPARTMENT OF DEPARTMENTAL SERVICES

The Governor's Budget includes $4.9 billion total funds ($2.8 billion General Fund) for the Department in 2013-14; a net increase of $178.7 million above the revised 2012-13 budget, a 3.8 percent increase; and $193.1 million above the 2012-13 enacted budget.

Department Description

The Department of Developmental Services (the Department) is responsible under the Lanterman Developmental Disabilities Services Act (Lanterman Act) for ensuring that approximately 258,000 persons with developmental disabilities receive the services and support they require to lead more independent and productive lives and to make choices and decisions about their lives.

The Department ensures coordination of services to persons with developmental disabilities; ensures that such services are planned, provided, and sufficiently complete to meet the needs and choices of these individuals at each stage of their lives; and, to the extent possible, accomplishes these goals in the individual's home community. The Department's goals are to:

- Expand the availability, accessibility, and types of services and supports to meet current and future needs of individuals and their families.

- Develop systems to ensure that quality services and supports are provided.

- Facilitate the dissemination of information to improve services and supports and the lives of people with developmental disabilities.

- Ensure the Department, state Developmental Centers, regional centers, and service providers comply with all applicable federal and state laws, regulations and contracts, including accounting for their funding in an appropriate manner.

Overview of Department's Major Areas
California provides services and supports to individuals with developmental disabilities in two ways: the vast majority of people live in their families' homes or other community settings and receive state-funded services that are coordinated by one of 21 non-profit corporations known as regional centers. A smaller number of individuals live in four state-operated developmental centers and one state-operated community facility. The number of consumers with developmental disabilities in the community served by regional centers is estimated to increase from 256,872 in 2012-13 to 266,100 in 2013-14. The number of consumers living in state operated residential facilities is estimated to decrease by the end of 2013-14 to 1,186 from the estimated 1,438 in 2012-13.

Community Services Programs. Through the network of regional centers, the Department supports the development and maintenance of services for eligible persons with developmental disabilities who reside in the community. The regional centers directly provide or coordinate the following services and supports: (1) information and referral, (2) assessment and diagnosis, (3) counseling, (4) lifelong individualized planning and service coordination, (5) purchase of necessary services included in the individual program plan, (6) assistance in finding and using community and other resources, (7) advocacy for the protection of legal, civil, and service rights, (8) early intervention services for infants and their families, (9) family support, (10) planning, placement, and monitoring for 24-hour out-of-home care, (11) training and educational opportunities for individuals and families, (12) community education about developmental disabilities, and (13) habilitation services. The needs of individuals who reside in state-operated facilities are assessed and community resources are developed to assist those who can appropriately transition to the community. The Department monitors regional centers to ensure they operate in accordance with statute, regulations, and their contract with the Department.

Developmental Centers Program. The Department operates four Developmental Centers: Fairview (Orange County), Lanterman (Los Angeles County), Porterville (Tulare County), and Sonoma (Sonoma County). Secure treatment services are provided at Porterville Developmental Center. In addition, the Department leases one small facility for persons who require specialized behavioral interventions: Canyon Springs, a 63-bed facility in Cathedral City. Services at all facilities involve the provision of active treatment through residential and day programs on a 24-hour basis, including appropriate medical and dental care, health maintenance activities, and assistance with activities of daily living, training, education, and employment.

The primary objectives of the Developmental Centers Program include providing care, treatment, and habilitation services in the most efficient, effective, and least restrictive manner to all individuals referred to the Developmental Centers Program by the regional centers, and/or the judicial system; and providing services to individuals that ensure increased independence, maintenance or improvement of health and welfare, and enhanced personal competence and effectiveness in all areas of daily living.

The Developmental Centers Division provides central administrative and clinical management services to the four Developmental Centers and the leased small community facility to ensure the quality of services provided compliance with state licensing and federal certification requirements, protection of consumers and staff, and maintenance of facility structures and grounds. Areas of responsibility include the development of policy and procedures for all aspects of the Developmental Centers operations, law enforcement and protective services, facility population management, program and fiscal oversight, and facilities planning and support.

Fiscal Overview:

Fund Source	2011-12 Actual	2012-13 Projected	2013-14 Proposed	BY to CY Change	% Change
General Fund	$2,556,002	$2,597,951	$2,753,780	155,829	6%
General Fund, Proposition 98	6,756	6,193	5,616	(577)	-9%
Developmental Disabilities Program Development Fund	6,203	9,553	9,553	0	0%
Developmental Disabilities Services Account	-	150	150	0	0%
California State Lottery Education Fund	89	465	465	0	0%
Federal Trust Fund	54,194	55,083	55,041	(42)	0%
Reimbursements	1,979,893	2,078,716	2,102,201	23,485	1%
Mental Health Services Fund	1,133	1,129	1,128	(1)	0%
Total Expenditures	**$4,604,270**	**$4,749,240**	**$4,927,934**	**178,694**	**4%**
Positions	5,067.9	5,528.5	5,142.5	(386)	-7%

Budget Context

Key, current observations and pertinent policy questions around DDS include the following.

- **Developmental Centers (DCs).** Lanterman DC is in the closure process and Sonoma DC is undergoing a remediation process for health and safety violations. How can the state help to ensure success in both program endeavors?

- **Tracking Recent Changes.** With policy around movement to the community now being implemented and with the prospective sunset of the provider rate reduction, how is the state tracking impacts to inform evaluation and assessment of the needs in the developmental system?

State budgets in recent years reflect multiple, dramatic changes in the DDS programs, changing program designs, attempting to draw down additional federal funds, and moving away from a reliance on institutionalization in Developmental Centers. By way of additional context, the following is a summary of adopted budget reductions and program policy changes in DDS as a result of past budget negotiations.

<table>
<tr><th colspan="2">DDS - Review of Recent Budget Reductions and Policy Changes</th></tr>
<tr><td>2012-13</td><td>

Reduction of $200 million General Fund: Achieved a $200 million General Fund reduction in 2012-13 through the policies described below. A reduction of $100 million General Fund in 2011-12 was triggered in December 2011 due to less than anticipated state revenues at the time. The $200 million General Fund reduction for 2012-13 represented an annualized amount of those savings on an ongoing basis.
Federal Funds. Maximized federal funds through aggressive enrollment in the state's 1915(c) Medicaid Home and Community Based Services waiver ($61 million General Fund savings) and amendments to the state's plan under the Section 1915(k) Community First Choice Option waiver ($7 million General Fund savings).
Recognized Savings from Implementation of SB 946 (Chapter 650, Statutes of 2011). This included: 1) $69.4 million General Fund savings from requiring health care insurers to provide coverage for behavioral health treatment for individuals with pervasive developmental disorder or autism, and 2) $10.4 million General Fund savings from applying the same requirement to Healthy Families and CalPERS insurance plans.
Redesigned Services for Individuals with Challenging Needs. Significantly restricted the statutory criteria for admissions to DCs, limiting the use of locked mental health facilities and out-of-state placements, and strengthening the capacity of the community to serve individuals with challenging needs (including expanded availability of Adult Residential Facilities for Individuals with Special Health Care Needs and the creation of a statewide Specialized Resource Service) ($20 million General Fund savings).
Redesigned Supported Living Assessments. Repealed an existing requirement for independent assessment under specified circumstances and replaced it with a standardized assessment questionnaire to be completed at specified times in the Individual Program Plan (IPP) process ($4.2 million General Fund savings).
Reduced Regional Center & Provider Rates by 1.25 Percent for One Year. This is a lower degree of rate reduction than the 4.25 percent reduction that was in place last year. The Governor's proposal would have made this 1.25 percent reduction ($30.7 million General Fund savings) permanent.
Recognized Additional Cost Savings and Efficiencies. This was derived from funds that had been earmarked for other purposes, including downsizing of Community Care Facilities and filling the gap in federal funding authority when facilities transfer ownership, as well as new uses of technology ($4.3 million General Fund).
November 2012 Trigger Provisions. Approved a $50 million reduction to developmental services, effective January 1, 2013, for the remainder of the 2012-13 fiscal year that would be triggered if the Governor's November 2012 tax initiative is not passed by voters statewide.
Capital Outlay. Approved the reappropriation of $25.4 million for construction of a new main kitchen at the Porterville Developmental Center, as well as $11.4 million General Fund for construction costs associated with installation of automatic fire sprinkler systems in buildings at the Fairview, Porterville, and Sonoma Developmental Centers.

Other Significant Actions:

Adopted trailer bill language to require annual compiling and publishing of existing purchase of service utilization and expenditure data by regional center with respect to the race and ethnicity, age, and disability of consumers.
Approved assumed receipt of $40 million in funding for Early Start services from the California Children and Families (First 5) Commission for General Fund savings.
Consistent with new federal regulations, adopted trailer bill language to ensure that the use of private health insurance or health care service plans to pay for early intervention services does not count against or result in a loss of benefits or serve as the basis for increased premiums.
To meet federal regulations, approved a proposed increase from $1.8 million ($881,000 General Fund) in 2011-12 to $10.7 million ($5.4 million General Fund) in 2012-13 funding for financial management services related to participant-directed services.
Approved a request for $2.9 million ($1.6 million General Fund) to support retention of 28 authorized staff positions and five temporary help positions at the Lanterman Developmental Center that would otherwise be eliminated under budgeting formulas that factor the resident population into the number of authorized positions. DDS indicated that this enhanced staffing was needed to support the process of closing the facility. Further, directed the Administration to identify general timeframes anticipated for the closure process.

</td></tr>
</table>

2011-12	• ***Measures to Contain Costs and Improve Transparency and Accountability*.** The budget plan achieved $284 million in savings through a combination of measures to contain costs and improve transparency and accountability. For example, the plan implemented an annual family program fee for families with incomes above 400 percent of the federal poverty level (about $89,000 for a family of four in 2011). The budget plan also reflected about $110 million in savings from various measures to improve the transparency and accountability of the community services program. • ***Extension of Regional Center Provider Payment Reduction*.** The budget plan extended a 4.25 percent provider payment reduction that had been imposed in recent years in order to achieve $92 million in savings in 2011–12. • ***Assumption of Additional Federal Funds*.** The budget plan assumed $78 million in additional federal funds resulting from the following initiatives: (1) modifications to the state's Home and Community–Based Services program of community services for persons with disabilities ($60 million); (2) certification of Porterville Developmental Center to obtain federal Medicaid reimbursement for care provided to certain patients ($13 million), and (3) an increase in Money Follows the Person grants intended to help promote the shift of disabled persons from institutions to the community ($5 million). • ***Reduction in Funding for Developmental Centers (DCs).*** The budget plan included several reductions to the DCs for a total of $28 million in savings. These reductions reflected the consolidation of residences and programs, reductions in funding for operations, and the elimination of funding for some DC staff. • ***Trigger Reductions*.** The final 2011–12 budget included several reductions that would only be triggered if state General Fund revenue estimates are later determined to be too high. Effective January 2012, these trigger reductions included up to $100 million in unspecified savings in services for persons with developmental disabilities. DDS was able to meet the $100 million General Fund target for the 2011-12 using a variety of strategies, including savings attributable to caseload and expenditure adjustments, unexpended contract funds, or other administrative savings. The trigger also required an ongoing $200 million General Fund reduction in the DDS budget, discussed under the "2012-13 Budget." • ***Federal ARRA Funding.*** Another major factor affecting net General Fund expenditures for DDS programs was the expiration of the enhanced FMAP provided under ARRA and subsequent legislation, which had provided about $386 million in reductions in 2010–11.
2010-11	• ***Reduced RC Provider Payments*.** Extended a 3 percent provider payment reduction that was enacted in the 2009-10 budget (for savings of $61 million), and further reduced provider payments by 1.25 percent—a total reduction of 4.25 percent—for additional General Fund savings of $25 million. • ***Closure of Lanterman DC*.** The spending plan provided $312 million from the General Fund for the DCs, an increase of $53 million, or about 21 percent, compared to the revised prior-year spending level. This increase mostly reflected the restoration of employee compensation reductions made in the prior year. While there were no related savings in the spending plan, the Legislature adopted as part of the 2010-11 the Governor's proposal to close the Lanterman DC.
2009-10	The 2009-10 budget provided a net decrease of about $170 million, or 6.6 percent, in General Fund support compared to the revised prior-year spending level. The decrease in General Fund spending for DDS was largely due to increased federal funds provided under ARRA and the adoption of several proposals to achieve a department savings target of $334 million. These spending reductions were partly offset by increases for caseload, costs, and utilization of services. ***Components of the $334 million in savings included:*** • $60 million in savings would come from obtaining additional federal Medicaid funds for certain services. The Governor vetoed $50 million from the community programs budget for services provided to children up to age five and directed DDS to request replacement funds from the First 5 Commission. • Included savings of $26.6 million General Fund due to the availability of additional federal funds for California's Early Start program under ARRA. • Required development of a new service model that provides consumers with an "individual choice budget" that allows RC clients to choose the services they want within a fixed budget. • In the DCs, savings were achieved through delay of several capital outlay projects and from the closure of the Sierra Vista Community Facility. • Included a 3 percent provider payment reduction for RC services for 2009-10.

Major Provisions

The Governor's Budget proposes the following for 2013-14 in the DDS area:

- **Lanterman Closure.** The Governor's Budget continues to support Lanterman Developmental Center (LDC), located in the Los Angeles area, and community efforts toward closure of the Lanterman facility. DDS, working with regional centers, anticipates the transition of approximately 110 LDC residents in 2012-13 consistent with the enacted budget. The Budget anticipates the transition of another 110 residents to community living arrangements in 2013-14. The 2012-13 Budget retains $0.7 million ($0.5 million General Fund) and 25.0 positions for LDC closure, and the 2013-14 proposed budget reflects a net decrease of $10.3 million ($5.7 million General Fund) and 178 positions. The Legislature recently received the January 2013 report on LDC Closure, which will inform this budget and oversight discussion.

- **Sonoma DC.** There is preliminary information from the administration that the decertification and Performance Improvement Plan issues at Sonoma DC will result in a loss of federal funding. The patient health and safety issues emerged over the course of 2012 and resulted in the removal of the Director of the DC. Details on Sonoma and related funding will be included in a future Assembly Budget Committee agenda on this subject.

- **Sunset of Provider Payment Reduction.** 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).

- **Co-Payments for Health Care Related Services.** Includes $15 million General Fund for 2012-13 and $9.9 million General Fund for 2013-14 to reflect increased expenditures associated with a recent regional center legal opinion that is expected to change regional center practices regarding funding of health insurance copayments and deductibles. The administration is proposing trailer bill language to limit the funding of health insurance copayments based on the family's ability to pay and prohibit the payment of deductibles.

- **Annual Family Program Fee.** 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.

- **First 5 Support.** 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.

- **Caseload and Utilization.** 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.

DEPARTMENT OF ALCOHOL AND DRUG PROGRAMS

Department Description

The Department of Alcohol and Drug Programs (ADP) provides leadership, policy, coordination, and investments in the planning, development, implementation, and evaluation of a comprehensive statewide system of alcohol and other drug prevention, treatment, and recovery services, as well as problem gambling prevention and treatment services. As the state's alcohol and drug authority, the Department is responsible for inviting the collaboration of other departments, local public and private agencies, providers, advocacy groups, and individuals in establishing standards for the statewide service delivery system.

This Department is undergoing significant changes. In 2011-12, the Drug Medi-Cal functions were transferred to counties as part of 2011 Realignment and administrative functions for the Drug Medi-Cal program are being transferred to the Department of Health Care Services. In 2012-13, the remaining programs were proposed to be transferred to various departments, including the Department of Health Care Services, the Department of Public Health, and the Department of Social Services. The transition of ADP functions, and the subsequent elimination of the Department, was deferred and has been altered, which is discussed in further depth in this section.

The Alcohol and Other Drug (AOD) Services Program assists counties in providing appropriate prevention, treatment, and recovery services to help Californians have healthy lives free of alcohol and other drug-related problems and become contributing members of their communities. In addition to ensuring compliance with state and federal statutes, the Department provides program oversight, maintains agreements with counties to monitor performance measures and spending related to federal maintenance of effort requirements, and implements projects consistent with specific Department objectives.

Overview of Department's Major Areas

To meet this responsibility, the Department currently performs the following functions:

- **Service Delivery System.** Design, maintain, and continuously improve a statewide infrastructure for the delivery of community-based alcohol and other drug prevention, treatment, and recovery services, as well as problem gambling prevention and treatment services. This is achieved through ongoing partnership with county governments and in cooperation with numerous private and public agencies, organizations, and groups.

- **System Financing.** Provide efficient and effective systems of obtaining, allocating, administering, and accounting for local, state, and federal funds used in the alcohol and other drug system.

- **Quality Assurance.** Ensure that service providers maintain compliance with basic facility and program standards. The Department licenses and/or certifies a range of programs including residential treatment centers and outpatient programs, clinics for narcotic replacement therapy, and Driving Under the Influence educational programs.

- **Alcohol and Other Drug Prevention.** Maintain a prevention program designed to reduce and eliminate alcohol and other drug-related problems among California's children, youth, and adult populations.

- **Information Technology.** Develop an information infrastructure that supports the goals, strategies, and operations of the Department and its stakeholders.

Fiscal Overview:

Fund Source	2011-12 Actual	2012-13 Projected	2013-14 Proposed	BY to CY Change	% Change
General Fund	$37,315	$34,066	$-	-	-
Sale of Tobacco to Minors Control Account	-1,769	-2,000	-	-	-
Driving Under-the-Influence Program Licensing Trust Fund	1,595	1,747	-	-	-
Narcotic Treatment Program Licensing Trust Fund	1,244	1,353	-	-	-
Indian Gaming Special Distribution Fund	8,337	8,369	-	-	-
Audit Repayment Trust Fund	45	71	-	-	-
Federal Trust Fund	252,450	261,640	-	-	-
Reimbursements	67,704	12,424	-	-	-
Gambling Addiction Program Fund	119	159	-	-	-
Residential and Outpatient Program Licensing Fund	4,158	3,860	-	-	-
Total Expenditures	**$371,198**	**$321,689**	**$-**	-	-
Positions	253.2	231.5	-	-	-

Budget Context

Key, current observations and pertinent policy questions around ADP programs include the following.

- **Realignment.** ADP programs devolved to the counties as part of 2011 Public Safety Realignment. What is the state's formal and proper role in ensuring that Substance Use Disorder Services reach people in need?

- **Reorganization Proposal.** The Governor's revised proposal moves most functions to the Department of Health Care Services and eliminates ADP. What can be done to ensure a smooth transition that will create improved client access? How does the implementation of the Affordable Care Act affect this?

As part of the 2012-13 Budget, the following actions were taken in the ADP area:

- **Transfer of DADP Functions.** Adopted trailer bill language to transfer the administrative and programmatic functions of DADP to other departments within the Health and Human Services Agency, effective July 1, 2013. Requires that, in consultation with stakeholders and affected departments, the Health and Human Services Agency prepare a detailed plan for the reorganization of DADP's functions to be submitted to the Legislature as part of the 2013-14 Governor's Budget.

- **Alcohol and Drug Program Realignment.** Adopted trailer bill language necessary to implement the 2011 Public Safety Realignment. Specifically, requires the DADP and the Department of Health Care Services (DHCS) to annually report a summary of outcome and expenditure data that allows for monitoring of changes over time and indicates the degree to which programs are meeting state and county-defined outcome measures.

- **Drug Medi-Cal.** Adopted trailer bill language making programmatic changes necessary to implement the realignment of funding for the Drug Medi-Cal program and the transfer of remaining state responsibility for the program to the DHCS.

- **Women and Children's Residential Treatment Services (WCRTS).** Adopted trailer bill language declaring the state's interest in the WCRTS program, recognizing the eight current programs, and allowing for the establishment of additional programs for the purpose of pursuing four primary goals: 1) demonstrating that alcohol and other drug abuse treatment services delivered in a residential setting and coupled with primary health, mental health, and social services for women and children, can improve overall treatment outcomes for women, children, and the family unit as a whole; 2) demonstrating the effectiveness of six-month or 12-month stays in a comprehensive residential treatment program; 3) developing models of effective comprehensive services delivery for women and their children that can be replicated in similar communities; and 4) providing services to promote safe and healthy pregnancies and perinatal outcomes.

Major Provisions

The Governor's Budget proposes the following for 2013-14 in the ADP area:

- **Transfer of ADP Functions.** The 2013-14 Governor's Budget reflects the elimination of the Department of Alcohol and Drug Programs (ADP) and the shift of $322.4 million ($34.1 million General Fund) for the remaining Non-Drug Medi-Cal and Problem Gambling functions transferring to the Department of Health Care Services (DHCS) and the Department of Public Health (DPH). Of the total budget, $289.9 million is in Local Assistance and $32.5 million is in State Support.

  The following is a summary of the ADP functions and associated resources proposed to be transferred to DHCS and DPH:

  - **Department of Health Care Services**
    Non-DMC Programs - $313.7 million and 225.5 positions for administering and supporting the Substance Abuse Prevention and Treatment (SAPT) Block Grant, various federal discretionary grants, parolee services programs, drug court technical assistance, licensing functions, as well as the Narcotic Treatment Program, Driving-Under-the-Influence Program, and Counselor Certification activities.

  - **Department of Public Health**
    Problem Gambling Prevention Services - $3.7 million and 4.0 positions in support of the Problem Gambling prevention activities.
    Problem Gambling Treatment Services - $5 million and 2.0 limited-term positions for the two-year extension of the Problem Gambling Treatment Services Pilot Program.

DEPARTMENT OF AGING

Department Description

The California Department of Aging's (CDA's) mission is to promote the independence and well-being of older adults, adults with disabilities, and families through:

- Access to information and services to improve the quality of their lives;
- Opportunities for community involvement;
- Support to family members providing care; and
- Collaboration with other state and local agencies.

As the designated State Unit on Aging, the Department administers Older Americans Act programs that provide a wide variety of community-based supportive services as well as congregate and home-delivered meals. It also administers the Health Insurance Counseling and Advocacy Program. The Department also contracts directly with agencies that operate the Multipurpose Senior Services Program.

The Department administers most of these programs through contracts with the state's 33 local Area Agencies on Aging (AAAs). At the local level, AAAs contract for and coordinate this array of community-based services to older adults, adults with disabilities, family caregivers and residents of long-term care facilities.

Overview of Department's Major Areas

- **Nutrition.** The Nutrition Program provides nutritionally-balanced meals, nutrition education, and nutrition counseling to individuals 60 years of age or older. In addition to promoting better health through improved nutrition, the program focuses on reducing the isolation of the elderly and providing a link to other social and supportive services such as transportation, information and assistance, escort, employment, and education.

- **Senior Community Employment Services.** The federal Senior Community Service Employment Program, Title V of the Older Americans Act, provides part-time subsidized training and employment in community service agencies for low-income persons, 55 years of age and older. The program also promotes transition to unsubsidized employment.

- **Supportive Services and Centers.** This program provides supportive services including information and assistance, legal and transportation services, senior centers, the Long-Term Care Ombudsman and elder abuse prevention, and in-home services for frail older Californians as authorized by Titles III and VII of the Older Americans Act. The services provided are designed to assist older individuals to live as independently as possible and access the programs and services available to them.

- **Special Projects.** This program includes the community-based Health Insurance Counseling and Advocacy Program (HICAP). HICAP provides personalized counseling, community education, and outreach events for Medicare beneficiaries. HICAP is the primary local source for accurate and objective information and assistance with Medicare benefits, prescription drug plans, and health plans.

- **Medi-Cal Programs.** This program includes the Multipurpose Senior Services Program (MSSP) and Adult Day Health Care (ADHC) program, which was eliminated effective February 29, 2012. The new Community-Based Adult Services (CBAS) began March 1, 2012 to provide necessary medical and social services to those in the elder community with the greatest need. The CBAS program is to be operated by the Department of Health Care Services. The MSSP provides health/social case management to prevent premature and unnecessary long-term care institutionalization of frail elderly persons. The Department provides program oversight of the MSSP via an interagency agreement with the Department of Health Care Services.

Fiscal Overview:

Fund Source	2011-12 Actual	2012-13 Projected	2013-14 Proposed	BY to CY Change	% Change
General Fund	$31,839	$32,063	$32,184	121	0%
State HICAP Fund	2,472	2,473	2,476	3	0%
Federal Trust Fund	152,514	154,818	148,736	(6,082)	-4%
Special Deposit Fund	1,185	1,187	1,189	2	0%
Reimbursements	7,587	8,201	9,760	1,559	19%
Skilled Nursing Facility Quality and Accountability Fund	1,900	1,900	1,900	0	0%
Total Expenditures	**$197,497**	**$200,642**	**$196,245**	**(4,397)**	**-2%**
Positions	112.3	114.7	115.5	0.8	0.70%

Budget Context

As part of the 2012-13 Budget, the following actions were taken in the Aging area:

Approved as budgeted, including approval of $787,000 ($473,000 General Fund) for staffing and resources to support the Department's role in certifying Community Based Adult Services (CBAS) programs (which replaced the former Adult Day Health Care program) for participation in the Medi-Cal program.

Integration, as part of a demonstration project, of the Multi-Purpose Senior Services (MSSP) program into Medi-Cal managed care as a part of the Coordinated Care Initiative (described in greater detail under the Health section of this report).

Major Provisions

The Governor's Budget proposes the following for 2013-14 for CDA:

- Requests federal budget authority for a three-year $1.725 million federal Administration on Aging grant. The grant will fund a new Empowering Older Adults and Adults with Disabilities through Chronic Disease Self-Management Education (CDSME) grant project. CDA states that it has partnered with the Department of Public Health (DPH) to expand the availability of the Chronic Disease Self-Management Program (CDSMP) and Diabetes Self-Management Program (DSMP) to ten counties. This funding will make it possible to expand CDSMP and DSMP programs to both seniors and adults with disabilities who are low income, ethnically diverse, limited/non-English speaking, Medi-Cal eligible, and/or veterans to improve their health and reduce health care expenditures.

- Requests a $3.618 million increase in reimbursement authority (over three state fiscal years) and a two-year limited-term Aging Program Analyst II to support nutrition education and obesity prevention activities targeted to low-income adults aged 60 and older. Reimbursements will be received from the federal Supplemental Nutrition Assistance Program Nutrition Education and Obesity Prevention (SNAP-Ed) Grant via an interagency agreement with DSS. CDA will administer grant activities and distribute funding for SNAP-Ed interventions through the statewide network of local AAAs. No state match is required for this grant.

- Requests additional reimbursement authority of $106,000 and a six-month extension of limited-term position authority for one Staff Services Manager through December 31, 2013 to complete grant activities for the New Freedom Transportation project. In 2010-11, California Department of Transportation (CalTrans) awarded a two-year $400,000 New Freedom Transportation grant to the CDA. CDA's goal is to work with AAAs and other state and local stakeholders to help establish local mobility management and coordination programs that can make the most efficient use of local transportation resources on an ongoing basis. This would ultimately increase access to essential transportation services for older adults and adults with disabilities.

- Relatedly, the California Senior Legislature (CSL) requests $100,000 California Fund for Senior Citizens and one two-year limited term Office Technician to perform clerical duties in support of core program activities. The increased capacity of the organization will enable staff to develop funding opportunities in the interest of obtaining stability for the California Fund for Senior Citizens.

DEPARTMENT OF COMMUNITY SERVICES AND DEVELOPMENT

Department Description

The mission of the Department of Community Services and Development (CSD) is to administer and enhance energy and community services programs that result in an improved quality of life and greater self-sufficiency for low-income Californians.

Overview of Department's Major Areas

Energy Programs. The Energy Programs assist low-income households in meeting their immediate and long-term home energy needs through financial assistance, energy conservation, and weatherization services.

- The Low-Income Home Energy Assistance Program (LIHEAP) provides financial assistance to eligible households to offset the costs of heating and/or cooling dwellings, payments for weather-related or energy-related emergencies, and free weatherization services to improve the energy efficiency of homes. This program may include a leveraging incentive program in which supplementary LIHEAP funds can be obtained by LIHEAP grantees if non-federal leveraged home energy resources are used along with LIHEAP weatherization related services.

- The federal Department of Energy Weatherization Assistance Program provides weatherization related services, while safeguarding the health and safety of the household.

- The Lead Hazard Control Program provides for the abatement of lead paint in low-income privately owned housing with young children.

Community Services. The Community Services Block Grant Program is designed to provide a range of services to assist low-income people in attaining the skills, knowledge, and motivation necessary to achieve self-sufficiency. The program also provides low-income people with immediate life necessities such as food, shelter, and health care. In addition, services are provided to local communities for the revitalization of low-income communities, the reduction of poverty, and to help provider agencies to build capacity and develop linkages to other service providers.

Fiscal Overview:

Fund Source	2011-12 Actual	2012-13 Projected	2013-14 Proposed	BY to CY Change	% Change
Federal Trust Fund	$251,663	$261,951	$261,899	(52)	0%
Total Expenditures	**$251,663**	**$261,951**	**$261,899**	**(52)**	**0%**
Positions	97.3	107.4	111.4	4	4%

Major Provisions

The Governor's Budget proposes the following for 2013-14 for CSD:

- Requests position authority for four new permanent positions for the Utility Assistance Call Center, to be paid utilizing federal funds. The requested positions will replace eight Retired Annuitants who are currently handling the workload, and no additional funding will be requested to support the Department's mission to serve the low-income population. The expected workload includes providing call center services to the public such a program information requests, complaint calls, requests for appeals, status on benefit payments, benefit payment reissuance, and service referrals to local administrators of energy programs.

The Assembly will request, as part of the Budget Committee's usual oversight function that CSD present at a public hearing on its budget generally and communities and consumers served.

DEPARTMENT OF REHABILITATION

Department Description
The California Department of Rehabilitation works in partnership with consumers and other stakeholders to provide services and advocacy resulting in employment, independent living, and equality for individuals with disabilities.

Overview of Department's Major Areas

Vocational Rehabilitation. The Vocational Rehabilitation Services Program delivers vocational rehabilitation services to persons with disabilities through vocational rehabilitation professionals in district and branch offices located throughout the state. In addition, the Department has cooperative agreements with state and local agencies (education, mental health, and welfare) to provide unique and collaborative services to consumers. The Department operates under a federal Order of Selection process, which gives priority to persons with the most significant disabilities.

Persons with disabilities who are eligible for the Department's vocational rehabilitation services may be provided a full range of services, including vocational assessment, assistive technology, vocational and educational training, job placement, and independent living skills training to maximize their ability to live and work independently within their communities.

The Department also provides comprehensive training and supervision to enable persons who are blind or visually impaired to support themselves in the operation of vending stands, snack bars, and cafeterias. Prevocational services are provided by the Orientation Center for the Blind to newly blind adults to prepare them for vocational rehabilitation services and independent living.

The Department also works with public and private organizations to develop and improve community-based vocational rehabilitation services for the Department's consumers. The Department sets standards, certifies Community Rehabilitation Programs, and establishes fees for services provided to its consumers.

Independent Living Services. The Department funds, administers, and supports 29 non-profit independent living centers in communities located throughout California. Each independent living center provides services necessary to assist consumers to live independently and be productive in their communities. Core services consist of information and referral, peer counseling, benefits advocacy, independent living skills development, housing assistance, personal assistance services, and personal and systems change advocacy.

The Department also administers and supports the Traumatic Brain Injury (TBI) Program. In coordination with consumers and their families, seven service providers throughout California provide a coordinated post-acute care service model for persons with TBI, including supported living, community reintegration, and vocational supportive services.

The Department also serves blind and deaf-blind persons through counselor-teacher services, purchase of reader services, and community-based projects to serve the elderly blind.

Fiscal Overview:

Fund Source	2011-12 Actual	2012-13 Projected	2013-14 Proposed	BY to CY Change	% Change
General Fund	$54,527	$55,266	$56,566	1,300	2%
Traumatic Brain Injury Fund	1,062	1,132	1,002	(130)	-11%
Vending Stand Fund	681	3,361	2,361	(1,000)	-30%
Federal Trust Fund	309,216	351,168	346,672	(4,496)	-1%
Reimbursements	5,758	7,680	7,680	0	0%
Total Expenditures	**$371,244**	**$418,607**	**$414,281**	**(4,326)**	**-1%**
Positions	1,717.7	1,823.0	1,823.0	0	0%

Budget Context

As part of the 2012-13 Budget, the following actions were taken in the DOR area:

- Modified the proposed trailer bill language that effectuated a change in appeals processes from hearings by the Rehabilitation Appeals Board to hearings by independent hearing officers in order to establish additional safeguards of the due process rights and needs of appellants (including unrepresented parties).

- Rejected the proposed elimination of the Orientation Center for the Blind Trust Fund Committee.

Major Provisions

There are no major issues in DOR in the 2013-14 Governor's Budget. The Assembly, as part of the Budget Committee's usual oversight function, will ask DOR to present at a public hearing on its budget generally, and to be prepared to address communities and consumers served by its programs.

DEPARTMENT OF CHILD SUPPORT SERVICES

Department Description

The mission of the California Child Support Program is to enhance the well-being of children and the self-sufficiency of families by providing professional services to locate parents, establish paternity, and establish and enforce orders for financial and medical support.

The Child Support Program is committed to ensuring that California's children are given every opportunity to obtain financial and medical support from their parents in a fair and consistent manner throughout the state. The Child Support Program is committed to providing the highest quality services and collection activities in the most efficient and effective manner.

Overview of Department's Major Areas

The Department of Child Support Services (DCSS) is the single state agency designated to administer the federal Title IV-D state plan. The Department is responsible for providing statewide leadership to ensure that all functions necessary to establish, collect, and distribute child support in California, including securing child and spousal support, medical support and determining paternity, are effectively and efficiently implemented. Eligibility for California's funding under the Temporary Assistance to Needy Families (TANF) Block Grant is contingent upon continuously providing these federally required child support services. Furthermore, the Child Support Program operates using clearly delineated federal performance measures, with minimum standards prescribing acceptable performance levels necessary for receipt of federal incentive funding. The objective of the Child Support Program is to provide an effective system for encouraging and, when necessary, enforcing parental responsibilities by establishing paternity for children, establishing court orders for financial and medical support, and enforcing those orders.

Child Support Administration. The Child Support Administration program is funded from federal and state funds. The Child Support Administration expenditures are comprised of local staff salaries, local staff benefits, and operating expenses and equipment. The federal government funds 66 percent and the state funds 34 percent of the Child Support Program costs. In addition, the Child Support Program earns federal incentive funds based on the state's performance in five federal performance measures. Revenue Stabilization funds ($18.7 million ($6.4 million General Fund) annually) have been provided to Local Child Support Agencies (LCSAs) to retain caseworker staff in order to maintain child support collections. A report on the workforce retention and associate collections associated with this augmentation is provided to the Legislature every January with the Governor's Budget.

Child Support Automation. Federal law mandates that each state create a single statewide child support automation system that meets federal certification. There are two components of the statewide system. The first is the Child Support Enforcement (CSE) system and the second is the State Disbursement Unit (SDU). The CSE component contains tools to manage the accounts of child support recipients and to locate and intercept assets from non-custodial parents who are delinquent in their child support payments. In addition, it funds the local electronic data processing maintenance and operation costs. The SDU provides services to collect child support payments from non-custodial parents and to disburse these payments to custodial parties.

FFY 2012 – Federal Performance Measures.

- **Statewide Paternity Establishment Percentage (PEP)** for California measured 101.6 percent for Federal Fiscal Year (FFY) 2012. California's performance decreased in this measure by 5.4 percentage points from FFY 2011 to FFY 2012. Since FFY 2000, Statewide PEP has been above 100 percent. The PEP measures the total number of children born out-of-wedlock for whom paternity was acknowledged or established in the fiscal year compared to the total number of children in the state born out-of-wedlock during the preceding fiscal year, expressed as a percentage.

- **IV-D Paternity Establishment Percentage** for California measured 98.4 percent for IV-D PEP in FFY 2012. California's performance increased in this measure by 6.2 percentage points from FFY 2011 to FFY 2012. The IV-D PEP measures the total number of children in the IV-D, or Child Support, caseload in the fiscal year who have been born out-of-wedlock for whom paternity has been established, compared to the total number of children in the IV-D caseload as of the end of the preceding fiscal year, expressed as a percentage.

- **Cases with Support Orders Established** for California measured 87.9 percent for FFY 2012. California's performance increased in this measure by 2.1 percentage points from FFY 2011 to FFY 2012. This data element measures cases with support orders as compared with the total caseload. Support orders are broadly defined as all legally enforceable orders, including orders for medical support only, and zero support orders, expressed as a percentage.

- **Collections on Current Support** for California measured 61.4 percent for FFY 2012. California's performance increased in this measure by 2.8 percentage points from FFY 2011 to FFY 2012. This performance standard measures the amount of current support collected as compared to the total amount of current support owed, expressed as a percentage.

- **Cases with Collections on Arrears** for California measured 63.5 percent for FFY 2012. California's performance increased in this measure by 1.9 percentage points from FFY 2011 to FFY 2012. This performance standard measures the number of cases with child support arrearage collections as compared with the number of cases owing arrearages during the federal fiscal year, expressed as a percentage.

- **Cost Effectiveness** for California measured $2.47 for FFY 2012. California's performance increased in this measure by $0.18 from FFY 2011 to FFY 2012. This measure compares the total amount of distributed collections to the total amount of expenditures for the fiscal year, expressed as distributed collections per dollar of expenditure.

Fiscal Overview:

Fund Source	2011-12 Actual	2012-13 Projected	2013-14 Proposed	BY to CY Change	% Change
General Fund	$306,590	$307,061	$312,910	5,849	2%
Federal Trust Fund	407,421	468,518	482,136	13,618	3%
Reimbursements	179	123	123	0	0%
Child Support Collections Recovery Fund	202,787	203,869	202,220	(1,649)	-1%
Total Expenditures	**$916,977**	**$979,571**	**$997,389**	**17,818**	**2%**
Positions	491.5	593.5	593.5	0	0%

Budget Context

As part of the 2012-13 Budget, the following actions were taken in the Child Support Services area:

- Approved the entire non-federal portion of child support collections to provide a $31.9 million benefit, on a one-time basis, to the General Fund. Also, adopted trailer bill language to provide authority for temporary suspension of specified collections.

- Reduced funding for Local Child Support Agencies by $14.7 million ($5.0 million General Fund) and incorporated Budget Bill Language to ensure that, to the extent practicable, the reduction in local child support agencies will not result in a reduction to casework staffing levels.

- Denied Governor's request to modify state hearing requirements for the Department of Child Support Services.

- Adopted trailer bill language to allow for the continued suspension of payments related to health insurance and performance incentives to Local Child Support Agencies. This continues the policy followed over past budget year.

- Adopted trailer bill language to provide the Department of Child Support Services with the authority to invest non-negotiated funds in an investment account. The department holds funds for the child support payments it has disbursed to the participants of the child support program until such time as they are negotiated. The non-negotiated child support payments are held in an Investment Sweep Account (ISA) outside the state treasury.

Major Provisions

The Governor's Budget does not appear to propose another one-time suspension of the county share of child support collections in 2013-14.

While there are no major issues in DCSS in the 2013-14 Governor's Budget, the Assembly, as part of the Budget Committee's usual oversight function, will ask DCSS to present at a public hearing on its budget generally, and to be prepared to address communities and consumers served by its programs.

HEALTH AND HUMAN SERVICE AGENCY

Description of Agency

The primary mission of the Health and Human Services Agency (HHSA) is to provide policy leadership and direction to the departments, board and programs it oversees, to reduce duplication and fragmentation among HHSA departments in policy development and implementation, to improve coordination among departments on common programs, to ensure programmatic integrity, and to advance the Governor's priorities on health and human services issues.

The HHSA accomplishes its mission through the administration and coordination of state and federal programs for public health, health care services, social services, public assistance, health planning and licensing, and rehabilitation. These programs touch the lives of millions of California's most needy and vulnerable residents. The HHSA is committed to striking a balance between the twin imperatives of maintaining access to essential health and human services for California's most disadvantaged and at-risk residents while constantly pursuing ways to better manage and control costs.

The following departments and entities, all of which are discussed in this report, fall under the purview of the HHSA:

- Department of Aging
- Department of Child Support Services
- Department of Community Services and Development
- Department of Developmental Services
- Emergency Medical Services Authority
- Department of Health Care Services
- Department of Public Health
- Department of Rehabilitation
- Department of Social Services
- Department of State Hospitals
- Office of Statewide Health Planning and Development
- Managed Risk Medical Insurance Board

Fiscal Overview:

Fund Source	2011-12 Actual	2012-13 Projected	2013-14 Proposed	BY to CY Change	% Change
General Fund	$2,176	$2,981	$3,112	131	4%
Federal Trust Fund	797	2,585	2,079	(506)	-20%
Reimbursements	2,857	2,958	3,099	141	5%
Internal Health Information Integrity Quality Improvement Account	-	25	25	0	0%
California Health Information Technology and Exchange Fund	10,486	10,500	9,881	(619)	-6%
Office of Patient Advocate Trust Fund	-	2,477	2,526	49	2%
Office of Systems Integration Fund	116,418	337,336	0	(337,336)	-
Central Service Cost Recovery Fund	835	839	819	(20)	-2%
California Health and Human Services Automation Fund	-	0	309,622	309,622	100%
Total Expenditures	**$133,569**	**$359,701**	**$331,163**	**(28,538)**	**-8%**
Positions	184.4	242.3	244.9	2.6	1.07%

OFFICE OF SYSTEMS INTEGRATION

Description of Office

The Office of System Integration's (OSI's) mission is to procure, manage, and deliver technology systems that support the delivery of health and human services to Californians.

In 2005, the Office of Systems Integration (OSI) was established to manage a portfolio of large, complex health and human services information technology projects. The OSI provides project management, oversight, procurement, and support services for a multi-billion dollar portfolio of high criticality projects.

In this capacity, OSI coordinates communication, collaboration, and decision making among project stakeholders and program-side sponsors of the projects. OSI manages the procurement, contract negotiations, and contract management aspects of the acquisition of technology systems and services. After the procurement phase, OSI oversees the design, development, governance and implementation of IT systems, which serve health and human services programs.

Since its inception, OSI has developed a track record of successfully managing and deploying large, complex, mission critical systems to support health and human services programs at the state, federal and local level.

Overview of Department's Major Areas

This Office provides project management services for automation projects for the Department of Social Services, and for the Employment Development Department, including:

- Child Welfare Services/Case Management System
- Statewide Automated Welfare System
- Statewide Fingerprint Imaging System
- Electronic Benefit Transfer System
- Case Management, Information and Payrolling System
- Unemployment Insurance Modernization Project

Budget Context

As part of the 2012-13 Budget, the following took place for projects under the purview of OSI and the Department of Social Services.

- **CalHEERS.** Approved modified trailer bill language to give OSI authority to provide project management for the California Healthcare Eligibility, Enrollment and Retention System (CalHEERS) project, and approved 16 positions for this function. Adopted related, modified budget bill language to allow expenditures of funds upon notification to the Legislature and submittal of plan identifying necessary system changes. Further, adopted budget bill language to allow the Director of Finance to augment the Department of Social Services' budget by up to $18 million, after providing notification to the Legislature, to address information technology changes needed to implement the Affordable Care Act (federal health care reform).

- **SAWS.** Approved an unallocated reduction of $5 million General Fund to the Statewide Automated Welfare System (SAWS), but as a one-year extension of the reduction from 2011-12 through 2012-13, rather than a permanent change as proposed by the Governor.

- **LEADER Replacement System.** Approved approximately $23.5 million General Fund and corresponding federal funds for 2012-13 development work related to the LEADER Replacement System (LRS) within SAWS. This was $4.7 million General Fund less than the Governor proposed because of an anticipated delay in project work at the beginning of the fiscal year. Additionally, adopted a requirement for a cost reasonableness assessment to be conducted with respect to costs proposed by the vendor for migrating the existing C-IV consortia system into the new LRS system. Further, adopted supplemental reporting language directing the Administration to conduct regularly scheduled briefings with legislative staff, and to offer updates during budget Subcommittee hearings, as these efforts continue. Finally, repealed outdated trailer bill language regarding eligibility system streamlining from 2009 (in Chapter 7 of that year's statutes).

- **CWS/CMS.** Approved $2.5 million ($1.2 million General Fund) in 2012-13 funding for replacement of the existing Child Welfare Services/Case Management System (CWS/CMS) system. Further, adopted trailer bill language to specify that this funding shall be used to implement the recommendation of the Child Welfare Automation Study Team to proceed toward procuring a new system with a buy/build strategy, as described in the team's report to the Legislature.

- **CMIPS II.** Adopted supplemental reporting language requiring OSI to report to the budget committees of the Legislature by February 1, 2013 regarding specified information related to delays in development of the Case Management, Information & Payrolling System (CMIPS) II during the 2011-12 budget year.

Major Provisions

The Governor's Budget proposes the following for 2013-14 for OSI:

- **CalHEERS Project**. Requests an increase in OSI reimbursement authority to the California Health and Human Services Automation Fund in 2013-14 of $115,356,396 for the Development and Implementation (D&I) and Operation and Maintenance (O&M) of the California Healthcare Eligibility, Enrollment, and Retention System (CalHEERS) Project. California was the first state in the nation to enact legislation creating a health benefit exchange under federal health care reform (the Affordable Care Act, or ACA). The California Health Benefit Exchange (HBEx) will help California consumers and small businesses shop for and buy competitive health insurance starting in 2014. The HBEx has established the CalHEERS Project to develop an automated solution to meet the requirements of the ACA. OSI will be responsible for the project management/support activities for CalHEERS, and will also be responsible for handling payment for these activities.

- **Child Welfare Services.** New System (CWS-NS) Project. Requests resources to initiate the Child Welfare Services – New System (CWS-NS) Project as detailed in the submitted Feasibility Study Report (FSR). The proposal requests $2.7 million in DSS Local Assistance and OSI expenditure authority for eight positions (all two-year limited term), associated Operating Expense and Equipment (OE&E), and contract services to initiate the planning and procurement phase for replacing the existing Child Welfare System/Case Management System (CWS/CMS).

NATURAL RESOURCE, ENERGY AND ENVIRONMENTAL PROTECTION

This section discusses significant budget issues within the California Environmental Protection Agency (Cal/EPA), the Natural Resources Agency, and the California Public Utilities Commission (CPUC). The Cal/EPA is charged with developing, implementing and enforcing the state's environmental protection laws that ensure clean air, clean water, clean soil, safe pesticides and waste recycling and reduction. The mission of the Natural Resources Agency is to restore, protect, and manage the state's natural, historical and cultural resources for current and future generations. The CPUC regulates privately owned electric, natural gas, telecommunications, water, railroad, rail transit, and passenger transportation companies. The bullets below provide a highlight of this section, while a more detailed description of the programs and issues follow:

- Following a tumultuous year of scandal at the Department of Parks and Recreation (DPR) and subsequent review of all the state's special funds, the Administration appears to be taking stock of the numerous audit recommendations for DPR and the California Public Utilities Commission (CPUC). Some of the proposals to clean house at DPR are underway, while others will be unveiled later this spring.

- In the realm of energy and environmental protection, the two current major proposals are the implementation of Proposition 39 (Prop. 39) and the cap and trade expenditure plan. The Governor's Prop. 39 proposal for allocating these funds differs from the initiative proposal approved by voters in November. There are numerous legislative proposals regarding the expenditure of these funds as well. With regard to cap and trade auction revenues, the Governor's Budget proposes expenditure authority of $400 million in 2013-14 and adjusts down current year expenditures to $200 million to reflect lower than expected revenues from the cap and trade auctions. While the Budget suggests that the first expenditure plan will prioritize programs in the transportation, electricity and commercial/residential energy areas, as well as the water sector, the three-year investment plan will be revealed in the May Revision.

Proposition 39

Proposition 39, passed by the voters in November 2012, requires most multistate businesses to determine their California taxable income using a single sales factor method, which has the effect of increasing state corporate tax revenue. Prop 39 also requires that half of the annual revenue raised from the measure (up to $550 million) be transferred to a new Clean Energy Job Creation Fund, to support projects intended to improve energy efficiency and expand the use of alternative energy. The Governor's Budget allocates all Proposition 39 Clean Energy Job Creation Fund revenues ($450 million in 2013-14 and $550 million in each of the next four years) to schools and community colleges.

The Administration proposes to allocate this funding on a per-student basis, with school districts and community colleges receiving $67 and $45 per student, respectively. Further, the Governor 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 CEC and the CPUC 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.

This proposal differs substantially from the language of Proposition 39 with regard to the allocation of funding. The initiative states that the fund could be used to support: energy efficiency retrofits and alternative energy projects in public schools, colleges, universities, and other public facilities; financial and technical assistance for energy retrofits; and job training and workforce development programs related to energy efficiency and alternative energy. It directs the Legislature to determine spending from the fund and be required to use the monies for cost-effective projects run by agencies with expertise in managing energy projects. The measure also specifies that all funded projects must be coordinated with CEC and CPUC and creates a new nine-member oversight board to annually review and evaluate spending from the fund.

The Legislative Analyst's Office (LAO) has raised several concerns about the Governor's proposal. The LAO's analysis of Prop. 39, which was included in the voter pamphlet guide, found that revenue raised by the Proposition should be excluded from the Prop. 98 calculation. This issue will be examined by the Assembly Budget Subcommittee No. 2, on Education Finance.

The LAO is also concerned that the exclusive focus on school and college facilities are unlikely to maximize energy and job benefits. Further, the LAO contends that the plan to distribute funding among districts based on a per-student basis does not take into account the greatest need for these benefits. These and other similar issues will be the focus of discussion in the Assembly Budget Subcommittee No. 3, on Resources and Transportation.

Cap and Trade Revenues Proposal

The goal of the State's climate plan is to reduce Green House Gas (GHG) emissions to 1990 levels by the end of this decade. The Cap and Trade program is a key element in this plan. It sets a statewide limit on the sources of greenhouse gases and establishes a financial incentive for long-term investments in cleaner fuels and more efficient energy use. As part of its program, the Air Resources Board (ARB) will give free allowances to the State's large industrial emitters as well as the State's electric utilities in order to reduce the economic impact of the Cap and Trade program.

In November 2012, the ARB conducted its first auction of GHG emission allowances as part of a market-based compliance mechanism. The auction resulted in $55.8 million in proceeds to the state and $233 million directly to investor-owned utilities. Two more auctions are proposed in February and May of this year. This is significantly less than the $1 billion in cap and trade revenues anticipated in Governor's proposed 2012-13 budget.

The 2012-13 enacted budget authorized $500 million be used to offset existing General Fund costs of GHG mitigation activities. This year, the Governor's Budget proposes expenditure authority of $400 million in 2013-14 and adjusts down current year expenditures to $200 million. This reflects recognition of an initial over-estimation of revenues from the auction of cap and trade allowances.

In order to comply with AB 1532 (Perez), Chapter 807, Statutes of 2012, DOF must provide a three-year investment plan for auction proceeds in the May Revision per (AB 1532). Further, SB 535 (De Leon), Chapter 830, Statutes of 2012, requires the investment plan allocate a minimum of 25 percent of the available moneys in the fund to projects that provide benefits to identified disadvantaged communities and a minimum of 10 percent of the available moneys in the fund to projects *located within* identified disadvantaged communities.

According to the Administration, the first expenditure 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. The Governor's Budget proposes that an expenditure plan for $300 million in

General Fund offsets will be provided to the Joint Legislative Budget Committee, at the discretion of the ARB and DOF, 60 days prior to appropriation. Thus, the three-year investment plan anticipated in the May Revision will only pertain to the expenditure of approximately $100 million in non-General Fund revenue.

Audits of Parks

In May 2011, the Department of Parks and Recreation (DPR) announced that, effective July 1, 2012, it would be permanently closing 70 state parks that it could no longer afford to operate as a result of reductions in ongoing General Fund support to the Department. The Legislature that year passed legislation authorizing the Department to enter into operating agreements with nonprofit organizations to help keep some of the parks open. In 2012, the Department negotiated operating agreements and solicited donations from private groups and individuals to keep the parks from closing.

On July 15, 2012, the Sacramento Bee reported that a high-ranking official at the DPR had carried out a secret vacation buy-back program during 2011 for himself and other headquarters staff. Shortly after, the California Natural Resources Agency announced that the DPR had not reported $20.5 million in the State Parks and Recreation Fund and $34 million in the Off-Highway Vehicle Trust Fund to the Department of Finance (DOF). These revelations lead the DOF, the State Controller's Office (SCO), the Attorney General, and the Bureau of State Audits (BSA) to launch four separate investigations into activities at DPR.

Further, the Legislature moved quickly to adopt legislation AB 1478 (Blumenfield), Chapter 530, Statutes of 2012 to put a moratorium on park closures for two years, provide matching funds for park donors and local agreements, as well as funding for audits and investigations at the department. Three of the four audits are now complete. The BSA's audit is expected out in February 2013. A brief summary of the key findings are discussed below. All three audits were complete in December 2012.

- **California Department of Justice/Attorney General (AG) Investigation.** The Attorney General's investigation found no evidence of intentional or systematic failure to disclose Off Highway Vehicle (OHV) fund monies to the DOF, including the $34 million described as having been under-reported to the DOF at the close of fiscal year 2010-11. However, it did find "systematic non-disclosure to the DOF of millions in State Parks and Recreation Fund (SPRF) monies for the past 15 years." While evidence indicates the disparity in SPRF year-end balance reports began and grew unintentionally during a challenging financial tracking and budgeting period from 1995 to 2003, "it is clear, that by no later than 2003, the failure to accurately report all SPRF monies to the DOF became conscious and deliberate. The primary reason consistently given for not doing so was fear that the Department would see its already-reduced general funding cut further if the extra monies in the SPRF were revealed."

  "Ultimately, there is no indication the funds were ever expended. Because they were not reported to the DOF, the monies seem to have represented an essentially useless reserve that could not be spent by the Parks Department as there was no legislative appropriation to do so." With better internal management and oversight, and increased coordination and sharing of financial information among control agencies as now legislatively mandated, the Attorney General investigation concludes that a repeat of any such non-disclosures should be less likely.

- **State Controller's Office Payroll Investigation**. The State Controller's Office (SCO) audit identified "internal control weaknesses that create a risk of abuse and fraud involving out-of-class (OOC) assignment pay. It also identified payroll practices that were not in accordance with DPR and State policies and procedures that resulted in overpayments to state employees."

  The review revealed that the DPR has sufficient policies and procedures in place for day-to-day accounting of employee time and leave. However, similar to the leave buy-back program, SCO identified potentially abusive practices and internal control weaknesses involving OOC pay assignments. An OOC assignment is defined as an employee who is temporarily assigned to perform duties of a position in a higher salary classification. "As with the leave buy-back program, the problems with out-of-class assignments resulted from management overriding controls, lack of proper support documentation, and management not following State personnel and payroll procedures."

- **Department of Finance Office of State Audits and Evaluations (OSAE).** The Department of Finance (DOF) audit found the governance structure over budgeting functions needs improvement, risks over State Park Contingent Fund exist, and key controls over procurement activities need improvement. DPR has concurred with these findings and the Governor has appointed a new Director to oversee the implementation of the necessary changes in each area.

A Legislative oversight hearing in February will likely convene, when the BSA audits is completed, to examine all the audit findings in depth and to provide members the opportunity to learn of DPR's progress in meeting its many challenges toward restoring credibility and public confidence.

Audit of Public Utilities Commission

As a result of the special fund discrepancies found at the DPR (discussed above), the Governor directed the DOF to conduct a review of all the state's over 500 special funds. This review revealed variances greater than $1 million for seven of the funds the California Public Utilities Commission (CPUC) administers. The CPUC oversees 14 special funds, which collect surcharges that exist on gas, electric and telephone bills. This money is used for such things as subsidies for low-income natural gas customers and telephone services for deaf and disabled individuals. While some of the variances were attributable to methodology, timing, and human error, a significant portion were unexplainable. As a result, DOF launched an audit of CPUC's budgeting practices and procedures.

DOF's audit found "widespread weaknesses within CPUC's budget operations which compromise its ability to prepare and present reliable and accurate budget information." For example, in June 2011, the CPUC mistakenly reported to Legislators and the Department of Finance that $422 million existed that was not actually available in seven fee-supported funds, according to the report. Finance auditors believe that inexperience and understaffing were to blame, observing "general confusion and lack of knowledge" within the CPUC budget office.

The CPUC has formally stated that it agrees with nearly all of the findings and has communicated to auditors that it is working on correcting problems. The Governor has submitted a budget proposal to fund three new budget positions at the CPUC. A Legislative oversight hearing on this matter appears warranted.

Logging Oversight
Last year, as part of the 2012-13 Budget, the Legislature enacted AB 1492 (Committee on Budget), Chapter 289, Statutes of 2012 to improve the state's timber harvest review process through sustainable funding and administrative streamlining. Specifically, AB 1492 reformed wildfire liability damages, extended the life of timber harvest plans (THPs), and established a one percent assessment on lumber and other wood building products sold in California. The bill requires the assessment revenue be used to fund specified activities, including existing and additional THP reviews and forest restoration. Further, the legislation allowed the elimination of regulatory fees that had been assessed on in-state timber producers.

The Governor's Budget proposes to implement AB 1492 by increases of $6.6 million (Timber Regulation and Forest Restoration Fund) and 49 positions distributed between the five state agencies responsible for timber harvest review (i.e., 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). Funds are to be used to support the costs of the departments associated with the review, inspection, and issuance of permits to conduct timber operations. Corresponding fees will be reduced by $511,000 in the State Water Resources Control Board to reflect the assessment.

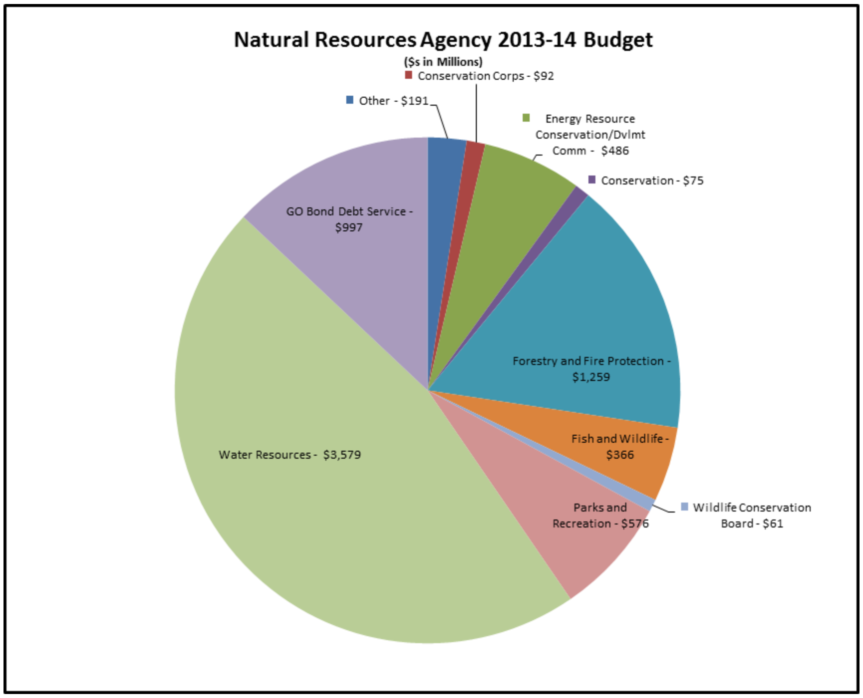
Delta Plan
The Delta Stewardship Council will formally adopt its Delta Plan in the spring of 2013. The resources necessary to oversee and implement the Plan will be evaluated during the spring budget process. The Delta Stewardship Council furthers the state’s coequal goals in the Sacramento-San Joaquin Delta of providing a more reliable water supply for California and protecting, restoring, and enhancing the Delta ecosystem. The Council is required to develop and periodically update a legally enforceable Delta Plan to guide state and local agency activities related to the Delta.

In the Governor's State of the State Address, he stated that his "proposed plan for the Delta is two tunnels, 30 miles long and 40 feet wide, designed to improve the ecology of the Delta, with almost 100 square miles of habitat restoration." Further, he estimated that the cost of the project to be around $14 billion.

Other Proposals
The Governor's Budget Summary mentioned several major proposals it plans to release in the spring related to the overhaul and adjustment of fee programs in the environmental protection area. These proposals include safe drinking water efficiencies, and the reform of the Hazardous Waste Control Account and the Beverage Container Recycling Fund.

RESOURCES AGENCY

The mission of the Resources Agency is to restore, protect, and manage the State's natural, historical and cultural resources for current and future generations using creative approaches and solutions based on science, collaboration, and respect for all involved communities. The Secretary for Resources, a member of the Governor's Cabinet, sets the policies and coordinates the environmental preservation and restoration activities of 26 various departments, boards, commissions, and conservancies.



The Governor's Budget proposes $7.7 billion ($2.1 billion General Fund) and 19,125 positions in total spending for the various entities within the Resources Agency. Total proposed state expenditures equal $4.4 billion. This represents approximately 3.1 percent of the state budget.

DEPARTMENT OF FORESTRY AND FIRE PREVENTION

The California Department of Forestry and Fire Protection's (CAL FIRE) mission is to serve and safeguard the people and protect the property and resources of California. CAL FIRE provides all hazard emergency - fire, medical, rescue and disaster - response to the public. The Department provides resources management and wild land fire protection services covering over 31 million acres of the State. It operates 228 fire stations and, on average, responds to over 5,600 wildfires annually. The Department also performs the functions of a local fire department through reimbursement agreements with local governments. The state contracts with local entities in six areas to provide fire protection and prevention services.

The Governor's total budget includes $1.3 billion ($678.7 million General Fund) and 6,885.7 positions for the Department. Increases in funding for the State Responsibility Area (SRA) Fire Prevention Fund are due to two budget proposals discussed below (SRA Fire Prevention Fees and Civil Cost Recovery Program).

Fund Source	2011-12 Actual	2012-13 Projected	2013-14 Proposed	BY to CY Change	% Change
General Fund	**$649,555**	**$765,480**	**$678,738**	**($86,742)**	**(11%)**
State Responsibility Area Fire Prevention Fund	50,000	47,836	64,642	16,806	35%
Other	332,330	401,313	421,836	20,523	5%
Total Expenditure	**$1,031,885**	**$1,214,629**	**$1,165,216**	**($49,413)**	**(4%)**
Positions	5,767.90	6,749.40	6,885.70	136	2%

Key Provisions

- **State Responsibility Area Fire Prevention Fees**. The Governor's Budget proposes an increase of $11.7 million and 65.1 positions in 2013-14 to implement the provisions of SB 1241 (Kehoe), Chapter 311, Statutes of 2012 and engage in other fire prevention activities. The Department will assist in the review and updating of safety elements pertaining to fire hazards in local general plans required by SB 1241. In addition, funding is proposed to meet the demand for fuel treatment through the Vegetation Management Program, and educate homeowners on ways to prevent the ignition and spread of fires by hiring seasonal defensible space inspectors.

- **Local Government Cooperative Agreement Reimbursement Authority**. The Governor's Budget requests $41,254,000 in reimbursements and 283.5 in position authority related to providing fire protection services to the cities of Colton, Jurupa Valley, Morgan Hill, Norco, and Soledad; towns of Paradise and Tiburon; San Miguel Fire Protection District; Groveland Community Services District; and County of Riverside for an expanded scope.

- **Civil Cost-Recovery Program**. The Governor's Budget seeks permanent funding of $1,747,000 (State Responsibility Area Fire Prevention Fund) to make permanent 10 positions for the Civil Cost-Recovery Program that expire on June 30, 2013.

DEPARTMENT OF PARKS AND RECREATION

The Department of Parks and Recreation (DPR) operates the state park system to preserve and protect the state's most valued natural, cultural, and historical resources. The park system includes 280 parks, beaches, trails, wildlife areas, open spaces, off-highway vehicle areas, and historic sites. It consists of approximately 1.56 million acres, including over 315 miles of coastline, 974 miles of lake, reservoir and river frontage, approximately 15,000 campsites and alternative camping facilities, and 4,249 miles of non-motorized trails.

The Budget includes $576.3 million ($114.6 million General Fund) and 3,877.5 positions for the Department. Reductions in bond expenditures are due to the near depletion of available bond funds.

Fund Source	2011-12 Actual	2012-13 Projected	2013-14 Proposed	BY to CY Change	% Change
General Fund	**$121,219**	**$110,591**	**$114,552**	**$3,961**	**4%**
Off-Highway Vehicle Trust Fund	87,743	93,867	85,068	(8,799)	(9%)
State Parks & Recreation Fund	136,014	148,146	130,263	(17,883)	(12%)
State Parks Revenue Incentive Subaccount	-	15,340	15,340	0	0%
Bond Funds	255,309	275,452	17,131	(258,321)	(94%)
Other	53,972	131,445	125,244	(6,201)	(5%)
Total Expenditure	**$660,565**	**$779,694**	**$491,329**	**($288,365)**	**(37%)**
Positions	3,575.30	3,803.00	3,877.50	75	2%

Key Provisions

- **Audits of Parks.** As mentioned earlier, following a tumultuous year of scandal at the Department of Parks and Recreation (DPR), the Administration appears to be taking stock of the numerous audit recommendations for DPR. Some of the proposals to clean house at DPR are underway, while others will be unveiled later this spring. A Legislative oversight hearing in February will likely convene, when the BSA audit is completed, to examine the audit findings in depth and to provide members the opportunity to learn of DPR's progress in meeting its many challenges toward restoring credibility and public confidence.

- **Boating-Parks Merger.** Pursuant to Governor's Reorganization Plan No. 2, the Budget reflects the merger of the Department of Boating and Waterways into the Department of Parks and Recreation. Effective July 1, 2013, Boating will become a new division within Parks. The merger will result in permanent savings of $1.1 million and seven positions.

- **Americans with Disabilities Act.** The Governor's Budget proposes an increase of $3.7 million from Proposition 12 and Proposition 84 funds to fund additional projects to meet the requirements of the federal consent decree resulting from *Tucker v. California Department of Parks and Recreation*. The decree requires Parks to remove physical and programmatic barriers to provide equal access to people with disabilities in accordance with the ADA.

- **Goat Canyon Sediment Basin Maintenance.** The Governor's Budget requests $1,001,000 annually from the State Park and Recreation Fund to maintain Goat Canyon Sediment Basins, located on the international border of Mexico, at the Border Field State Park. The Basins protect one the nation's most significant wetland habitats, the Tijuana Estuary. The Tijuana Estuary is critically threatened by sedimentation and trash, coming primarily from Mexico.

DEPARTMENT OF FISH AND WILDLIFE

The mission of the Department of Fish and Wildlife (DFW) is to manage California's diverse fish, wildlife, and plant resources, and the habitats upon which they depend, for their ecological values and for their use and enjoyment by the public. This includes habitat protection and maintenance in a sufficient amount and quality to ensure the survival of all species and natural communities. The Department is also responsible for the diversified use of fish and wildlife including recreational, commercial, scientific, and educational uses.

The Budget includes $366.3 million ($62.7 million General Fund) and 2,527 positions for the Department. Decreases in federal and "other" funds are the result of DOF's effort to align reimbursements with historical expenditures. Reductions in bond expenditures are due to the near depletion of available bond funds.

Fund Source	2011-12 Actual	2012-13 Projected	2013-14 Proposed	BY to CY Change	% Change
General Fund	$61,136	$61,058	$62,683	$1,625	3%
Federal Funds	59,656	77,992	62,000	(15,992)	(21%)
Fish and Game Preservation Fund	97,697	113,135	110,082	(3,053)	(3%)
Bond Funds	23,110	83,572	19,731	(63,841)	(76%)
Other	112031	148,182	111799	(36,383)	(25%)
Total Expenditure	$353,630	$483,939	$366,295	($117,644)	(24%)
Positions	2,242.30	2,480.20	2,527.20	47	2%

Key Provisions

- **Salton Sea Restoration.** The Governor's Budget proposes an increase of $12.1 million from Proposition 84 funds dedicated to Salton Sea Restoration for the restoration of between 800 and 1,200 acres of habitat. The proposal will implement a pilot project to create habitat through the construction of ponds at sites where the sea bed is exposed because of evaporation. Because other sources of water for the Sea are being phased out, the pilot project is designed to demonstrate the feasibility of having the ponds permanently sustained solely with agricultural runoff. The proposal also requests reappropriation of funds to provide additional funding for the restoration project, which is estimated to cost approximately $28 million to complete. The Legislature approved $2 million in 2012 to fund a report detailing a cost-effective implementation plan for the Sea. The entire appropriation was vetoed by the Governor.

- **Interoperable Narrowband Radio Infrastructure Modernization (INRIM).** The Governor's Budget requests $1.5 million (Environmental License Plate Fund) to continue implementation and maintenance of the Department's INRIM project. The project will address the issues of substandard radio coverage and inadequate capacity and field patrol access to critical law enforcement data.

STATE LANDS COMMISSION

The Commission manages and protects California's sovereign public trust lands and other lands. These lands total more than 4.5 million acres, plus 790,000 acres of reserved mineral interests. The Budget includes $32.4 million and 229 positions for the Commission.

Fund Source	2011-12 Actual	2012-13 Projected	2013-14 Proposed	BY to CY Change	% Change
General Fund	**$9,138**	**$9,502**	**$10,405**	**$903**	**10%**
Oil Spill Prevention and Administration Fund	10,426	11,871	12,104	233	2%
Other	9,784	9,484	9,902	418	4%
Total Expenditure	**$29,348**	**$30,857**	**$32,411**	**$1,554**	**5%**
Positions	198.6	224	229	5	2%

Key Provision

- **Elimination of Rent-Free Use of State Property for Private Piers.** The Governor's Budget request $184,000 (General Fund) and two positions to eliminate the rent-free use of state property for private piers. Additional General Fund revenues are estimated at $2.2 million annually after a 10-year transition period. This request implements legislation, SB 152 (Pavley), Chapter 585, Statutes of 2011, which increased billable leases by more than 1300 leases for recreational piers over a ten-year period.

DEPARTMENT OF WATER RESOURCES

The Department of Water Resources protects conserves, develops, and manages California's water. The Department evaluates existing water resources, forecasts future water needs, and explores future potential solutions to meet ever-growing needs for personal use, irrigation, industry, recreation, power generation, and fish and wildlife. The Department also works to prevent and minimize flood damage, ensure the safety of dams, and educate the public about the importance of water and its proper use.

The Budget includes $3.5 billion (97.4 million General Fund) and 3,495 positions for support of the Department. Reductions in bond expenditures are due to the near depletion of available bond funds.

Fund Source	2011-12 Actual	2012-13 Projected	2013-14 Proposed	BY to CY Change	% Change
General Fund	**$89,614**	**$97,557**	**$97,426**	**($131)**	**0%**
Department of Water Resources Electric Power Fund	5,177,536	1,007,377	973,917	(33,460)	(3%)
Bond Funds	512,813	1,421,161	927,812	(493,349)	(35%)
Other	872807	1043770	1088718	44,948	4%
Total Expenditure	**$6,652,770**	**$3,569,865**	**$3,087,873**	**($481,992)**	**(14%)**
Positions	3,179.60	3,477.70	3,495.70	18	1%

Key Provisions

- **Lake Perris Dam Remediation**. The Governor's Budget requests $11.3 million from Proposition 84 funds to maximize operational and recreational facilities and remediate seismic and public safety concerns. Proposition 84 provides $54 million for recreation, fish and wildlife enhancement (RFWE) costs associated with the State Water Project. The total project cost is $286,650,000 of which the RFWE component is 32.2 percent, or $92,301,000. This request is for the first year of funding and includes 1,829,000 for 11.1 existing positions.

- **FloodSAFE Program**. The Governor's Budget requests $220 million in various bond funds to continue the FloodSAFE Program ($82,920,000 for the implementation of the flood management system and $138,030,000 for various ongoing flood control capital outlay projects). FloodSAFE is a long-term strategic initiative to reduce flood risk in California that is designed with the recognition that eliminating unacceptable risks of flood damage statewide will take decades.

- **Integrated Regional Water Management Program.** The Governor's Budget requests $476 million in bond funds to provide grants for the IRWM Program for projects to protect communities from drought, improve water quality, and reduce dependence on imported water.

DEPARTMENT OF CONSERVATION

The Department of Conservation (DOC) administers programs to preserve agricultural and open space lands, promote beverage container recycling, evaluate geology and seismology, and regulate mineral, oil, and gas development activities. The Budget includes $74.9 million and 475 positions for support of the Department.

As mentioned previous, as part of the 2012-13 Budget, the Legislature enacted AB 1492 (Committee on Budget), Chapter 289, Statutes of 2012 to improve the state's timber harvest review process through sustainable funding and administrative streamlining. Specifically, AB 1492 reformed wildfire liability damages, extended the life of timber harvest plans (THPs), and established a one percent assessment on lumber and other wood building products sold in California. The bill requires the assessment revenue be used to fund specified activities, including existing and additional THP reviews and forest restoration.

The General Fund decrease in DOC's budget is almost entirely due to the shift of THP review activities to the Timber Regulation and Forest Restoration Fund. The increase reflected in the "Other" fund category is due primarily to increased expenditures for THP activities ($1.7 million), and the budget proposal for abandoned mine remediation discussed below. Reductions in bond expenditures are due to the near depletion of available bond funds.

Fund Source	2011-12 Actual	2012-13 Projected	2013-14 Proposed	BY to CY Change	% Change
General Fund	**$4,411**	**$3,625**	**$2,883**	**($742)**	**(20%)**
Oil, Gas, and Geothermal Administrative Fund	27,643	34,278	35,375	1,097	3%
Bond Funds	37,135	48,832	1,853	(46,979)	(96%)
Other	23574	29627	34801	5,174	17%
Total Expenditure	**$92,763**	**$116,362**	**$74,912**	**($41,450)**	**(36%)**
Positions	394.6	473.9	475.9	2	0%

Key Provision

Abandoned Mine Remediation. The Governor's Budget requests a baseline appropriation increase of $500,000 to the Abandoned Mine Reclamation & Minerals Fund (AMRMF). This request identifies underutilized AMRMF revenue. Further, it would help backfill the decrease in one-time ARRA funds and continue an increased level of remediation activities of hazardous abandoned mine features that pose serious hazards to public health and safety.

ENERGY COMMISSION

The Energy Resources Conservation and Development Commission (Energy Commission or CEC) is responsible for ensuring a reliable supply of energy to meet state needs while protecting public health, safety, and the environment. Activities include: permitting energy facilities, designating transmission line corridors, assessing current and future energy demands and resources, developing energy efficiency standards, stimulating development of alternative sources of energy, analyzing transportation fuel supplies, prices, and trends and, maintaining capacity to respond to energy emergencies.

The Budget includes $485.7 million and 662 positions for support of the Commission. Decreases in Federal Funds reflect the DOF's efforts to "right size" special funds to better reflect actual expenditures. Decreases in the Renewable Resource Trust Fund are due to the ramping down of the Public Goods Charge programs. The appearance of a larger decrease in the Alternative and Renewable Fuel and Vehicle Technology Fund is the result of the carryover of $75 million from Fiscal Year 2011-12, due to a 2-year encumbrance period.

Fund Source	2011-12 Actual	2012-13 Projected	2013-14 Proposed	BY to CY Change	% Change
General Fund	**$0**	**$0**	**$0**	**0**	**0**
Federal Funds	21,121	51,956	16,688	(35,268)	(68%)
Renewable Resource Trust Fund	64,358	88,866	55,752	(33,114)	(37%)
Energy Resources Programs Account	56,465	66,970	70,176	3,206	5%
Alternative and Renewable Fuel and Vehicle Technology Fund	97,960	171,298	106,160	(65,138)	(38%)
Electric Program Investment Charge Fund	-	1,094	193,275	192,181	17,567%
Other	80,519	126,064	43,670	(82,394)	(65%)
Total Expenditure	**$320,423**	**$506,248**	**$485,721**	**($20,527)**	**(4%)**
Positions	542.1	612.6	662.1	50	8%

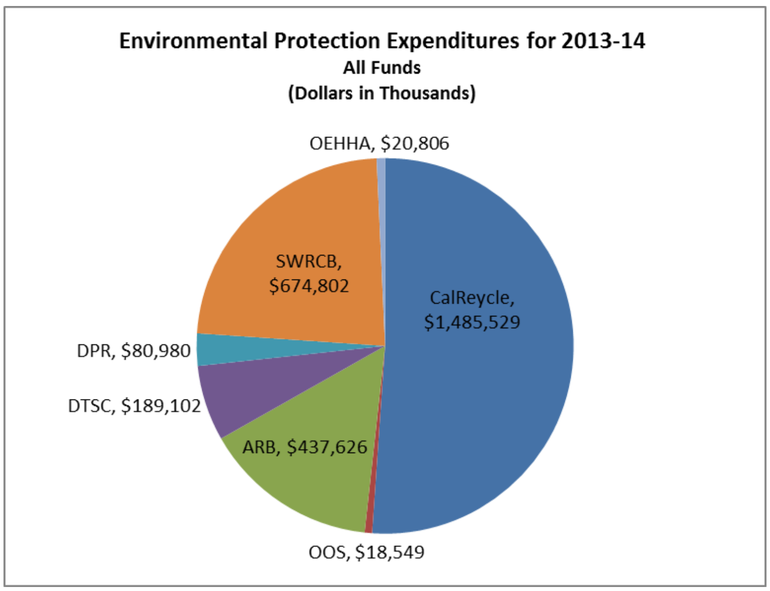
Key Provision

- **Electricity Program Investment Charge Program.** The Budget proposes an increase of $193 million and 58 positions to implement the Electric Program Investment Charge (EPIC) primarily in the Energy Commission. The EPIC program was created by the California Public Utilities Commission as a successor to the Public Goods Charge. The Legislature approved $1 million in 2012 to allow the Energy Commission to provide the Legislature with an investment plan for review prior to program funding approval. 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.

ENVIRONMENTAL PROTECTION AGENCY

California Environmental Protection Agency programs restore and protect environmental quality, and protect public health. The Secretary coordinates the state's environmental regulatory programs and ensures fair and consistent enforcement of environmental law, which safeguards the state's residents and promotes the state's economic vitality.

The Governor's Budget proposes $2.9 billion ($42 million General Fund and $2.86 billion other funds) and 4989.5 personnel years for the California Environmental Protection Agency (Cal/EPA) boards, departments, and offices. This represents a decrease of 36.1 personnel years from the revised current year budget. The year-over-year decrease in total funds reflects less bond money available for expenditure in the budget year as well as a reduction in General Fund and Special Fund.



AIR RESOURCES BOARD

The Air Resources Board has primary responsibility for protecting air quality in California, as well as implementation of the California Global Warming Solutions Act of 2006, AB 32 (Núñez), Chapter 488, Statutes of 2006. This responsibility includes establishing ambient air quality standards for specific pollutants, administering air pollution research studies, evaluating standards adopted by the U.S. Environmental Protection Agency and developing and implementing plans to attain and maintain these standards. These plans include emission limitations for vehicular and industrial sources established by the Board and local air pollution control districts. The Governor's Budget proposes $438 million and 1,278 positions for support of the Board.

As previously mentioned, the Administration plans to release a three-year investment plan for auction proceeds in the May Revision per AB 1532 (Pérez), Chapter 807, Statutes of 2012. The first cap and trade 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. The Governor's Budget proposes that an expenditure plan for $300 million in General Fund offsets will be provided to the Legislature 60 days prior to appropriation. Decreases in the Air Pollution Control Fund are due to moving the Cost of Implementation Account out of the Fund in to a separate account.

Fund Source	2011-12 Actual	2012-13 Projected	2013-14 Proposed	BY to CY Change	% Change
General Fund	**$0**	**$0**	**$0**	**0**	**0**
Motor Vehicle Account, State Transportation Fund	115,117	116,264	119,902	3,638	3%
Air Pollution Control Fund	154,431	148,586	114,988	(33,598)	-23%
Cost of Implementation Account, Air Pollution Control Fund	-	-	35,894	0	0
Bond Funds	128,598	73,250	81,560	8,310	11%
Other	79,121	83,558	85,282	1,724	2%
Total Expenditure	**$477,267**	**$421,658**	**$437,626**	**$15,968**	**4%**
Positions	1,243.10	1,273.20	1,278.20	5	0%

Key Provisions

- **Cap and Trade Cap Revenues Proposal.** As discussed above, the Governor's Budget Summary indicated it plans to release a three-year investment plan in the May Revision to expend approximately $100 million of non-General Fund cap and trade revenue.

- **Clean School Buses**. The Governor's Budget requests the authority to spend $1,119,000 in reverted bond funds to replace pre-1987 model year school buses with new lower-emitting models and retrofit existing buses with ARB-verified emission control equipment.

THE DEPARTMENT OF PESTICIDE REGULATION

The Department of Pesticide Regulation protects public health and the environment by regulating all aspects of the sale and use of pesticides and by promoting reduced-risk pest management strategies. The Department ensures compliance with pesticide laws and regulations through its oversight of County Agricultural Commissioners, who enforce pesticide laws at the local level. The Governor's Budget proposes $80.9 million and 384 positions for support of the Department. Decreases in the "Other" category, shown below, are the result of the movement of Structural Pest Control Board from Department of Pesticide Regulation to Department of Consumer Affairs pursuant to Governor's Reorganization Plan.

Fund Source	2011-12 Actual	2012-13 Projected	2013-14 Proposed	BY to CY Change	% Change
General Fund	**$0**	**$0**	**$0**	**0**	**0**
Department of Pesticide Regulation Fund	71,805	75,076	78,190	3,114	4%
Other	6,774	7,408	2,790	(4,618)	(62%)
Total Expenditure	**$78,579**	**$82,484**	**$80,980**	**($1,504)**	**(2%)**
Positions	374.1	409.7	384.8	(25)	(6%)

Key Provision

- **Mitigating Pesticide Use to Protect the Environment.** The Governor's Budget requests an appropriation of $788,000 (ongoing) from the DPR Fund and five permanent positions to address workload issues associated with its continuous evaluation of registered pesticides. DPR's assessment of new and evolving scientific data indicates that certain registered pesticides may cause adverse effects to wildlife and the environment.

DEPARTMENT OF RESOURCES RECYCLING AND RECOVERY

The Department of Resources Recycling and Recovery (CalRecycle) protects public health and safety and the environment through the regulation of solid waste facilities, including landfills, and promotes recycling of a variety of materials, including beverage containers, electronic waste, waste tires, used oil, and other materials. The Department also promotes the following waste diversion practices: 1) source reduction; 2) recycling and composting; and, 3) reuse. The Budget includes $1.5 billion and 687 positions for support of the Department.

Expenditures from the Beverage Container Recycling Fund exceed revenues by approximately $100 million as a result of a combination of historically high recycling rates and mandated program payments. The Fund has remained solvent due to the repayment of previous General Fund loans. All General Fund loans are slated to be repaid to the fund by 2014-15. As previously mentioned, the Administration plans to introduce budget-related reform measures in the spring to address the fund imbalance.

Fund Source	2011-12 Actual	2012-13 Projected	2013-14 Proposed	BY to CY Change	% Change
General Fund	**$0**	**$0**	**$0**	**0**	**0**
California Beverage Container Recycling Fund	1,182,672	1,193,893	1,196,426	2,533	0%
Other	262,778	267,775	289,103	21,328	8%
Total Expenditure	**$1,445,450**	**$1,461,668**	**$1,485,529**	**$23,861**	**2%**
Positions	592.4	686.6	686.6	0	0%

Key Provision

- **Beverage Container Recycling Fund Reform**. As discussed above, the Governor's Budget Summary mentioned it plans to release budget-related reform measures in the spring to address the fund imbalance.

- **Transfer of the Office of Education and the Environment to the Department of Resources Recycling and Recovery.** The Governor's Budget requests an increase in expenditure authority of $2,325,000 and an increase of 10 permanent positions to implement the transfer of the Office of Education and the Environment from Cal/EPA to CalRecycle per SB 1018 (Budget and Fiscal Review Committee), Chapter 39, Statutes of 2012. This proposal will not add any new positions to the overall budget, but will shift 10 existing positions and the associated funding from Cal/EPA to CalRecycle as a new program.

THE STATE WATER RESOURCES CONTROL BOARD

The State Water Resources Control Board and the nine Regional Boards preserve and enhance the quality of California's water resources and ensure proper allocation and effective use. The Governor's Budget proposes $675 million ($15 million General Fund) and 1,505 positions for support of the Board. Decreases in the Underground Storage Tank Cleanup Fund are the result of aligning authority with the sunset of a fee increase. The appearance of a large decrease in bond funds is due to the carryover of funds from the previous two years.

Fund Source	2011-12 Actual	2012-13 Projected	2013-14 Proposed	BY to CY Change	% Change
General Fund	**$11,884**	**$14,885**	**$14,726**	**($159)**	**(1%)**
Federal Funds	172,298	143,335	144,612	1,277	1%
Underground Storage Tank Cleanup Fund	315,807	329,279	280,982	(48,297)	(15%)
Waste Discharge Permit Fund	101,546	100,698	106,301	5,603	6%
Bond Funds	51,308	127,949	40,890	(87,059)	(68%)
Other	-65,751	96,646	87,291	(9,355)	-10%
Total Expenditure	**$587,092**	**$812,792**	**$674,802**	**($137,990)**	**-17%**
Positions	1,393.40	1,501.10	1,505.40	4	0%

Key Provisions

- **Small Disadvantaged Community Wastewater Projects Planning, Design, and Construction Grants.** The Governor's Budget requests an augmentation of $7 million in local assistance authority for the State Water Pollution Control Revolving Small Community Grant Fund. These grants will help SDACs achieve compliance with water quality regulations, protect surface and groundwater quality, and help eliminate threats to public health and safety.

- **Criteria for Indirect Potable Reuse of Recycled Water.** The Governor's Budget requests $700,000 in additional expenditure authority from the Waste Discharge Permit Fund to support continued efforts by the Department of Public Health to develop and adopt water-recycling criteria for indirect potable reuse. Indirect potable reuse is the treatment of municipal wastewater, its placement in groundwater or a surface water reservoir, and the subsequent use of this water to augment municipal drinking water supply.

DEPARTMENT OF TOXIC SUBSTANCES CONTROL

The Department of Toxic Substances Control protects California citizens and environment from the harmful effects of toxic substances through restoring contaminated resources, enforcement, regulation and pollution prevention. The Governor's Budget proposes $189 million ($21 million General Fund) and 1,504 positions for support of the Department.

According to the Governor's Budget Summary, the Department's hazardous waste fee system is complex and difficult to administer. The Administration reveals that the system has yielded inconsistent revenues, which has resulted in expenditures exceeding revenues for a number of years, requiring program reductions and significantly reducing the available fund balance. As previously mentioned, the Administration plans to unveil a Hazardous Waste Control Account Reform proposal later this spring.

Fund Source	2011-12 Actual	2012-13 Projected	2013-14 Proposed	BY to CY Change	% Change
General Fund	**$17,824**	**$22,248**	**$21,100**	**($1,148)**	**-5%**
Federal Funds	27,239	34,056	34,931	875	3%
Hazardous Waste Control Account	45,313	48,221	50,998	2,777	6%
Toxic Substances Control Account	49,090	46,453	42,909	(3,544)	-8%
Other	29,174	50,624	39,164	(11,460)	-23%
Total Expenditure	**$168,640**	**$201,602**	**$189,102**	**($12,500)**	**-6%**
Positions	885.8	965.6	941.1	(25)	-3%

Key Provision

- **Hazardous Waste Control Account Reform**. As discussed above, the Governor's Budget Summary mentioned it plans to release a major reform proposal in the spring.

DEPARTMENT OF FOOD AND AGRICULTURE

The California Department of Food and Agriculture (CDFA) protects and promotes California's agricultural industry and ensures that only safe and quality food reaches the consumer. The Budget proposes approximately $62 million General Fund for a number of programs, such as agricultural plant and animal health, pest prevention, and food safety services.

Fund Source	2011-12 Actual	2012-13 Projected	2013-14 Proposed	BY to CY Change	% Change
General Fund	**$75,889**	**$60,319**	**$61,894**	**$1,575**	**3%**
Federal Funds	96,734	106,304	109,088	2,784	3%
Department of Agriculture Account, Department of Food and Agriculture Fund	112,908	138,439	136,911	(1,528)	-1%
Other	31,349	40,566	34,947	(5,619)	-14%
Total Expenditure	**$316,880**	**$345,628**	**$342,840**	**($2,788)**	**-1%**
Positions	1,558.80	1,975.30	1,975.30	0	0%

Key Provision

- **California Special Interest License Plate.** The Governor's Budget requests Specialized License Plate Fund expenditure authority of $477,000 to award grants to agricultural education organizations with funds received from the sales and renewals of the CalAgPlate.

PUBLIC UTILITIES COMMISSION

The California Public Utilities Commission (CPUC) regulates critical and essential services such as privately owned telecommunications, electric, natural gas, and water companies, in addition to overseeing railroad/rail transit and moving and transportation companies. The CPUC is the only agency in the state charged with protecting private utility consumers. As such, the CPUC is responsible for ensuring that customers have safe, reliable utility service at reasonable rates, protecting against fraud, and promoting the health of California's economy, which depends on the infrastructure the utilities and the CPUC provide. The Governor's Budget proposes $1.4 billion from special funds, almost entirely financed by utility ratepayers, and 1,053 positions for support of the Commission.

Fund Source	2011-12 Actual	2012-13 Projected	2013-14 Proposed	BY to CY Change	% Change
General Fund	**$0**	**$0**	**$0**	**0**	**0**
Universal Lifeline Telephone Service Trust Administrative Committee Fund	260,333	262,730	282,753	20,023	8%
Gas Consumption Surcharge Fund	493,047	584,944	584,549	-395	0%
Other	354,148	458,857	497,495	38,638	8%
Total Expenditure	**$1,107,528**	**$1,306,531**	**$1,364,797**	**$58,266**	**4%**
Positions	972.8	1,037.40	1,052.90	16	1%

Key Provisions

- **Audit of Public Utilities Commission.** As mentioned previously, as a result of the special fund discrepancies found at the DPR, the Governor directed the DOF to conduct a review of all the state's over 500 special funds. This review revealed variances greater than $1 million for seven of the funds the California Public Utilities Commission (CPUC) administers. The CPUC oversees 14 special funds, which collect surcharges that exist on gas, electric and telephone bills. Because a significant portion were unexplainable, DOF launched an audit of CPUC's budgeting practices and procedures. The Governor has submitted a budget proposal to fund three new budget positions at the CPUC. A Legislative oversight hearing on this matter appears warranted.

- **High-Speed Rail Safety Oversight.** The Governor's Budget requests three positions and $330,000 from the Public Transportation Account, State Transportation Fund, to oversee the design and construction of California's new High Speed Rail system.

- **Demand-Side Program Facilitation and Expansion.** The Governor's Budget requests one position and $88,000 from the PUC Utilities Reimbursement Account to expand non-utility energy efficiency program administration and enable growth and integration of demand response into wholesale markets.

- **Development and Administration of CPUC Budget.** The Governor's Budget requests three positions and $210,000 (various special funds) to provide budget support for the CPUC. There is currently only one person in the CPUC budget office.

GENERAL GOVERNMENT

PUBLIC EMPLOYMENT RELATIONS BOARD

The Public Employment Relations Board administers and enforces the California public sector collective bargaining laws. The goal of PERB is to promote improved public sector employee-employer relations and to provide timely and cost effective methods through which employers, employee organizations, and employees can resolve labor disputes. Funding for the PERB is through the General Fund and a minor amount through reimbursements. The budget calls for support of $8.6 million and 53.1 positions— a slight increase in funding from the current year and no changes in positions.

Fund Source (millions)	2011-12 Actual	2012-13 Projected	2013-14 Proposed	BY to CY Change	% Change
General Fund	$6.1	$8.1	$8.4	$0.3	3.6
Reimbursements	0.0	0.2	0.2	0.0	0.0
Total Expenditure	**$6.1**	**$8.3**	**$8.6**	**$0.3**	**3.5**
Positions	35.0	53.1	53.1	0.0	0.0

As part of the Governor's Reorganization Plan 2, beginning in FY 2013-14, PERB moves to Labor and Workforce Development Agency from General Government within the budget.

GOVERNMENT OPERATIONS AGENCY

The Governor's reorganization plan established the Government and Operations Agency. The mission of the Agency is to improve management and accountability of government programs, increase efficiency, and promote better coordinated operational decisions. The Agency oversees the following nine entities:

- Department of General Services
- Department of Human Resources
- Department of Technology
- Office of Administrative Law
- Franchise Tax Board
- State Personnel Board
- Victim Compensation and Government Claims Board

- California Public Employees' Retirement System

- California State Teachers' Retirement System

The budget proposes expenditure authority of $3,429,000 ($1,336,000 General Fund) and 17.0 positions beginning in 2013-14 to establish funding support and position authority for the new agency. The budget proposes total funding of $36 billion (741.7 million General Fund) and 14,810.7 for all programs including in this Agency.

DEPARTMENT OF HUMAN RESOURCES

The Department of Human Resources (CalHR) is responsible for managing the state's personnel functions and represents the Governor as the employer in all matters concerning state employee-employer relations. CalHR is responsible for issues relating to recruitment, selection, salaries, benefits, position classifications, and provides a variety of training and consultation services to state departments and local agencies. For the budget year, CalHR includes $92.9 million, which represents a slight decrease over the current year budget of $93.6 million, and 278.5 positions, a decrease of 6.9 percent.

Fund Source (millions)	2010-11 Actual	2011-12 Projected	2012-13 Proposed	BY to CY Change	% Change
General Fund	$6.1	$8.1	$7.2	$(0.9)	(12.6)
Special Funds and Reimbursements	57.2	85.5	85.7	0.2	0.3
Total Expenditure	**$66.3**	**$93.6**	**$92.9**	**(0.7)**	**(0.8)**
Positions	**187.4**	**297.8**	**278.5**	**(19.3)**	**(6.9)**

Under the Governor's Reorganization Plan 2, CalHR moves under the Government Operations Agency (Gov Ops) from General Government.

Major Provisions

The budget proposes to allow CalHR to prepare a collective bargaining platform on behalf of the Statewide Authority for the initial assessment for the In-Home Supportive Services (IHSS). In preparation for the transfer of the collective bargaining responsibility to the Statewide Authority, CalHR will examine current contracts, observe bargaining sessions, identify bargaining complexities, build working relationships, and determine legal and health benefit complexities to understand the needs of the counties.

IHSS provides in-home custodial care to blind, disabled, and elderly individuals. There are 56 bargaining units throughout 58 counties. CalHR will work on examining the first eight counties, which represent 60 percent of the counties. Full implementation is anticipated by 2014-15.

Initial questions relate to how the transfer of the collective bargaining responsibilities to the Statewide Authority will work. With bargaining units for 58 counties, the mode and process for communications decision-making between the state and the counties are primary questions.

STATE PERSONNEL BOARD

The five-member State Personnel Board (SPB) was established to ensure that the state civil service system is free from patronage and that employment decisions are based on merit. SPB's members are appointed by the Governor and it provides a variety of recruitment, selection, classification, appellate, goal setting, training, and consultation services. SPB is supported by reimbursements with additional support from General Fund and special funds. For budget year, its funding level is $10.4 million a slight increase over current year with no change in positions at 69.7.

Fund Source (millions)	2011-12 Actual	2012-13 Projected	2013-14 Proposed	BY to CY Change	% Change
General Fund	-	$1.1	$1.1	$0.0	0.0
Reimbursements	-	8.2	8.5	0.3	3.5
Central Service Cost Recovery	-	0.8	0.8	0.0	0.0
Total Expenditure	**-**	**$10.1**	**$10.4**	**$0.3**	**3.0**
Positions	-	69.7	69.7	0.0	0.0

The Governor's Reorganization Plan 2 creates the Government Operations Agency (Gov Ops) and as part of the plan, moves SPB under Gov Ops from General Government. Prior to July 1, 2012, SPB was budgeted under State Consumer Services Agency.

Major Provisions

The budget proposes trailer bill language for the SPB compliance review audit program. The proposed language would require appointing authorities to charge a prorated share of costs on an annual basis and require the monies to be directly transferred to SPB.

DEPARTMENT OF GENERAL SERVICES (DGS)

The Department of General Services (DGS) is responsible for the management, review control and support of state agencies as assigned by the Governor and specified by statute. Its diverse functions include e-commerce and telecommunications; acquisition, development, leasing, disposal and management of state properties; architectural approval of local schools and other state buildings; printing services provided by the second largest government printing plant in the U.S.; procurement of supplies needed by other state agencies; and maintenance of the vast fleet of state vehicles. Effective July 1, 2013 per the Governor's Reorganization Plan No. 2 of 2012, DGS will be moved to the newly created Government Operations Agency.

The Governor's Budget proposes total spending of $1.012 billion ($7.08 million General Fund) for the Department of General Services in 2013-14, an increase of 7.1 percent compared with estimated spending for the current year. Proposed staffing totals 3,592.4 personnel, a decrease of 26.5 compared with the current year.

Major Provisions

- **Department Transfer.** The Governor proposes that the DGS be moved to the newly created Government Operations Agency, effective July 1, 2013 through the Governor's Reorganization Plan No. 2 of 2012.

Key Provisions

- **Statewide Parking Special Repairs and Deferred Maintenance.** The Governor's Budget includes an ongoing increase of $1.077 million for the Office of Fleet and Asset Management to repair structural, mechanical, and electrical deficiencies in the building that were identified in the 2009 Infrastructure Study of the Sacramento State Garage. The estimated overall repair cost is $3.6 million over the life of the project. Repairs will be performed over the next several years on a priority basis.

- **Program Reductions.** The DGS will reduce $5.6 million and 22.5 positions in FY 2013-14 to increase efficiencies and consolidate administrative services, by eliminating non-critical positions and services due to a decrease in capital projects.

- **Americans with Disabilities Act Compliance Upgrades and Deferred Maintenance.** The Governor's Budget includes an increase of $11 million in the Service Revolving Fund authority to begin special repair projects totaling $110 million over the next ten fiscal years. The funds will be used to begin special repairs necessary to correct deficiencies and complete deferred special repairs necessary to comply with the Americans with Disabilities Act (ADA). The DGS does not currently receive funding to perform ADA compliance upgrades, thus subjecting the state to risk of litigation. This implementation of a transition plan to complete ADA upgrades and deferred special repair projects over ten fiscal years will serve to lessen the financial liability of the state.

CALIFORNIA PUBLIC EMPLOYEES RETIREMENT SYSTEM

The California Public Employees Retirement System (CalPERS) administers the retirement benefits for state and local agency employees. CalPERS also provides health benefits for retired and active employees. CalPERS is governed by a Board of Administration that has authority over the administration of the retirement system. CalPERS receives funding from non-General Fund sources for administrative costs, largely from retirement fund resources themselves. The budget shows a slight increase in state operations for 2013-14 from $357.0 million in the current year to $358.0 million in the budget year. There is no change in positions from current year at 2,563.4. Under the Governor's reorganization plan, CalPERS moves to the new Government Operations Agency from the State and Consumer Services Agency on July 1, 2013.

Budget year payments for CalPERS will be $1.803 billion General Fund, $1.185 billion special funds, and $550 million non-governmental cost funds. In addition, CalPERS payments for California State University will total $470 million General Fund and $0.3 million in other funds. These "non-add" amounts are not reflected in the figure below. Expenditures noted below largely consist of benefit payments to retirees.

Fund Source (millions)	2011-12 Actual	2012-13 Projected	2013-14 Proposed	BY to CY Change	% Change
General Fund	$0.0	$0.0	$0.0	$0.0	0.0
Public Employees' Retirement Fund	15,557.1	17,524.3	18,408.4	884.1	4.8
Public Employees' Health Care Fund	1,881.7	1,968.0	1,937.3	(30.7)	(1.6)
Other Retirement Funds	97.3	120.6	133.8	13.2	9.9
Total Expenditure	**$17,536.1**	**$19,612.9**	**$20,479.5**	**$866.7**	**4.2**
Positions	**2,329.9**	**2,563.4**	**2,563.4**	**0.0**	**0.0**

Major Provisions

Pension Reform Implementation

Last year, the Governor signed AB 340 (Furutani), Chapter 286, Statues of 2012), the Public Employees' Pension Reform Act (PEPRA) of 2012. The measure reformed the retirement formulas for any new employee for state and local governments and schools hired after January 1, 2013. PEPRA provides lower pension benefits and requires higher retirement ages for these new employees. Additionally, it requires state employees in bargaining units to pay higher payroll contributions in exchange for increases in top step adjustments and health care contributions. The 2013-14 budget includes an increase of $502.1 million ($247 million in General Fund revenues) for these previous negotiations.

Collective Bargaining Units

Between June 30, 2013, and July 2, 2013, 19 out of 21 of the state's collective bargaining units' contract are set to expire. The collective bargaining process is used by the state to negotiate pay and benefits for rank and file employees. The state plans to begin engaging those bargaining units whose contracts are set to expire in early 2013.

CALIFORNIA STATE TEACHERS RETIREMENT SYSTEM

The California State Teachers Retirement System (CalSTRS) administers the retirement benefits for active and retired elementary school and community college district teachers. The CalSTRS board has exclusive control over investment and administration of the retirement fund. The twelve member board consists of Superintendent of Public Instruction, State Treasurer, State Controller, Director of Finance, five members appointed by the Governor, and three members elected by active CalSTRS members. The primary responsibilities of CalSTRS are to maintain a financial sound retirement system, maintain an efficient operational program, and improve the delivery of benefits and services to members. CalSTRS is responsible for the determination and payments of benefits to members, retirees, and their beneficiaries. CalSTRS receives funding from non-General Fund sources for administrative and operational costs, largely from retirement fund resources themselves. For 2013-14, the state operations budget is $193.7 million and 986.0 positions versus $156.7 million and 958.0 positions in the current year.

General Fund contributions to the retirement fund for 2013-14 is budgeted to be $1.358 billion: $580 million for purchasing power protection (also called “Supplemental Benefit Maintenance”); and $777 million for the base 2.017 percent contribution. The proposed funding in 2013-14 is slightly less than the $1.360 billion funding in 2012-13. These "non-add" General Fund payments are not reflected in the figure below.

Fund Source (millions)	2010-11 Actual	2011-12 Projected	2012-13 Proposed	BY to CY Change	% Change
General Fund	$0.0	$0.0	$0.0	$0.0	0.0
Teachers Retirement Fund	11,062.5	11,978.7	12,958.7	980.0	7.6
Other Retirement Funds	43.1	48.3	52.7	4.4	8.3
Total Expenditure	**$11,105.6**	**$12,027.0**	**$13,011.4**	**$984.3**	**7.6**
Positions	**851.9**	**958.0**	**986.0**	**28.0**	**2.8**

Major Provisions

External and Internal Audits

The budget proposes $1,338,000 in permanent funding and 13 positions for external audit services and to establish positions to perform an increased volume of audits of reporting employers and for associated impacted business administrative activities.

Orange County Member Service Center

The budget proposes $1,604,000 in one time funding for 2013-14 and $799,000 in permanent funding in 2014-15 to support the establishment of a CalSTRS-operated Member Service Center in Orange County. CalSTRS is transitioning to a new business model to provide benefit counseling services to members. CalSTRS plans to open five offices to operate under the new model. The Glendale Member Service Center opened in FY 2011-12, the Bay Area Member Service Center will open in June 2013, and the Orange County Member Service Center will be the third member service center.

Information Security Records Management

The budget proposes a total of $197,000 and two permanent positions to perform regular web application security. The first positions ($111,000) will be dedicated to CalSTRS enterprise systems and network to perform regular web application security assessments and monitor the daily access and activity on CalSTRS enterprise systems and networks. The second position ($86,000) will support the final phase of the conversion of paper documents and processes to electronic documents and processes and establish internal controls for the availability and retention of electronic records.

Medical Vocational Evaluations

CalSTRS is responsible for the determination and payments of disability benefits to CalSTRS members. The Administration's budget proposes $225,000 in a permanent augmentation for external contracting for the increase in independent medical examiners and independent vocational evaluation programs.

Additional Human Resources Staff

The budget proposes $357,000 and four permanent positions to work in Human Resources. In the past six years, the total number of budgeted positions has increased by 14.3 percent, but the Human Resources staff has not increased to respond to the demand.

Conversion of Contracted Services to Permanent Staff

CalSTRS is moving towards reducing reliance on contractors and transitioning knowledge and expertise to permanent positions. The budget requests nine permanently authorized positions for Information Technology. No additional funding is needed because the current contracted monies will be redirected to cover the costs of the positions.

Additionally, the budget includes a conversion of six permanently authorized positions that are vacant due to ongoing turnover to be used in 2013-14 for member counseling. Funding for these positions will be redirected from external consulting and temporary help to the cover the costs.

STATE CONTROLLER

The State Controller is the Chief Fiscal Officer of California. The State Controller's Office (SCO) is a separately established constitutional office. The Controller chairs or serves on 81 state boards and commissions, and is charged with duties ranging from participating in the oversight of the administration of the nation's two largest public pension funds, to protecting the coastline and helping to build hospitals. The Controller provides fiscal control for, and independent oversight of, more than $100 billion in receipts and disbursements of public funds. In addition, the Controller offers fiscal guidance to local governments, and performs audit functions to uncover fraud and abuse of taxpayer dollars. The SCO's primary objectives are to:

- Account for and control disbursement of state funds.
- Determine legality and accuracy of claims against the State.
- Issue warrants in payment of the State's bills.
- Administer the Uniform State Payroll System.
- Audit and process personnel and payroll transactions for state civil service, exempt employees, and state university and college system employees.
- Audit state and local government programs.
- Inform the public of the State's financial condition.
- Administer the Unclaimed Property Law.
- Inform the public of financial transactions of city, county, and district governments.

The SCO is funded through the General Fund as well as over 300 special funds and accounts and reimbursements. The Governor's Budget calls for resource support of $173.2 million ($41.8 million General Fund) and 1,358.3 positions. The budget year shows a decrease of $75 million from the current year. This is due to the fact that MyCalPAYS was not included in the January proposal. MyCalPAYS will revise the human resource and payroll system for all state civil services employees in the state and is administered by SCO. SCO is in the process of negotiating a contract for a new vendor and anticipates adjustments to the budget. The projects costs were estimated to be $80 million in 2012-13 and $35 million for 2013-14.

Fund Source (millions)	2011-12 Actual	2012-13 Projected	2013-14 Proposed	BY to CY Change	% Change
General Fund	$74.8	$87.1	$41.8	$(45.2)	(108.2)
Unclaimed Property Fund	27.8	32.8	35.1	2.3	6.5
Central Service Cost Recovery Fund	20.4	20.1	23.3	3.2	13.6
Other Special Funds and Accounts	39.2	44.7	11.6	(33.1)	(285.3)
Reimbursements	52.9	63.3	61.4	(1.9)	(3.1)
Total Expenditure	**$215.1**	**$248.0**	**$173.2**	**$(74.7)**	**(43.1)**
Positions	**1,333.4**	**1,543.4**	**1358.3**	**(185.1)**	**(13.6)**

Major Provisions

MyCalPAYS

SCO continues the development of the 21st Century Project, which is now MyCalPAYS. The project as discussed above will revamp the state's entire payroll processing and related services such as employment history, position management and leave accounting. The project is a complex and expensive multi-year, multi-phase project requiring a substantial commitment of resources. The Assembly may want an overview of the project status and more information about any potential problems the project is encountering. The BCPs related to the SCO budget discuss issues that SCO is having with their legacy system. Concerns to raise with SCO is whether or not, the new vendor can build mechanisms into the new contract that will help address auditing issues in the future into the new system.

Audits

The two BCPs for SCO are the result of a recent audit of the California Department of Parks and Recreation (Parks) that revealed a vacation buyout program that was instituted at Parks without authorization of Parks and the Department of Human Resources.

The first BCP proposes five limited term positions and $608,000 in General Fund monies for 2013-14 and 2014-15 to perform audits of payroll controls and payroll records. The audits will be performed statewide and affect the SCO's legacy payroll system to ensure that all accounts are up-to-date.

The second BCP proposes $216,000 and 7.9 positions in General Fund in 2012-13 and $828,000 in 2013-14 to perform detailed analyses and annual reports on the state's 570 special funds.

FINANCIAL INFORMATION SYSTEM FOR CALIFORNIA (FI$CAL)

The Financial Information System for California (FI$Cal) Project is a partnership of four control agencies: the Department of Finance, the State Controller's Office, the State Treasurer's Office, and the Department of General Services. FI$Cal will provide the state with a single integrated financial management system that encompasses budgeting, accounting, procurement, cash management, and financial management and reporting. This "Next Generation" project, through the adoption of best business practices, will reengineer business processes; improve efficiency; enhance decision making and resource management; and provide reliable, accessible, and timely statewide financial information allowing the state to be more transparent. After a lengthy multi-stage procurement process, a vendor was selected in 2012 to being designing and implementing the project. FI$Cal will begin implementing the system in 5 waves, over 5 years, at a total estimated project cost of $616.8 million.

The Governor's Budget proposes $84.8 million for FI$Cal, a slight decrease of $4 million or 4.5 percent from the previous year's amount. The proposed staffing of 192.3 positions reflects the ramp up of the project, which has an existing 131.2 positions this year. FI$Cal's costs is distributed to approximately 100 different funding sources, including $2.1 million of General Fund proposed for the budget year.

Major Provision

Is FI$Cal the most important item in the 2013-14 Budget?
FI$Cal has the potential to change the way the State manages, budgets, and spends funds and may allow a dramatic expansion in the ability of the Legislature to oversee state operations. Last year's discovery of $33.5 million special funds for parks that was "hidden" from oversight highlighted the limitations of the current accounting system. The State's current accounting system, CalSTAR, is over thirty years old and lacks basic functionality of modern accounting systems, resulting in much of the financial data being managed in constellation of ad hoc systems in departments across the state. This means that all of the State's key financial data is not in one place, requiring multiple data requests to get the type of detailed financial data needed to find discrepancies like the hidden parks special funds.

This stands in sharp contrast to the level of data that is available publically in other states. Some states, like Connecticut, Michigan, and Texas have all state expenditures on searchable websites. This explains why a March 2012 report by U.S. Public Interest Research Group (PIRG) entitled "Following the Money 2012: How the 50 States Rate in Providing Online Access to Government Spending Data" gave California a D- grade for transparency of state expenditures. FI$Cal offers the opportunity to have the functionality and information other States have in their financial data.

But implementing FI$Cal will be a challenge, as over the last three decades department accounting and budget staff have built customized ad hoc systems and practices that made sense for the organizations culture of their program or department, but are not standard across the State. In order to transition to a new statewide system, the financial data will have to follow a consistent chart of accounts, the staff in every department will need to follow the same consistent fiscal processes, and the financial data will need to be converted and entered into the new system in a consistent manner. Most challenging, the existing staff will need to retrain to a new system where they have different roles, have to follow new processes, and have less control over who will view the financial data. This will require substantial organization culture change across all of the fiscal staff at the state, including the Assembly Budget Committee—which will be using new templates to build the budget. In recent history, ambitious information technology projects have run aground because not enough attention has been paid to the importance of culture change.

FI$Cal is the State's largest information technology project in terms of budget and scope, and has considerable project risks. In recent history, the Legislature has taken action to mitigate this risk and ensure the best chance for project success by prescribing a multi-stage procurement, requiring additional reporting, stipulating that the State Auditor's Office monitor the procurement process, and by having the active monitoring of project meetings by LAO staff. The Assembly will need to continue to monitor and support FI$Cal in order to ensure the project succeeds.

GOVERNOR'S OFFICE OF BUSINESS AND ECONOMIC DEVELOPMENT (GO-BIZ)

AB 29 (Pérez), Chapter 475, Statutes of 2011-12, created the Governor's Office of Business and Economic Development to better coordinate and promote business development and foster job growth and private-sector investment in California. The Governor's Budget proposes to transfer the Infrastructure Bank, the Film and Tourism Commissions, the Small Business Centers, and the Small Business Guarantee Loan Program to the Governor's Office of Business and Economic Development to this new department, effective July 1, 2013.

The Administration believes GO-Biz would provide a single point of contact for economic development, business assistance, and job creation efforts. The GO-Biz would work with companies and organizations across the state to market the benefits of doing business in California, recruit new businesses, and support private sector job growth. According to Department of Finance (DOF), GO-Biz would serve as the Governor's lead entity for economic strategy and the marketing of California on issues relating to business development, private sector investment, and economic growth.

Key Provisions

- **Workload and Moving Expenses.** The Governor's Budget proposes adding 3 positions and $850,000 ($564,000 ongoing General Fund and $286,000 one-time funding) to continue with the implementation of AB 29 for an overall 93.9 percent increase in General Fund allocation. The legislation created Go-Biz and these positions will provide for the management of the legal affairs, information technology, and external affairs. The funding accounts for moving expenses and increased rent cost

Fund Source	2011-12 Actual	2012-13 Projected	2013-14 Proposed	BY to CY Change
General Fund	-	$3,694	$7,163	$3,469
Infrastructure and Economic Development Bank Fund	-	-	9,208	$9,208
Small Business Expansion Fund	-	-	2,097	2,097
Reimbursements	-	-	1,550	1,550
Other Funds	-	-	114	114
Total Expenditure	-	$3, 694	$20,132	$6,438
Positions	-	28.0	71.0	43.0

DEPARTMENT OF TECHNOLOGY

Effective July 1, 2013, the Governor's Reorganization Plan (GRP) No. 2 of 2012 creates the Government Operations Agency and, as part of the plan, moves the California Technology Agency (previously budgeted within Legislative, Judicial, and Executive under Organization Code 0502) to this new Agency (Government Operations).

The Department of Technology supports state programs and departments in the delivery of state services and information to constituents and businesses through technology. The Department retains statewide authority to centralize and unify information technology projects and data center services to enhance the ability to develop, launch, manage, and monitor large informational-technology projects.

Fund Source	2011-12 Actual	2012-13 Projected	2013-14 Proposed	BY to CY Change	% Change
General Fund	$3,308	$4,303	$4,240	($63)	-1.5%
State Emergency Telephone Number Account	93,998	111,857	113,072	(1,215)	1.1%
Federal Trust Fund	1,931	1,931	1,931	-	0.0%
Reimbursements	1,635	2,801	2,801	-	0.0%
Technology Services Revolving Fund	324,266	362,126	418,257	56,131	15.5%
Central Service Cost Recovery Fund	3,296	3,200	3,187	(13)	-0.4%
Total Expenditure	**$428,434**	**$486,218**	**$543,488**	**$57,270**	**11.8%**
Positions	**1,145.9**	**1,237.2**	**1,242**	**4.8**	**0.4%**

The Department of Technology's budget reflects the anticipated increase in information technology purchases and projects being requested by other State departments, as reflected in the Technology Services Revolving Fund. The Department receives reimbursements from these departments through this fund for work it performs on behalf of these other departments. While the overall funds for such projects are increasing by over 15 percent, the Department's overall operational staff levels are relatively flat, with only increase of 4.8 positions, a 0.4 percent increase.

Major Provision

How Will Reorganization Impact the State's Use of Technology?

The 2012 GRP marks the fourth full or partial reorganization of the State's technology oversight and procurement entity since the authority for the Department of Information Technology (DOIT) was allowed to sunset in 2002. Overall this evolution has been positive, with the 2009 establishment of the California Technology Agency establishing itself as a full-fledged control agency, with best practice-based project monitoring and broad statewide authority. These efforts were beginning to deliver results in the form of successful project delivery and a 2012 reduction in IT rates for State departments. Given the State's poor history with Information Technology project procurement and deliver, the Assembly will need to provide close oversight to ensure that the progress made over the last decade does not slip away.

Key Provisions

- **IT Infrastructure Budget Proposals**. The Department of Technology has submitted four budget change proposals as part of their budget submission. These proposals reflect the projected utilization of the State IT infrastructure in the budget year and add $32.1 million of expenditure authority for the Department based upon projected needs for client departments for data storage, mainframe CPU usage, network capacity, and servers. Most of these funds, $16.1 million are for equipment, and the remaining $15.9 million is for information technology contracting. This budget request authorizes the Department to seek reimbursement for these services at this level from other state departments. There are no additional Departmental positions associated with this budget request.

- **Prior Year Adjustments**. The Department has made a routine annual adjustment to prior year budgets to reflect actual project expenditures. This adjustment impacts the Departments projected needs for the current and budget years. In the Governor's budget, lower than projected expenditures in 2011-12 translate into a reduction in project costs of $15 million in 2012-13 and $1.3 million in 2013-14.

OFFICE OF PLANNING AND RESEARCH (OPR)

The Office of Planning and Research (OPR) assists the Governor and the Administration in planning, research, policy development, and legislative analysis. The OPR formulates long-range state goals and policies to address land use, climate change, population growth and distribution, urban expansion, infrastructure development, and resource protection. The OPR acts as the state's liaison to a variety of entities including local government, planning professionals, small business, and the military. The OPR houses the Advisor on Military Affairs and supports the Strategic Growth Council. The mission of California Volunteers is to increase the number and impact of Californians involved with service and volunteering throughout the state. California Volunteers is administered through the OPR but for all intents and purposes is a standalone entity.

The Governor's Budget proposes $35.7 million ($2.1 million General Fund) for OPR, a decrease of $200,000 from the previous year's amount. The reduction is a result in less Office management less federal funds in the budget year. The proposed staffing of 50.7 positions for OPR is unchanged from the current year level of staffing.

SECRETARY OF STATE

The Secretary of State (SOS), a statewide elected official, is the chief election officer of the State and is responsible for the administration and enforcement of election laws. The SOS is also responsible for the administration and enforcement of laws pertaining to filing documents associated with corporations, limited partnerships, and the perfection of security agreements. In addition, the Office is responsible for commissioning notaries public, enforcing the notary laws, and in conjunction with being the home of the State Archives, preserving documents and records having historical significance. The SOS is the filing officer for lobbying and campaign registration and disclosure documents filed under the Political Reform Act. The SOS also operates the Safe At Home program, maintains the Domestic Partners and Advanced Health Care Directives Registries, and is home to the California Museum for History, Women and the Arts.

The Governor's Budget proposes spending $106.3 million ($26.6 million General Fund) for the SOS in 2013-14, an overall increase of 16.7 percent compared to 2012-13 expenditures. The General Fund portion of the SOS budget is proposed to increase by .15 percent. Proposed staffing totals 503 personnel, an increase of 2.0 personnel (0.6 percent), compared with the current year. The noticeable 61.7 percent increase in Federal Trust Fund monies will be used to continue with the implementation of the VoteCal system in compliance with the federal Help America Vote Act.

Fund Source	2011-12 Actual	2012-13 Projected	2013-14 Proposed	BY to CY Change	% Change
General Fund	$9,770	$26,578	$26,619	41	0.15%
Business Fees Fund	38,515	33,295	35,174	$1,879	5.6
Federal Trust Fund	66,530	19,145	30,954	11,809	61.7
Reimbursements	29,822	10,508	11,988	1480	14.1
Other Funds	2,957	1,598	1,611	13	0.8
Total Expenditure	$147,594	$91,124	$106,346	$15,222	16.7%
Positions	470.5	501.0	503.0	2.0	.6

The Governor's Budget proposes increasing funds to compensate for the heightened workload caused by the continuing implementation of two information technology (IT) projects The federally-funded Help America Vote Act of 2002 (HAVA) helps improve voting procedures and the California Business Connect project automates the registration process for California businesses.

Major Provisions

California Business Connect

The SOS processes more than 2 million business filings per year. The agency's ability to quickly review these filings can help California businesses open their doors, hire employees, generate revenue and pay taxes. As of now, the turnaround time for business filings can be upwards of 80 days since the SOS currently relies on a paper-based database. The SOS is implementing a major Information Technology (IT) project, California Business Connect, to bring business filings on-line.

The Governor's Budget proposes authorization of $2.4 million to continue with the implementation of California Business Connect. The SOS requests augmented access to reimbursement funds, paid by businesses, in order to bring California Business Connect online. Overtime compensation and additional temporary staff members will also be necessary. Beginning in July 2011, California Business Connect allowed real-time filing and retrieval of business documents through a centralized database of all business records. The project is expected to cost $23.7 million through the Fiscal Year (FY) 2016-17 and will be funded entirely through business filing fees. The SOS has stated that filing fees will not need to be raised to fund this project. Funding for FY 2013-14 will be used to contract for software customization, a test manager, an information security vendor, and to continue contracting services for project management and independent oversight, A Special Project Report (SPR) is expected to be submitted to the Legislature requesting approval to realign the project schedule.

Help America Vote Act Implementation and the VoteCal Registration Database

The federal Help America Vote Act (HAVA) of 2002, passed in response to controversy surrounding the presidential election of 2000, requires that states comply with a series of federal election requirements that are intended to ensure a more fair and accurate federal election process. Such requirements include: replacing punch-card and lever operated voter equipment; allowing voters to verify their ballots; providing voters with provisional ballots; providing access for voters with disabilities; and creating a statewide voter registration database.

The Governor's proposed Budget includes $27.079 million for the VoteCal database, which replaces the existing CalVoter statewide voter database with a more centralized and technologically advanced VoteCal database. The VoteCal database will contain the name and registration information for every legally registered active or inactive voter in California, which requires integration with all of the county voter registration systems. VoteCal will also have linkages to various official databases in order to confirm voter identity (such as the Department of Motor Vehicles, and the Social Security Administration), and to vital records and criminal justice records in order to validate information on deaths and felony convictions. The SOS completed solution-based procurement and selected a System Integration contractor to develop and implement VoteCal. Proposed activities in FY 2013-14 include the completion of project planning and design.

The current estimated cost for VoteCal is $53.5 million, with SOS currently estimating the project will be completed by June 30, 2016. The project is completely funded by the federal government. Ongoing support and operation costs, which SOS estimates will be $4 million annually, will eventually be taken from the State General Fund.

The Governor’s Budget includes $3.846 million in federal trust fund spending authority to continue implementing the HAVA mandates, including the VoteCal voter registration database. The funds will be used to continue voter accessibility programs, voter education, voting system testing and approval, and election assistance. Most of the funds are spent through contracts with counties. To date, California has received $391 million in federal HAVA funds.

Key Provisions

- SB 323 California Revised Uniform Limited Liability Company Act. The Governor's Budget includes $89,000 from the Business Fees Fund to implement SB 323 (Vargas), Chapter 419, Statutes of 2012. The legislation amends the California Corporations Code to repeal Title 2.5 (the Beverly-Killea Limited Liability Company Act) and to add Title 2.6 (the California Revised Uniform Limited Company Act). Funds will be used to revise SOS materials, print revised forms, train staff, and file or reject revised limited liability company documents.

- SB 1001 Lobbyists and Committees Fees. The Governor's Budget includes $81,000 and a 1 personnel increase to implement SB 1001 (Yee), Chapter 506, Statutes of 2012. The legislation provides a source of revenue to help the SOS maintain and further stabilize the CAL-ACCESS program, an online electronic filing system adopted under the Online Disclosure Act and makes fliers and file statements publicly available in order to increase transparency as a result of The Political Reform Act. The lobbyist and committee fees included in SB 1001 provide a source of revenue to help the SOS maintain, further stabilize, and improve the CAL-ACCESS system.

- SB 1058 Victims of Corporate Fraud Compensation Fund. The Governor's Budget includes $123,000 ($98,000 ongoing) from the Business Fees Fund to create/revise forms and instructions, update web pages, repeal current regulations, and draft new regulations due to the passing of SB 1058 (Lieu) Chapter 564, Statues of 2012. The legislation changes what information is needed for documentation required for claims submitted to Victims of Corporate Fraud Compensation Fund (VCFCF). The funds will be used to pay for overtime required for staff to 'catch up' on existing projects as a result of delays from staff reassignments. The other $103,000 will be used to permanently establish one full time analyst responsible for the new duties resulting from the statutory changes of SB 1058.

COMMISSION ON THE STATUS OF WOMEN & GIRLS

The Commission on the Status of Women is an independent, non-partisan agency working to advance the causes of women and girls. Toward that end, the Commission develops public policy recommendations by advising the Governor and the Legislature on issues impacting women and educating and informing its constituencies-thereby providing opportunities that empower women and girls to make their maximum contribution to society.

The Commission consists of a 17-member body including the Chief of the Division of Industrial Welfare in the Department of Industrial Relations, three Assemblymembers and three Senators. Ten of the 17 are public members: seven appointed by the Governor, one by the Superintendent of Public instruction, one by the Senate Committee on Rules, and one by the Speaker of the Assembly. Public members serve four-year terms and are reimbursed for necessary expenses. In both 2011-12 and 2012-13 the Governor proposed eliminating the Commission for General Fund savings of $264,000 and $265,000 respectively. For FY 2013-14 the Governor's Budget includes $273,000 special fund to be raised from donations to support the Commission's activities in 2013-14.

Key Provisions

- **SB1038: An Act Relating to the Budget Act of 2012.** The legislation implemented statutory changes that effected the Commission on the Status of Women and Girls in part to reduce the Commission's dependence on state funding. The Act revises their mission from being advocacy based to policy focused with the hopes of creating a centralized research and information database. The Commission's new goal is to become an information database for nonprofits. The issue areas of the Commission have expanded to include women in the military, women veterans, military families, gender equity in the media, educational needs of women and girls, and the health and safety of women and girls. A strategy to attract financial support from private donors will be developed and the Commission will encourage organizations to institute local self-help activities designed to meet various needs of women.

FAIR POLITICAL PRACTICES COMMISSION (FPPC)

The Fair Political Practices Commission has primary responsibility for the impartial administration, implementation, and enforcement of the Political Reform Act of 1974, as amended by the voters and Legislature.

The Governor's Budget proposes total spending of $10.2 million ($9.5 million General Fund) for the Fair Political Practices Commission in 2013-14, an increase of 12.9 percent compared with estimated spending for the current year. Proposed staffing totals 89 personnel, an increase of 4.7 compared with the current year.

Key Provisions

- Kinde Durkee Case Impact. The Governor's Budget includes the continuation of $350,000 to the FPPC to accommodate for the increased costs in the aftermath of the Kinde Durkee Case. Kinde Durkee, a prominent political campaign treasurer in California, was arrested in September 2011 for allegedly embezzling millions of dollars from numerous campaign accounts in California. The FPPC was heavily involved in the investigation from the beginning, and experienced a dramatic increase in requests for advice. The FPPC is still receiving heightened requests for audits, investigations, regulatory changes and local training in addition to written, phoned, and e-mail inquiries for advice.

- AB 2146 San Bernardino Workload. The Governor's Budget grants reimbursement authority for up to $718,000 and six positions beginning January 1, 2013 as authorized by Assembly Bill AB 2146 (Cook) Chapter 169, Statutes of 2012. The legislation permits the County of San Bernardino to contract with the FPPC to enforce San Bernardino County's local campaign finance ordinance. Exact funding levels will be determined through analysis and discussion of San Bernardino County's workload.

DEPARTMENT OF INSURANCE

The Department of Insurance regulates the largest insurance market in the United States with more than $119 billion in direct premiums written in the state. The Department conducts examinations and investigations of insurance companies and producers to ensure that operations are consistent with the requirements of the Insurance Code, and that insurance companies are financially able to meet their obligations to policyholders and claimants. The department also investigates complaints and responds to consumer inquiries; administers the conservation and liquidation of insolvent and delinquent insurance companies; reviews and approves insurance rates; and is a major contributor in combatting insurance fraud.

The Governor's Budget proposes a total spending of $237.4 million (No General Fund) for the Department of Insurance in 2013-14, an increase of 6.69 percent compared with estimated spending for the current year. Proposed staffing totals 1,326.3 personnel, an increase of .76 compared to the current year. The Department of Insurance will focus on implementing state laws throughout FY 13 14 in order to accommodate the new requirements of the federal Affordable care Act (ACA).

Fund Source (000s)	2011-12 Actual	2012-13 Projected	2013-14 Proposed	CY to BY Change	% Change
Insurance Fund	$220,541	$221,625	$236,469	$14,855	6.69%
Federal Trust Fund	423	721	721	0	0
Reimbursements	284	850	250	(650)	(70.59)
Total Expenditures	$221,248	$223,196	$237,440	$14,244	6.38%
Positions	1,184.2	1,316.3	1,326.3	10	.76

Key Provisions

- Adjustment to accommodate Federal requirements. The Governor's Budget includes four separate allocations of increased special fund expenditure authority to the California Department of Insurance (CDI) to implement legislation bringing California laws into compliance with newly mandated federal requirements. In response to the passing of the federal ACA, the CDI must accommodate new workloads and establish the California Health Benefit Exchange program to insure more Californians.

- AB 2138 Healthcare Insurance Fraud. The Governor's Budget includes $7.377 million to investigate and prosecute health and disability fraud cases in order to implement AB 2138 (Blumenfield), Chapter 444, Statutes of 2012. The legislation amends California Insurance Code (CDI) Section 1872.85(a) and increases the assessment of each health and disability insured under an insurance policy issued in California to $.20 from $.10. Seventy percent of this new revenue will be used to fund local attorneys investigating health and disability fraud cases, and the remaining 30 percent will help fund the Fraud Health and Disability program. Heightened efforts to identify fraud cases are necessary seeing as insurance fraud has increased in sophistication, complexity, and volume.

- Proposition 103 Approval Rate Review Process. In 1998 the prior approval rate review process was changed by Proposition 103 (California Insurance Code section 12979, 12992(b)), which increases the use of predictive modeling in the development of rating plans. The Governor's Budget includes a special fund expenditure increase of $350,000 for FY 2013-14 and 2014-15 so that the CDI can hire outside consultants to perform the technical analysis involved with the review of these new predictive models. CDI will have the consultants teach Department staff to review and create their own models so that this will not be an ongoing cost.

CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE

The California Tax Credit Allocation Committee (CTCAC) allocates federal and state tax credits used to create and maintain affordable rental housing for low-income households in the state by forming partnerships with developers, investors and public agencies. CTCAC works with public and private entities to assist with project development and also monitors project compliance. CTCAC coordinates its functions with state and local housing fund providers and with private fund investors in the provision and maintenance of affordable housing. CTCAC consist of seven members from state and local governments, with the State Treasurer serving as chair. Other members are the Governor (or Director of Finance), State Controller, Director of Department of Housing and Community Development, Executive Director of California Housing Finance Agency, and two representatives from local government.

The budget calls for $6.3 million and 40 positions for 2013-14. This represents a slight increase from the 2012-13 funding level of $6.0 million and 39 positions. CTCAC is funded through fees generated by the issuance of debt and reimbursement, with no General Fund support.

Fund Source (millions)	2011-12 Actual	2012-13 Projected	2013-14 Proposed	BY to CY Change	% Change
General Fund	$0.0	$0.0	$0.0	$0.0	-
Special Funds and Accounts	4.1	5.4	5.7	0.3	5.3
Reimbursements	0.9	0.6	0.6	0.0	0.0
Total Expenditure	**$5.0**	**$6.0**	**$6.3**	**$0.3**	**4.9**
Positions	**34.8**	**39.0**	**40.0**	**1.0**	**2.5**

There is one BCP for CTCAC to provide one position to carry out core functions and administer federal and state mandates of the Low Income Housing Tax Credit program.

CALIFORNIA SCHOOL FINANCE AUTHORITY

The California School Finance Authority (CSFA) provides facilities and working finance capital to school districts, community college districts, county offices of education, and charter schools. CSFA consists of the following members: State Treasurer, who serves as chair, the Superintendent of Public Instruction, and the Director of the Department of Finance. CSFA currently administers and oversees the following programs: Smart Bonds, Charter Schools Facilities, Charter Schools Facilities Incentive Grants and Credit Enhancement and Qualified School Construction Bonds.

Budgeted expenditures for 2013-14 are $125.9 million with an increase of two positions over current year. The California School Finance Authority Fund is not subject to Budget Act appropriation and is for information only.

Fund Source (millions)	2011-12 Actual	2012-13 Projected	2013-14 Proposed	BY to CY Change	% Change
General Fund	$0.0	$0.0	$0.0	$0.0	-
General Fund, Proposition 98	-	-	92.0	92.0	100
Other Funds	20.8	21.2	33.9	12.7	37.5
Total Expenditure	**$20.8**	**$21.2**	**$125.9**	**$104.6**	**83.1**
Positions	**7.2**	**6.0**	**8.0**	**2.0**	**25.0**

Major Provisions

The budget proposes a shift of $92 million Proposition 98 General Fund, $12.4 million Charter School Revolving Loan Fund, and $175,000 non-Proposition 98 General Fund to reflect the realignment of the Charter School Facility Grant Program, and the Charter School Revolving Loan Program from the Department of Education to the California School Finance Authority.

RESTRUCTURING AGENCIES

The Governor's Reorganization Plan No. 2 of 2012 consolidates various departments into newly created agencies and departments in order to improve clarity, efficiency, organization and accountability within the executive branch. The following will be effective July 1, 2013.

The Department of Business Oversight

The Governor proposes the creation of the Department of Business Oversight (DBO) to regulate and supervise state-licensed financial services. This new department merges the Department of Financial Institutions and the Department of Corporations in order to provide efficient and fair access to the financial services marketplace for all Californians.

Secretary for Business, Consumer Services, and Housing Agency

The Governor proposes the creation of the Secretary for Business, Consumer Services, and Housing Agency to assist and educate consumers regarding the licensing, regulation, and enforcement of professionals and businesses in California. The Agency includes the Department of Consumer Affairs, the Department of Housing and Community Development, the Department of Fair Employment and Housing, the Department of Business Oversight, the Department of Alcoholic Beverage Control, the Alcoholic Beverage Control Appeals Board, the California Horse Racing Board, and the Alfred E. Alquist Seismic Safety Commission.

DEPARTMENT OF FINANCIAL INSTITUTIONS/BUSINESS OVERSIGHT

Beginning July 1, 2013, the Department of Financial Institutions (DFI) will merge with the Department of Corporation into the new Business Oversight as part of the Governor's reorganization plan 2. The Business Oversight is responsible for regulating and supervising state-licensed financial services to ensure a fair, efficient and accessible financial services marketplace.

The Governor's Budget includes support of $79.5 million for the Business Oversight Agency and 582.0 positions. This budget year number reflects the incorporation of both DFI and Department of Corporations. In the current year, the budget for DFI is $34.8 million with 270.0 positions and the budget for Department of Corporations is $44.7 million with 309.0 positions.

Fund Source (millions)	2010-11 Actual	2011-12 Projected	2012-13 Proposed	BY to CY Change	% Change
General Fund	$0.0	$0.0	$0.0	$0.0	-
State Corporations Fund	-	-	44.5	44.5	-
Local Agency Deposit Security Fund	-	-	0.4	0.4	-
Financial Institutions Fund	-	-	26.0	26.0	-
Credit Union Fund	-	-	7.5	7.5	-
Reimbursements	-	-	1.2	1.2	-
Total Expenditure	**-**	**-**	**$79.6**	$79.6	-
Positions	-	-	**582.0**	**582.0**	-

DEPARTMENT OF CONSUMER AFFAIRS (DCA)

The Department of Consumer Affairs (DCA) is responsible for promoting and protecting the interests of millions of California consumers by serving as a guardian and advocate for their health, safety, privacy, and economic well-being and by promoting legal and ethical standards of professional conduct. The department helps to promote good business practices and to ensure that California's consumers receive quality services by establishing minimal competency standards for more than 2.7 million businesses and professionals in over 250 license categories. The department is also an advocate for various consumer and business issues. The Budget splits the Department of Consumer Affairs into two budget categories: Department of Consumer Affairs, Boards; and Department of Consumer Affairs, Bureaus.

The Governor's Budget proposes total spending of $289.4 million (no General Fund) for the Department of Consumer Affairs, Boards in 2013-14, an increase of 2.9 percent compared with estimated spending for the current year. Proposed staffing totals 1,538.2 personnel, an increase of 38.7 percent compared with the current year.

The Governor's Budget proposes total spending of $283.01 million (no General Fund) for the Department of Consumer Affairs and Bureaus, in 2013-14, an increase of 29.6 percent compared with estimated spending for the current year. Proposed staffing totals 1,750.0 personnel, an increase of 27.18 percent compared with the current year.

Key Provisions

- BreEZe System Special Project Support Continuation Funding and Credit Card Funding. The Governor's Budget proposes $9.5 million to continue implementation of the BreEZe information technology project. BreEZe will replace two legacy systems within DCA and will support all of the DCA's applicant tracking, licensing, renewal, enforcement, monitoring, cashiering and data management needs. The project began in 2009, and a Special Project Report was approved by the California Technology Agency in July 2011.

- Funding in 2013-14, all from Special Funds, will go toward the IT program and a credit card fee that will allow BreEZe to interface with a third-party payment processor, which will allow DCA to accept credit card payments from licensees, a more convenient form of payment for applicants.

- Budget and Position Authority Transfer. In accordance with the Governor's Reorganization Plan No. 2 of 2012, the Department of Consumer Affairs (DCA) will consolidate the Department of Real Estate and the Office of Real Estate Appraisers into the Department of Bureaus. This consolidation will increase administrative efficiency and coordination through the combination of similarly focused departments. As of July 1, 2013 all positions and allocated resources will be transferred to the Bureau of Real Estate and the Bureau of Real Estate Appraisers within the Department of Consumer Affairs.

- Performance Based Budgeting. Department of Finance and DCA developed a multi-year performance based budgeting plan as a result of Executive Order B-13-11. All boards, bureaus, and divisions must undergo program evaluations to develop up-to-date strategic plans as part of a performance based budgeting pilot test program. Appropriate enforcement and licensing performance measures will be established by the program evaluations in order to increase efficiency and focus on achieving individual program goals.

- Personnel Increases. Various departments, bureaus, and committees within the DCA request additional personnel due to increased workload involved with implementing legislation. The Governor's Budget proposes adding a total of 7.5 personnel and $977,381 for FY 2013-14 in accordance the legislation pertaining to the department, board, or bureau.

- Budget Reductions. The Governor's Budget proposes reductions within various departments, bureaus, and boards to adjust for decreased workloads. Overall, the budget proposes eliminating 5.6 personnel and $862,000 within the DCA.

HOUSING

Housing funding and policy is likely to be a major discussion point in the future for a couple of reasons. First, similar to last year, the state backed bonds approved by voters in 2002 and 2006 will run out of funding, and second, the housing component associated with redevelopment agencies has been altered by the dissolution of the redevelopment agencies. On a statewide level, discussions that began in previous years on a permanent source of funding for housing will continue between the Legislature and interested parties.

Proposition 46, approved by voters in 2002, and Proposition 1C, approved by voters in 2006, remains an important funding source for housing programs, even both come to an end. Both propositions authorized multi-billion dollar expenditures: $2.1 billion for Proposition 46 and $2.8 billion for Proposition 1C. Both propositions, called the Housing and Emergency Shelter Trust Fund Acts, authorized bonds to fund construction and renovation of rental housing, offer low-interest loans or grants to help low- and moderate-income Californians make down payments on homes, fund construction or renovation of farmworker housing, fund emergency homeless shelters and transitional housing, and support other housing programs.

HCD is in the final stages of awarding these bond funds. In most programs, new awards are related to re-awarding funds that have been returned (disencumbered) from previous rounds of funding. For Proposition 46, all original funding rounds have been completed. The Proposition 46 Award Schedule reflects $15 million in awards in 2012-13 to re-award disencumbered funds in CalHOME, Governor’s Homelessness Initiative, and the Emergency Housing and Assistance Capital Development (EHAP-CD) programs. Staffing related to Proposition 46 has been reduced and close to a level that is needed for monitoring on a long-term basis.

The Governor’s Budget includes a plan to award the remainder of its Propositions 46 and 1C awards in the current year and budget year. The exception is the Housing Related Parks Program, for which a balance of $166 million of program funding is available for awards. Last year the Legislature enacted AB 1672 (Torres) to allocate monies for this fund, but this year the Governor’s Budget did not include an appropriation.

Additionally, the Governor’s Budget includes funding for HCD to review local government’s housing plans in accordance with AB 32 (Núñez), Chapter 488, Statutes of 2006, and SB 375 (Steinberg), Chapter 728, Statutes of 2008. AB 32 requires the reduction of greenhouse gas emissions to 1990 levels by 2020, while SB 375 requires the integration of housing and transportation planning in an effort to achieve the greenhouse gas emission reduction targets.

The role of the HCD's policy unit is to review local government's housing elements to ensure land use policies are aligned with the housing market needs of current and future residents in the next two years. According to HCD, a two to three year peak will hit HCD in 2013-14 and 2014-15. The workload significantly increased with the passage of SB 375 and the alignment of the housing elements with the regional transportation plans.

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT/ CALIFORNIA HOUSING FINANCE AGENCY

The mission of the Department of Housing and Community Development (HCD) is to preserve and expand safe and affordable housing opportunities and promote strong communities for all Californians. The HCD: (1) administers housing finance, economic development, and community development programs; (2) develops housing policy and advocates for an adequate housing supply; and, (3) develops building codes and regulates manufactured homes and mobile-home parks. The HCD also provides technical and financial assistance to local agencies to support housing development.

The mission of the California Housing Finance Agency (CalHFA), which was statutorily chartered in 1975 to be the State's affordable, housing bank, is to create and finance progressive housing solutions so that more Californians have a place to call home. The agency is financially self-supporting, setting loan interest rates slightly above its costs and charging fees to cover investments related to bond proceeds.

Under the Governor's Reorganization Plan 2, CalHFA merges into the HCD beginning on July 1, 2013. The Governor's Budget proposes total spending of $369 million ($7.1 million General Fund) for HCD in 2013-14 with 869.1 positions, which combines both HCD and CalHFA positions.

Fund Source (millions)	2011-12 Actual	2012-13 Projected	2013-14 Proposed	BY to CY Change	% Change
General Fund - HCD	$7.3	$7.0	$7.1	$0.1	1.2
CalHFA Funds	46.7	48.0	48.1	0.1	0.2
All Other HCD Funds	505.0	331.5	313.4	(18.1)	(5.8)
Total Expenditure	$559.0	$386.6	$368.6	$(17.9)	(4.9)
HCD Positions	497.6	538.1	534.3	(3.8)	(0.7)
CalHFA Positions	304.5	334.8	334.8	0.0	0.0
Total Positions	802.1	872.9	869.1	(3.8)	(0.4)

Major Provisions

Staff Increase for Housing Element Program

The budget includes $649,000 and five positions on a two-year limited-term basis from the Air Pollution Control Fund. This is to address the spike in the number of housing element reviews resulting from SB 375 (Steinberg), which linked housing element reviews to the adoption of regional transportation plans.

Headquarters Relocation

The budget proposes an augmentation of $2 million to support one-time moving and increased rental rate for the headquarters relocation. The one-time costs total $3 million with an additional $274,000 in ongoing rental costs.

Emergency Solution Grants Program

The U.S. Department of Housing and Urban Development (HUD) has combined and expanded the previous Federal Emergency Shelter Grant and Homelessness Prevention and Rapid Re-Housing Programs under a new program called the Emergency Solutions Grants (ESG) program and increased the funding. HUD has issued new rules regarding homelessness and homeless populations as well as expanded eligible activities for the ESG program. The budget proposes additional federal authority in 2013-14.

HOME Program Funding Adjustment

There have been significant federal cuts to the Home Investment Partnerships program (HOME) and in response; the budget proposes budget adjustments to reflect the reduced expenditure levels in the program. These reductions include:

- Reduction in State Operations federal budget authority total of $1,900,000 and 13 positions for 2013-14 and 2014-15.

- Reduction of Local Assistance federal budget authority total of $35,000,000 in 2013-14 and 2014-15

Loan Repayments Program

The Governor's Budget estimates a collection of $1.9 million in loan repayment in 2013-14 to fund the support costs related to long-term monitoring.

Proposition 46 and 1C Tables

The following tables show the remaining balances for Proposition 46 and 1C, along with the allocations for the past three years. The appropriations included in the budget year are subject to legislative approval. Additionally, the remaining balances in the funds represent the amount of set-aside for the long-term administrative and statewide costs, and 4 percent default reserve for the programs that have balances. The only exception is the Housing-Related Parks Program that has funding available for awards.

Proposition 46 (Dollars in Thousands)	Bond Authority	Prior Years	2011-12	2012-13	2013-14	Remaining Balance
CalHFA Programs	$300,418	$270,418	$30,000	$0	$0	$0
CalHome	$136,000	$111,463	$10,223	$10,357	$466	$3,491
Building Equity and Growth in Neighborhoods	$59,000	$38,914	$17,220	$324	$305	$2,237
CA Self-Help Housing Program	$10,000	$10,000	$0	$0	$0	$0
Multifamily Housing Program	$800,000	$768,133	$629	$279	$494	$30,465
Governor's Homeless Initiative	$39,437	$30,773	$3,000	$3,000	$0	$2,664
Student Housing / Downtown Rebound Program	$15,000	$12,456	$0	$0	$0	$2,544
Non-Residential Space for Support Services	$20,000	$20,000	$0	$0	$0	$0
Local Housing Trust Fund Matching Grants	$25,000	$25,000	$0	$0	$0	$0
Preservation Interim Repositioning Program	$145	$145	$0	$0	$0	$0
Supportive Housing Program	$195,000	$174,056	$14,539	$0	$0	$6,405
Joe Serna, Jr. Farmworking Housing Program	$180,000	$152,216	$399	$253	$308	$26,824
Migrant Health Services / Health Housing Set-Aside	$20,000	$20,000	$0	$0	$0	$0
Code Enforcement Grant Program	$5,000	$5,000	$0	$0	$0	$0
Jobs-Housing Balance / Workforce Housing Reward	$100,000	$100,000	$0	$0	$0	$0
Emergency Hsg Assistance - Captial Development	$195,000	$179,901	$7,129	$3,157	$1,265	$3,548
Total	**$2,100,000**	**$1,918,475**	**$83,139**	**$17,370**	**$2,838**	**$78,178**

Proposition 1C *(Dollars in Thousands)*	Bond Authority	Prior Years	2011-12	2012-13	2013-14	Remaining Balance
CalHOME	$335,813	$199,906	$69,468	$40,209	$9,209	$17,021
California Self-Help Housing Program	$10,000	$9,819	$181	$0	$0	$0
Building Equity in Neighborhoods Program	$88,000	$80,561	$435	$455	$455	$6,094
CalHFA Programs	$200,000	$200,000	$0	$0	$0	$0
Affordable Housing Innovative Programs	$61,187	$58,491	$775	$0	$403	$1,518
Multifamily Housing Program - General	$385,521	$260,097	$51,847	$54,001	$2,362	$17,214
Multifamily Housing - Supportive Housing	$195,000	$113,831	$64,334	$5,000	$0	$11,835
Homeless Youth Housing	$39,479	$27,277	$12,202	$0	$0	$0
Joe Serna, Jr. Farmworking Housing Program	$135,000	$89,932	$1,329	$4,546	$1,599	$37,594
Emergency Hsg Assistance - Captial Development	$50,000	$20,106	$17,732	$567	$4,567	$7,028
Infill Incentive Grant Program	$850,000	$747,062	$1,744	$2,522	$53,621	$45,051
Transit Oriented Development	$300,000	$220,155	$833	$967	$48,070	$29,975
Housing - Related Parks Program	$200,000	$2,035	$21,142	$1,054	$1,114	$174,655
Total	**$2,850,000**	**$2,029,272**	**$242,022**	**$109,321**	**$121,400**	**$347,985**

EMPLOYMENT DEVELOPMENT DEPARTMENT

The Employment Development Department (EDD) is the primary catalyst for building and sustaining a high quality workforce. The EDD serves the people of California by matching job seekers and employers. The EDD pays benefits to eligible workers who become unemployed or disabled, collects payroll taxes, and provides employment and training programs under the federal Workforce Investment Act of 1998. In addition, the EDD collects and provides comprehensive economic, occupational, and socio-demographic labor market information concerning California's workforce.

The Governor's Budget proposes total spending of $16.9 billion ($313.3 million General Fund), a decrease of $3.4 billion (16.7 percent) compared to the current year, and 8,932.1 positions, a decrease of 763.7 positions compared to the current year. The decrease in expenditures is largely due to continuing reductions in the Unemployment Fund, a result of a reduction in the unemployment rate and the potential end of federal extensions of Unemployment Insurance benefits at the end of December 2013.

Fund Source	2011-12 Actual	2012-13 Projected	2013-14 Proposed	Change from CY	% Change
General Fund	$344,217	$329,875	$313,314	($16,561)	(5.0%)
Unemployment Fund	$15,674,055	$12,794,696	$9,374,786	($3,419,910)	(26.7%)
Other Funds (8)	$6,632,127	$7,160,857	$7,200,051	$39,194	.5%
Total Expenditure	$22,650,399	$20,285,428	$16,888,151	($3,397,277)	(16.7%)
Positions	9,386.4	9,696.1	8,932.4	(763.7)	(7.9%)

Major Provisions

Unemployment Insurance Program Insolvency

As California emerges from recession and the unemployment rate has finally dropped below double digits, the state still faces a major remnant of the economic downturn. California is projected to owe the federal government $10.2 billion by the end of 2013 for unemployment payments the state borrowed from the Federal Unemployment Account.

The Governor's Budget proposes a $291.2 million General Fund payment to the federal government in September 2013 to cover interest owed on this debt. The Administration also is calling for a series of meetings of key stakeholders, including business and labor, to discuss addressing the deficit and the underlying imbalance between annual employer contributions and Unemployment Insurance benefit payments. Stakeholders face a simply stated but hard-to-resolve problem: the money paid by employers to cover unemployment benefits is not sufficient to cover the benefits allowed to the unemployed.

Recession sparked deficit. The Unemployment Insurance Program (UI) is a federal-state program that provides weekly UI payments to eligible workers who lose their jobs through no fault of their own. Benefits range from $40 to $450 per week depending on the earnings during a 12-month base period.

The UI program benefits are financed by employers who pay state unemployment taxes, ranging between 1.5 and 6.2 percent, on the first $7,000 in wages paid to each employee in a calendar year. Employers responsible for a high number of unemployment claims pay the highest tax rate.

In part because of double-digit unemployment rates, the state's UI Fund was exhausted in January 2009 due to an imbalance between the benefit payments and annual employer contributions. To make UI benefit payments without interruption, the EDD began borrowing funds from the Federal Unemployment Account (FUA) to pay benefits to an increasing number of unemployed claimants. California is one of 32 states forced to borrow money from the federal government to handle surging unemployment during the past five years. At the end of 2009, the UI Fund had a projected deficit of $6.2 billion. Based on Department of Finance economic assumptions, this deficit will grow to $10.2 billion at the end of 2013.

Consequences of the deficit. Beginning in September 2011, the state was required to pay interest on the outstanding federal loan. The interest must come from state funds, and the state faces dire consequences if the interest is not paid: federal unemployment insurance taxes on employers would skyrocket (about $6 billion annually), and the federal government would stop covering administrative costs for unemployment insurance.

The Governor proposed and the Legislature approved a plan during the past two years to use General Fund monies to pay interest due in September 2011 and September 2012. To offset the General Fund expenditure, loans were approved from the Disability Insurance (DI) Fund to the General Fund, resulting in no net cost to the General Fund. Provisional budget language required that the loans from the DI Fund to the General Fund be repaid with interest during the next four years. The Administration made interest payments to the federal government of $303.5 million in September 2011 and $308.2 million in September 2012. Thus, the DI Fund is now owed $611.7 million plus interest.

In addition to the added costs to the state related to interest payments, businesses also are facing increased taxes due to the deficit. Pursuant to federal law, the employer tax credit is reduced annually in states facing UI insolvency in order to pay off the deficit. This reduced credit cost California businesses an extra $290 million in federal taxes in calendar year 2012, according to EDD estimations, and that cost will grow to $582 million in calendar year 2013.

Imbalance between benefits and funding will remain an issue beyond recession. As both the Department of Finance and Legislative Analyst have noted, the imbalance in the UI Fund was dramatically exacerbated by high unemployment during the past five years, but the problem will remain even in better economic times. Financing of the system has not been altered since 1984, even though benefit levels for unemployed workers have been increased and average weekly wages and the minimum wage have doubled since then. The maximum amount California employers are required to pay for unemployment benefits is the second lowest in the nation, while benefits levels are among the top third in the nation.

For 2013-14, the imbalance remains: EDD estimates it will spend $9.4 billion for unemployment benefit payments, while receiving $5.7 billion from employers.

In a 2010 report on this issue, the Legislative Analyst recommended a balanced approach of tax increases, benefit reductions and eligibility changes to restore long-term financial health to the system. The Governor's 2012-13 Budget Proposal included a plan to limit UI eligibility for some workers and add a surcharge on employers, but the plan only raised enough revenue to repay interest payments and therefore did not address the long-term problem. Assembly Budget Subcommittee No. 4 rejected the proposal at its March 7, 2012 hearing.

The Administration intends to soon convene a stakeholder group to discuss this issue, but it is unclear when this group might create recommendations, or whether those recommendations would be enacted through the budget or through legislation.

Key Provisions

- **Disability Insurance Automation Project**
  The Governor's Budget proposes an increase of $10.6 million and a redirection of $1.9 million from the Disability Insurance Fund to support continuing costs related to the Disability Insurance Automation (DIA) Project. The funding will be used for a net increase of 26 positions (62 new positions and the elimination of 36 existing data input positions). The DIA Project is intended to automate several manual processes related to the Disability Insurance Project and is intended to allow claimants, medical providers and employers on-line access to DI forms, claims and other information. The project went live in October, and EDD projects that savings related to this project will pay for its costs after 2013-14.

- **Alternative and Renewable Fuel and Vehicle Technology Program**
  The Governor's Budget proposes on-going reimbursable appropriation authority of $3 million to allow more flexibility in an Employment Training Panel program that seeks to assist workforce training and development needs related to alternative and renewable fuel and vehicle technologies. The funding comes from the California Energy Commission via AB 118 (Núñez) Chapter 750, Statues of 2007, which increased vehicle registration and other vehicle fees to pay for alternative and renewable fuel and vehicle technology programs.

- **Workforce Investment Act Funding**
  The Governor's Budget proposes an increase of $18.2 million in federal funding for the Governor's discretionary and Rapid Response WIA funding.

DEPARTMENT OF INDUSTRIAL RELATIONS

The Department of Industrial Relations protects the workforce in California, improves working conditions, and advances opportunities for profitable employment. The Department is responsible for enforcing workers' compensation insurance laws, adjudicating workers' compensation insurance claims, and working to prevent industrial injuries and deaths. The Department also promulgates regulations and enforces laws relating to wages, hours, and conditions of employment, promotes apprenticeship and other on-the-job training, assists in negotiations with parties in dispute when a work stoppage is threatened, and analyzes and disseminates statistics, which measure the condition of labor in the state.

The Governor's Budget proposes total spending of $586.1 million ($2.5 million General Fund) for the Department, a 42 percent increase from 2012-13, and 2,796.6 positions, a 3.3 percent increase from 2012-13. Much of the increase is due to growing department costs related to implementing workers compensation reforms.

Fund Source	2011-12 Actual	2012-13 Projected	2013-14 Proposed	BY to CY Change	% Change
General Fund	$4,321	$2,385	$2,468	$83	3.5%
Workers Comp Admin Fund	$155,475	$164,081	$309,456	$145,375	88.6%
Federal Trust Fund	$34,489	$35,395	$36,778	$1,383	3.9%
Occupational Safety/Health Fund	$40,557	$39,687	$51,169	$11,482	28.9%
Labor Enforcement Compliance Fund	$37,693	$38,655	$43,583	$4,928	12.7%
Other Funds (24)	$118,572	$132,268	$142,665	$10,397	7.9%
Total Expenditures	$391,107	$412,471	$586,119	$173,648	42.1%
Positions	2,378.8	2,706.6	2,796.6	90	3.3%

Key Provisions

Elimination of Sunset Provisions of Labor Enforcement and Compliance Fund and Occupational Safety and Health Fund

- The Governor's Budget proposes eliminating the July 1, 2013 sunset dates for two funds critical to ensuring the protection of workers and enforcing minimum labor standards. The Occupational Health and Safety Fund provides funding for the Division of Occupational Safety and Health, or Cal/OSHA, which works to ensure safe working conditions for the California workforce. The Labor Enforcement and Compliance Fund provides funding for the Division of Labor Standards Enforcement (DLSE), which works to ensure workers are not required or permitted to work under substandard unlawful conditions and protect employers who comply with labor laws from those who seek to gain a competitive advantage by avoiding these laws.

- The 2010 Budget Act eliminated General Fund support for both Cal/OSHA and DLSE, and instead created the Labor Enforcement and Compliance Fund and increased the Occupational Health and Safety Fund to provide support for these programs by assessing employers. The act stated, however, that these assessments would sunset July 1, 2013 unless a later statute deletes or extends the date.

- The Administration notes that the General Fund remains unable to cover these costs, and ending the two assessments would cripple both programs. Cal/OSHA would lose 48 percent of its funding, while DLSE would lose 62 percent of its funding. The consequences would range from far less enforcement of labor laws and worker-safety issues and a potential loss of $12- to $18-million in General Fund revenue due to the a decrease in fine revenues for the state.

- In addition to eliminating the sunset date, the Administration also is seeking to adjust the assessment cap on each fund. The Occupational Safety and Health Fund would be allowed to grow to $57 million from $52 million, and the Labor Enforcement and Compliance Fund would grow from $37 million to $46 million, under proposed trailer bill language.

Workers Compensation Reforms

- The Governor's Budget proposes 82 positions and an increase of $152.9 million in 2013-14 and $146.5 million in 2014-15 from the Workers Compensation Administration Revolving Fund to implement SB 863 (De León), Chapter 363, Statutes of 2012). The legislation enacts several reforms to the workers compensation system, including changes to the measurement of permanent disability, the compensation for permanent disability, the process for resolving disputes over appropriate medical treatment, medical fees and billing and collections, and takes steps to improve self-insurance programs.

- The legislation requires significant new duties for the DIR, including administering a Special Earnings Loss Supplement Program, creating an Independent Medical Review unit, and improving the Office of Self Insurance Plans.

- A significant amount of the funding request ($120 million) is to fund the Special Earnings Loss Supplement Program, which will pay claims to injured workers whose permanent disability benefits are disproportionately low in comparison to their earnings loss, as required by the legislation.

- The proposal also includes authority for DIR to implement new fees to pay for interpreters, Independent Medical Review, Independent Bill Review, and filing fees on medical treatment and medical-legal liens.

Compliance Monitoring Unit Funding Adjustment

- The Governor's Budget proposes a fund shift and one-time loan to help stabilize support for the Compliance Monitoring Unit within the Division of Labor Standards Enforcement. The Compliance Monitoring Unit was created through 2009 legislation, SB 9 X2 (Padilla), Chapter 7, Statutes of 2009 to monitor enforce prevailing wage and other labor laws on state construction bond projects. The legislation intended for the unit to be paid for by fees not to exceed ¼ of 1 percent of a project's bond funding. The Administration notes that this funding model has proven to be unworkable, as it is insufficient to provide adequate oversight and is overly restrictive as to how the unit can use the funds.

- The Administration notes that trailer bill language to create a permanent funding solution is under development. For 2013-14, the budget proposes the following to continue support for the Compliance Monitoring Unit and other entities:

- A shift of $2.4 million in existing General Fund authority within the Division of Labor Standards Enforcement and a corresponding reduction in spending authority for the state Public Works Enforcement Fund;

- An increase of $431,000 in authority for the Occupational Safety and Health Fund;

- A $5-million loan from Cal/OSHA's Targeted Inspection and Consultation Fund to the state Public Works Enforcement Fund;

- An increase of $2 million in authority for the Labor Enforcement and Compliance Fund to backfill the funding shift within DLSE;

- And the elimination of the Construction Industry Enforcement Fund with a commensurate additional increase in authority of the Labor Enforcement and Compliance Fund of $67,000.

Elimination of the High Hazard Assessment

- The Governor's Budget requests the elimination of the Targeted Inspection and Consultation Fund assessment on high hazard employers and an increase in the Occupational Safety and Health Fund to provide funding support for the high hazard program. The Administration states that by eliminating the Targeted Inspection and Consultation Fund and adding an assessment to the Occupational Safety and Health Fund, it will combine what had been two separate bills to employers into one. The Occupational Safety and Health Fund would receive increased appropriation authority of $9.1 million to replace the other fund, allowing Cal/OSHA to provide the same oversight and services to high hazard employers while reducing administrative work for both the department and employers.

Child Performer Service Permits – Assembly Bill 1660

- The Governor's Budget requests 8 new positions and $701,000 in 2013-14 and $625,000 ongoing from the newly created Child Performer Services Permit Fund to implement AB 1660 (Campos), Chapter 634, Statutes of 2012. The legislation requires the Division of Labor Standards Enforcement to work with the Department of Justice to ensure that sex offenders will not be able to obtain a permit to represent minors who are performing or seeking to perform in the entertainment industry.

AGRICULTURAL LABOR RELATIONS BOARD

The Agricultural Labor Relations Board is responsible for: 1) conducting secret ballot elections so that farm workers in California may decide whether to have a union represent them in collective bargaining with their employer; and, 2) investigating, prosecuting, and adjudicating unfair labor practice disputes.

The Governor's Budget proposes total spending of $6 million ($5 million General Fund) for the board, a 9.4 percent increase from 2012-13, and 45.5 positions, a 4.6 percent increase from 2012-13.

Fund Source	2011-12 Actual	2012-13 Projected	2013-14 Proposed	BY to CY Change	% Change
General Fund	$4,744	$4,811	$4,996	$185	3.8%
Reimbursements	$311	$189	-	(189)	(100%)
Labor and Workforce Development Fund	-	$490	$1,011	$521	106.3%
Total Expenditures	$5,055	$5,490	$6,007	$517	9.4%
Positions	32.8	43.5	45.5	2	4.6%

Key Provisions

- **Funding for the Administration of the Agricultural Labor Relations Board.** The Governor's Budget requests 4 new positions and $502,000 from the Labor and Workforce Development Fund to reorganize its administrative functions, fund costs associated with its reopened Oxnard field office and allow for travel costs.

ALFRED E. ALQUIST SEISMIC SAFETY COMMISSION

The mission of the Alfred E. Alquist Seismic Safety Commission is to lower earthquake risk to the properties and lives of Californians. The Commission works with federal, state, and local agencies as well as the private sector on a variety of activities that guide and stimulate earthquake risk reduction and management. There are 20 appointed Commissioners who provide policy guidance, topical expertise, and perspectives from the private sector, academia, and local government. The Commission is responsible for: (1) advising the Governor, Legislature, school districts, and the citizens of California on seismic safety policies and issues, (2) maintaining and encouraging the implementation of the five-year California Earthquake Loss Reduction Plan, including the Earthquake Risk Reduction Research and Projects Program, (3) reviewing the adequacy of earthquake and tsunami safety policies and programs and providing recommendations for improvement, (4) using existing knowledge and conducting studies where necessary to develop and publish information to improve the performance of structures in California, (5) preparing and disseminating guides to the public identifying earthquake weaknesses and other issues related to residential and commercial buildings, and (6) fostering the development and use of new and emerging technologies.

The Governor's Budget proposes total spending of $3.2 million (No General Fund) for the Seismic Safety Commission in 2013-14, a 70.79 percent increase compared with estimated spending for the current year. Proposed staffing totals 6.5 personnel, the same number as the current year.

Key Provisions

- Permanent Funding Source. The Governor's Budget proposes funding the Alfred E. Alquist Seismic Safety Commission through the Insurance Fund and Reimbursements as opposed to partial allocation of the General Fund during FY 2012-13. The Governor includes a $1.2 million loan to the Insurance Fund from the General Fund along with $82,000 of Reimbursements for FY 2013-14 and ongoing. These funds will allow the Commission to continue protecting Californians through programs, activities, and publications related to earthquake research. It is expected that the loan to the Insurance Fund from the General Fund will be repaid by June 30, 2016 through fees collected by the Department of Insurance.

CALIFORNIA GAMBLING CONTROL COMMISSION

The California Gambling Control Commission (Commission) has jurisdiction over gambling establishments (cardrooms), Tribal casinos, and charitable organizations that offer remote caller bingo, pursuant to its authority under state law and Tribal-State Gaming Compacts (Compacts). The Commission also has jurisdiction over gaming policies, regulations, criteria, and standards, and controls 88 licensed cardrooms in California. The Commission retains fiduciary, regulatory, and administrative responsibilities related to Tribal gaming that include: (1) distribution of Tribal gaming revenues to various state funds and to authorized federally-recognized non-Compact Tribes, and

(2) monitoring of Tribal gaming through initial and periodic background checks of key employees, vendors, and financial sources, as well as related to remote caller bingo.

The Governor's Budget proposes total spending of $103.1 million for FY 2013-14 (no General Fund) for the California Gambling Control Commission, a decrease of 12.5 percent compared with estimated current year spending. Proposed staffing includes 35 personnel, a decrease of 52.7 percent due to changes made by the Governor's Reorganization Plan No. 2 of 2012.

Key Provisions

- Gambling Control Commission Reorganization. Due to the Governor's Reorganization Plan No. 2 of 2012, certain gaming regulation functions and personnel from the Gambling Control Commission will be moved to the Department of Justice, Bureau of Gambling Control. Effective July 1, 2013. The 2013-14 Compliance and Licensing Divisions of the California Gambling Control Commission are transferring to the Department of Justice (Organization Code 0820). The Commission will maintain its policy-making role, establish regulations, approve licenses, and monitor revenues to funds for which it is responsible.

Indian Gaming Special Distribution Fund

The Indian Gaming Special Distribution Fund was established in various Tribal State Gaming Compacts for local public use in order to compensate for the impact Tribal Casinos and gambling have on neighborhoods. The Fund was established for the receipt and deposit of moneys received by the state from Indian Tribes pursuant to the terms of Tribal-State Gaming Compacts. Within the State Treasury, the Indian Gaming Special Distribution Fund holds the moneys received by the state from Indian tribes pursuant to the terms of the tribal-state gaming compacts.

The number one funding priority of the Indian Gaming Special Distribution Fund is the payment of shortfalls that may occur in the Indian Gaming Revenue Sharing Trust Fund, which is derived from gaming device license fees and available to the Gambling Control Commission. The second highest priority for the Fund is an appropriation to the Office of Problem and Pathological Gambling within the State Department of Alcohol and Drug Programs for problem gambling prevention programs. The Fund allocates the amount appropriated in the annual Budget Act between the Division of Gambling Control and the California Gambling Control Commission for regulatory functions that directly relates to Indian Gaming.

Lastly, allocations are made for local government agencies impacted by tribal gaming. These are the local jurisdictions grant funds that mitigate the impact of Tribal casinos. Allocations are distributed locally between law enforcement, fire services, emergency medical services, environmental impacts, and roads.

While Tribal governments are not legally mandated to share revenue with local and state governments the tribal leaders in California agreed to contribute to the fund with the hopes of continuing their practice of helping the communities that surround tribal reservations. The main purpose of the state fund is to help local governments deal with the consequences of Tribal Gaming Casinos.

Revised gaming compact agreements have caused the Special Distribution Fund to significantly decrease. In 2010 the fund held $115 million, whereas in 2013 it was down to just $5 million. Since the early 2000's, more money has been going out of the fund than coming in. Renegotiations are awaiting ratification within the legislature to address the steady decline of moneys available in the Indian Gaming Special Distribution Fund.

VETERANS

California is home to more than 1.9 million veterans, and as the nation's two recent wars continue to wind down, it is estimated that more than 35,000 veterans will return annually to the state from military service.

In California, a multitude of public agencies, ranging from the Employment Development Department to the Department of Motor Vehicles, run veterans' programs and gather data on veterans. Two lead agencies are the California Department of Veterans Affairs (CalVet) and County Veterans Service Offices (CVSOs). The Governor, the Legislature, and these state and local agencies face a daunting task of meeting the needs of older veterans and working to help connect younger veterans to federal benefits, employment, housing and other services.

CALIFORNIA DEPARTMENT OF VETERANS AFFAIRS (CALVET)

CalVet provides services to California Veterans and their dependents, and to eligible members of the California National Guard. The principle activities of the (CalVet) include:

1. Providing home and farm loans through the Cal-Vet Farm and Home Purchase to qualifying veterans using proceeds from the sale of general obligation and revenue bonds;

2. Assisting eligible veterans and their dependents to obtain federal and state benefits by providing claims representation, subventions to county veterans service officers, and direct educational assistance to qualifying dependents; and,

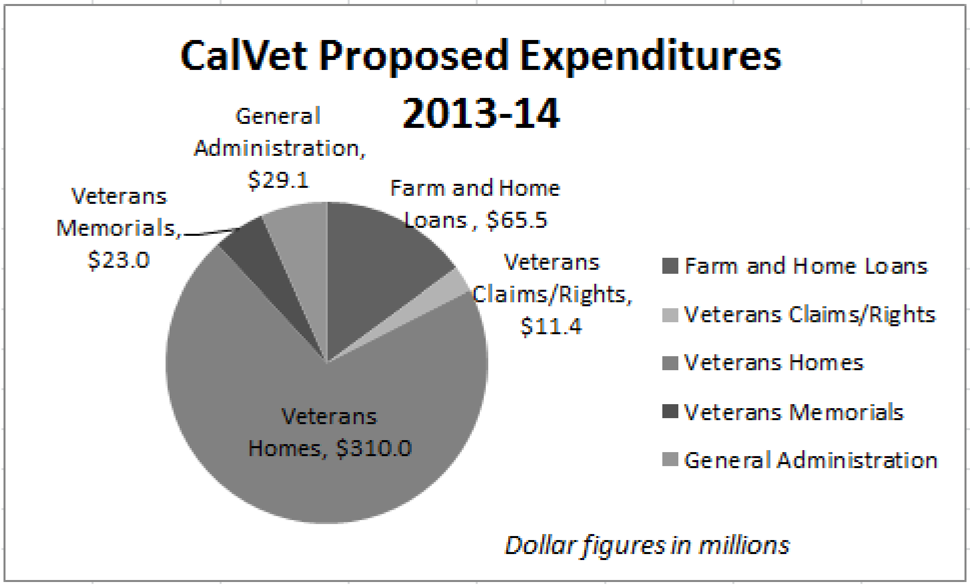
3. Operating veterans' homes in Yountville, Barstow, Chula Vista and Greater Los Angeles and Ventura County with several levels of medical rehabilitation services, as well as residential services.

The Governor's Budget proposes total spending of $386.9 million ($316.3 million General Fund) for the Department of Veterans Affairs, a 17.7 percent increase from the current year, and 2,428.9 PYs, an increase of 8.1 percent from the current year.

Fund Source	2011-12 Actual	2012-13 Projected	2013-14 Proposed	BY to CY Change	% Change
General Fund	$194,055	$252,137	$316,341	$64,204	25.4%
Veterans Farm and Home Building Fund of 1943	$70,541	$68,277	65,506	($2,771)	(4.1%)
Other Funds (11)	$4,605	$8,232	$5,064	($3,168)	(38.5%)
Total Expenditures	$269,201	$328,646	$386,911	$58,265	17.7%
Positions	1,784.9	2,246.7	2,428.9	182.2	8.1%

Major Issues

Department is opening two new homes while struggling to fund growth at current homes. An overwhelming majority of the department's expenditures – more than 80 percent - go toward operating the Veterans Homes of California (VHC), a system of eight veteran's homes, including two new facilities in Redding and Fresno. The 17.7 percent proposed increase in expenditures for CalVet in 2013-14 is attributable to increasing the number of residents in veteran's homes.



The VHC are long-term residential care facilities that provide California's aged or disabled veterans with rehabilitative, residential, medical and support services in a home-like environment. Spouses of veterans also are eligible for home membership. The homes are located in Yountville, Barstow, Chula Vista, Lancaster, Ventura, West Los Angeles, Redding, and Fresno. VHC-Yountville was established in 1884 as the first veterans' home in the United States, but the rest of the system was built during the past 20 years. The Lancaster, Ventura, and West Los Angeles homes admitted their first residents in 2010, while Redding and Fresno are projected to admit their first residents in October 2013.

While construction of the homes has been funded largely through state bonds and federal funds, VHC operations are largely supported by the General Fund. CalVet does receive revenue for VHC from member fees, federal per diem, Medicare and Medi-Cal. In 2013-14, the Administration projects spending $281.3 million in state General Fund on the VHC, while receiving $81.5 million in revenue, for a net General Fund impact of $199.9 million.

Due mostly to state budget constraints during the past several years, CalVet has operated the VHC well under capacity. The VHC have a total capacity of 2,995 beds, but the budgeted census for 2012-13 is 1,781. CalVet is proposing a significant increase in residents for 2013-14 due to admitting the first residents in Redding and Fresno and more than doubling the number of residents in West Los Angeles. The following table indicates the capacity of each home and the projected average daily census for 2013-14 should the Legislature approve the Administration's budget request. Even with the proposed increase, the system would maintain more than 1,000 empty beds.

Facility	Bed Capacity	Projected Average Daily Census, 13-14	Percent Change from 12-13
Yountville	1,229	1,959.7	0%
Barstow	400	212	0%
Chula Vista	400	290.6	0%
West Los Angeles	396	279	143%
Lancaster	60	60	0%
Ventura	60	60	0%
Redding	150	32	*No residents in 12-13*
Fresno	300	32	*No residents in 12-13*
Total	**2,995**	**1,959.7**	**13.2%**

The Governor's Budget proposes $27 million in additional funding for the Redding and Fresno homes to open the facilities in 2013-14, but provides no details as to how the money would be spent. A Budget Change Proposal providing a detailed spending plan is expected this spring.

The Administration and Legislature face a serious funding challenge in operating the VHC at full capacity. While CalVet projections show operating the three Los Angeles-area homes – Ventura, Lancaster and West Los Angeles – at full capacity in 2015-16 may only increase General Fund costs by $2.2 million over current year costs, costs to fully open Redding and Fresno will likely add significantly to the CalVet budget. CalVet is proposing a major increase in capacity in skilled nursing facility units in West Los Angeles, Redding and Fresno, which are the most expensive beds in the system because they require around-the-clock nursing care. For example, the 2013-14 proposal would add 164 new residents to West Los Angeles in skilled nursing facility beds.

In light of this problem, the Assembly successfully sought approval in 2012 for a comprehensive audit of the VHC by the Bureau of State Audits. Among other things, the audit is seeking to ensure the VHC's procurement policies are as cost effective as possible, the system is receiving as much revenue as possible, and identifying any legal restrictions that might prevent CalVet from partnering with third parties to fully utilize the capacity of the homes. The audit's findings – and recommendations from the State Auditor – are due in May.

The Assembly should continue to pressure CalVet to find efficiencies in its VHC operations, and may want to question whether CalVet should re-examine the types of beds it is seeking to open, or if there are other uses of space in the homes that could serve more veterans, in light of ongoing budget challenges.

2012 Budget trailer bill enacted reforms related to County Veterans Service Offices. Assembly Budget Subcommittee No. 4 on State Administration held an oversight hearing on veterans issues on February 28, 2012. A significant portion of the hearing examined the performance of County Veterans Service Offices (CVSOs), which are often the main point of contact for veterans seeking government assistance, and assist veterans in completing applications for federal benefits, such as disability and compensation benefits. The state has traditionally provided $2.6 million General Fund each year to support CVSOs in their efforts to help veterans obtain federal benefits. The Governor's Budget proposes the same amount.

Data examined at the oversight hearing indicated that a smaller percentage of California veterans receive federal benefits than other similar-size states, and the dollar amount per veterans also is less. Additionally, federal benefits per veteran vary wildly across counties, suggesting major differences in CVSO effectiveness. In an effort to improve CVSO performance, SB 1006 (Senate Committee on Budget and Fiscal Review), Chapter 32, Statutes of 2012) required CalVet to develop a performance-based funding formula to better incentivize CVSOs to help veterans access federal compensation and pension benefits and other benefits; conduct a review of the high-performing and low-performing CVSOs and based on this review, produce a best-practices manual for CVSOs.

During the spring budget process, the Assembly may wish to follow up with CalVet to determine its progress in implementing these important reforms. The Assembly also may wish to question CalVet on the implementation of the CalVet Connect project, an information technology project designed to help veterans to connect with federal, state and local governments via the Internet. In support of the project, the Speaker's Office gave $500,000 of Assembly funds to CalVet in 2012.

Farm and Home Loan program continues to shrink. Originally created in 1921 and re-authorized in 1943, the California Veteran Farm and Home Purchase Program was designed to help veterans acquire or pay for farms or homes. The program has been funded throughout the years by various bond acts and is not supported by the General Fund.

The number of outstanding loans in the program has decreased by 61 percent during the past decade, and the number of loans issued per year has decreased by 93 percent, as the chart indicates.

Outstanding Loans and Loans Issued

Year	Outstanding Loans	Loans Issued
2003	20,169	1,130
2004	17,643	1,942
2005	15,462	1,242
2006	14,481	1,228
2007	13,716	921
2008	13,130	1,116
2009	11,840	770
2010	10,415	212
2011	9,208	156
2012	7,913	83

A 1998 report by the Legislative Analyst predicted the program's decline, noting interest rates offered by the program were not competitive with the private sector. The LAO also noted the existence of a federal home loan program for veterans and another state agency, the California Housing Finance Agency, which offers loans to individuals, including veterans. In addition, CalVet notes that dramatic swings in the housing market during the past several years have impacted the program. The LAO questioned the need for the CalVet loan program in 1998 and recommended phasing it out and seeking voter approval to use the remaining bond funds for other veterans programs.

Legislation seeking to modify the program has been approved in recent years. Recently AB 1084 (Davis), Chapter 377, Statutes of 2011 authorized the department to issue loans to support "shared-equity cooperatives," which are typically condominium-style properties owned by a non-profit that in turn allows specified groups, such as low-income families, seniors or veterans, the opportunity to live in the properties and become homeowners.

Despite this legislation becoming law in 2011, CalVet has yet to issue any loans to support shared-equity cooperatives for veterans. The department states it may begin the program this spring. The Assembly may wish to question the department on the status of the home loan program, the implementation of AB 1084, and any other avenues it is pursuing to revive this dying program.

Key Provisions

- Further Implementation of the Enterprise-wide Veterans Homes Information System Project. The Governor's Budget requests one-time funding of $1.8 million General Fund to pay for the final implementation of the Enterprise-wide Veterans Homes Information System (Ew-VHIS). The project was first approved by the Legislature in 2007 and allows the Veterans Homes to maintain electronic medical records and automate other medical and patient systems.

- The project is in place at headquarters and at the homes in Barstow, West Los Angeles, Ventura, and Lancaster, with Chula Vista beginning implementation in the current budget year. This funding request will allow for implementation at Yountville. Total project cost should this funding be allowed would be $36.7 million.

- Yountville Steam Distribution System Renovation. The Governor's Budget requests $4.1 million in spending authority from the Federal Trust Fund for the construction phase of the Yountville Veterans Home's steam system renovation project. The project includes replacement of underground lines and valves and the removal of deteriorating asbestos insulation. The project also will create 10 Americans with Disabilities Act-compliant parking spaces as part of landscaping an area that will be disrupted due to the steam line replacement. The estimated project cost is $7.5 million and will be funded by $4.1 million in federal funds and $3.4 million in lease revenue bonds.

- Yountville Chilled Water Distribution System Renovation. The Governor's Budget requests $3.7 million in spending authority from the Federal Trust Fund for the construction phase of the chilled water distribution system at the Yountville Veterans Home. The additional chiller plant and replacement of cooling towers, pumps and valves, and increased capacity will allow the home to maintain proper temperatures. The estimated project cost is $6.4 million, with $3.7 million from federal funds, $2.2 million in lease revenue bonds and $497,000 from the Veterans Home Bond.

- State Veterans Cemeteries Federal Funding. The Governor's Budget requests $153,000 in spending authority and two positions to increase staffing at the Northern California Veterans Cemetery and the Yountville Veterans Home Cemetery. The increase will be funded through a recent U.S. Department of Veterans Affairs increase in the veteran burial allowance from $300 to $700. Recent operation experience at the cemeteries indicates a need for additional staff.

- County Enterprise Standard Licensing Fees. The Governor's Budget requests an increase of $96,000 in the Veterans Service Office Fund to fund annual maintenance fees for County Veterans Service Offices enterprise standard case management software. The software improves the Department of Veterans Affairs ability to maintain effective oversight of the CVSO services.

LOCAL GOVERNMENT

This section provides an overview of local government issues including the dissolution of redevelopment agencies and a discussion on the proposed suspension of new state mandates.

REDEVELOPMENT AGENCIES

In 2011, as part of the January budget, Governor Jerry Brown proposed to eliminate redevelopment agencies. In June 2011, two measures were enacted as part of the 2011-12 Budget, AB 26 X1 (Blumenfield), Chapter 5, Statutes of 2011-12, which eliminated traditional redevelopment, and AB 27 X1 (Blumenfield), Chapter 6, Statues of 2011-12, which created a new voluntary alternative. The California Redevelopment Agency, the League of California Cities and others sued over the constitutionality of the two measures. As a result, AB 27 X1 in February 2012 was held invalid and in February 2012 – redevelopment agencies were dissolved.

As part of the 2012-13 Budget, AB 1484 (Committee on Budget), Chaptered 26, of Statutes of 2012 was enacted to provide tools for successor agencies, oversight boards, and the Department of Finance (DOF) to facilitate the wind down of RDA activities. AB 1484 creates a process to transfer housing assets, audit RDA funds, and accounts to identify funds that should be remitting to local taxing entities, and requires a long-range property management plan for disposition of RDA properties.

At the end of the 2012, the Department of Finance and the successor agencies began the process outlined in AB 1484 and the Governor's Budget proposes revised numbers from the 2012 Budget Act in order to provide a more accurate account of what is happening. The Legislature may want DOF to provide an overview of their process, how it is implemented and working, and a status update on the revenues.

As a result of the dissolution of redevelopment agencies, the budget estimates Proposition 98 General Fund savings totaling $2.1 billion in 2012-13 and $1.1 billion in 2013-14. These estimates are lower than the estimates in the 2012 Budget Act by a total of $1.6 billion, $1.1 billion in 2012-13, and $0.5 billion in 2013-14. Additionally, the proposed budget estimates that in areas that contained RDA, in 2012-13 and 2013-14, approximately $1.6 billion will be distributed to counties, $1.2 billion will be distributed to cities, and $400 million will be distributed to special districts.

Revised Redevelopment Revenues

The chart below shows the revised redevelopment revenues from the 2012 Budget Act to the 2013-14 Budget and includes the Legislative Analyst's Office (LAO) November 2012 revenue forecast projections for redevelopment. The chart shows that revenue estimates from the Budget Act to the Proposed Budget have decreased and that the revenues included in the Proposed Budget and the LAO's estimates have moved closer together. The difference in projections from the 2012 Budget Act to the Governor's Budget has to do with the availability of information. At the time of the enactment of the AB 26 X1, information was limited. Now that the unwinding of redevelopment process has begun, the DOF can estimate the funds with more accuracy. Also, DOF has been working with localities to minimize court cases and to work on settlements.

Redevelopment Revenue Projects		
	2012-13	2013-14
2012 Budget Act	$3.2 billion	$1.6 billion
LAO's Forecast	$1.4 billion	$1.1 billion
2013-14 Governor's Budget	$2.1 billion	$1.1 billion

LOCAL MANDATES/COMMISSION ON STATE MANDATES

The Commission on State Mandates (COSM) is charged with the duties of examining claims and determining if local agencies and school districts are entitled to reimbursement for increased costs for carrying out activities mandated by the state. COSM was created as a quasi-judicial body and made up of the Director of Finance, the State Controller, the State Treasurer, the Director of the Office of Planning and Research, a public member with experience in public finance, and two additional members of local public bodies appointed by the Governor and approved by the Senate. This budget item appropriates the funding for staff and operations costs of COSM and appropriates non-education mandate payments to local governments. The Governor's Budget calls for expenditures of $52.9 million, representing a slight decrease from the current year of $53 million. State operations and administrative costs are approximately $1.9 million and the number of positions is proposed to increase by two positions to 13.0 over the current year.

Fund Source (Millions)	2011-12 Actual	2012-13 Projected	2013-14 Proposed	BY to CY Change	% Change
General Fund	$39.6	$50.4	$50.2	$(0.2)	(0.4)
Motor Vehicle Account	1.9	2.5	2.6	0.1	4.0
Other Funds	0.1	0.1	0.1	0.0	0.0
Total Expenditure	**$41.6**	**$53.0**	**$52.9**	$(0.1)	(0.2)
Positions	9.8	11.0	13.0	2	15.4

Major Provisions

Suspension of New Mandates

The Governor's Budget includes savings from the proposed suspension of nine new mandates in addition to the current mandates already suspended.

The first of these mandates include the suspension of four mandates for a cost savings of about $103.8 million. These mandates include:

- *Domestic Violence Background Checks* ($18.2 million). For any charges involving act of domestic violence, prosecutors must perform a background check on the defendant. The prosecutor must present background information to the court when it considers a plea agreement, sets bond or releases a defendant on his or her own, or issues a protective order. The costs of drafting and sending report also are reimbursable.

- *Identity Theft* ($79.2 million). Requires law enforcement agencies to take a police report and begin an investigation when identity theft is reported.

- *Modified Primary Election* ($1.7 million). Requires county election offices to add information to the voter registration card stating that voters who decline to state a party affiliation can vote a party ballot if the political party authorizes such persons to do so.

- *Permanent Absentee Voters* ($4.6 million). Requires county election offices to make permanent absent voter status available to any voter – previously this only applied to physically disabled. An explanation of the absentee voting procedure and how voters' names will be deleted from the permanent absent voter list if they fail to return an executed absentee voter ballot for any statewide election must be included.

Additionally, the budget includes proposals to suspend five mandates that were determined by the COSM to be reimbursable activities. At this time, the State Controller's Office has not adopted cost estimates for the suspension of these mandates. These mandates include:

- *California Public Records Act.* Requires local governments to disclose public records including the helping the public identify public records and converting the public records to electronic formats.

- *Local Agency Ethics.* Imposes ethics training requirements on general law counties and eligible special districts including the following reimbursable activities: adopting a written policy when local officials can be reimbursed for travel, meals, lodging and other necessary expenses, and providing expense reports forms, information on ethics training courses, and maintain training records for five years.

- *Tuberculosis Control.* Requires local detention facilities to submit a written treatment plan to relevant health officers for tuberculosis (TB) patients when they are released or transferred to another jurisdiction and requires local health officers to review treatment plans from a health facility within 24 hours.

- *Interagency Child Abuse and Neglect Investigation Reports.* Imposes requirements relating to child abuse investigations on local agencies including distributing Department of Justice's (DOJ) suspected child abuse form to mandated reporters, referring and cross-report child abuse and neglect matter to relevant agencies, and notifying suspected child abuser that they have been reported to the Child Abuse Central Index.

- *Voter Identification Procedure*. Requires local election officials to compare the signature on each provisional ballot envelope with the signature on the voter's affidavit or registration. If the signatures do not compare, the ballot shall be rejected.

Pre-2004 Mandate Obligations

The budget proposes to continue to defer the payment of the pre-2004 mandate obligations. Under statute, these pre-2004 mandate obligations, which total $900 million, must be paid by 2021. To date, a payment schedule has not been established.

Mandates to be Funded

The Administration's budget proposes to fund $48.4 million for the following mandates related to law enforcement and property taxes:

2013-14 Funded Mandates (000s)	2013-14 Total Estimate
Allocation of Property Tax Revenues	520
Crime Victims' Domestic Incident Reports	175
Custody of Minors - Child Abduction and Recovery	11,977
Domestic Violence Arrest Policies	7,334
Domestic Violence Arrests and Victim Assistance	1,438
Domestic Violence Treatment Services	2,041
Health Benefits for Survivors of Peace Officers and Firefighters	1,780
Medi-Cal Beneficiary Death Notices	10
Peace Officer Personnel Records: Unfounded Complaints & Discovery	690
Rape Victim Counseling	344
Sexually Violent Predators	21,792
Threats Against Peace Officers	3
Unitary Countywide Tax Rates	255
Total Funded Costs	**$48,359**

Major Provisions

Staff for Timely Mandate Determinations

The Administration's proposal includes an ongoing augmentation of $245,000 and two positions to hire additional staff to comply with statutory time frames and to accelerate the reduction of test claim, parameters and guidelines (Ps&Gs), Ps&Gs amendment, and backlogs. These efficiencies will result in statewide savings and enable the Administration and the Legislature to have up-to-date information for policy discussions on mandates.

REVENUES

The Administration's budget forecasts total General Fund revenue of $95.4 billion in 2012-13 and $98.5 billion in 2013-14. The continued moderate growth in the economy is expected to improve General Fund revenues through 2013-14. In addition to economic growth improvements, the increases in the General Fund revenues are attributed to the passage of Proposition 30, The Schools and Local Public Safety Protection Act of 2012, and Proposition 39, The California Clean Energy Jobs Act, which also increases General Fund revenue.

- Proposition 30 temporarily increases the personal income tax on the state's higher income taxpayers and temporarily increases the sales tax by one-half percent. Proposition 39 requires most multi-state businesses to determine taxable income using the single sales factor formula.

- Under Proposition 39 requires multi-state businesses to use the single sales tax factor which means the more sales the multi-state business has in California, the more the business' income is subject to state tax. Businesses that operate solely in California would not be affected by this measure.

Personal Income Tax

The Personal Income Tax (PIT) is estimated to account for 62.7 percent of all General Fund revenues in the Governor's 2013-14 Budget. The budget estimates PIT revenues will increase slightly in 2012-13 by 0.6 percent from $60.3 billion to $60.7 billion, and will increase by 2.5 percent from $60.2 billion to $61.8 billion in 2013-14. Major changes to the PIT include the passage of Proposition 30 and actions taken at the federal level; both are discussed below.

Proposition 30

The passage of Proposition 30 increases PIT rates on upper-income taxpayers for a seven-year period from 9.3 percent to 10.3 percent for income over $250,000 to $300,000, from 9.3 percent to 11.3 percent for income over $300,000 to $500,000, and from 9.3 percent to 12.3 percent for income over $500,000 up to $1,000,000.

Proposition 30 is estimated to increase PIT revenues by $3.2 billion in 2011-12, $4.8 billion in 2012-13, and $4.9 billion in 2013-14.

Federal Economic Growth and Tax Relief Reconciliation Act of 2001

The Governor's Budget reflects the potential impact of federal tax law changes. The federal Economic Growth and Tax Relief Reconciliation Act of 2001 reduced taxes for dividend income, capital gains, and other income. These federal tax laws were set to expire in 2010, but were extended through 2012 by Congress. The budget assumes that in 2012 some taxpayers will respond to the sunset of the extension by accelerating the payment of 2013 capital gains into the current year.

In mid-January, the Franchise Tax Board reported that PIT returns were higher than normal. This was mainly due to the accelerated capital gains payments. FTB reported that the January 16, 2013, one-day total was $2.2 billion. To give this perspective, looking at the total for the month of January in 2012, the total was $3.8 million. The one-day total from 2013 is more than half of the entire month of January last year. The Administration's budget anticipates the increase in the returns and notes that the revenue increases in 2012-13 will most likely be offset by reductions in 2013-14.

Sales and Use Tax

The Sales and Use Tax (SUT) is forecasted to account for 23.6 percent of all General Fund revenues in the Governor's 2013-14 Budget. The budget estimates the SUT revenues will increase modestly in 2012-13 by 0.5 percent from $20.6 billion to $20.7 billion, and will increase by 1.1 percent from $23 to $23.3 billion in 2013-14. The budget discusses the changes to the SUT including the passage of Proposition 30 and the expansion of the definition of a retailer engaged in business in California.

California's SUT is levied on the final purchase price of tangible consumer goods, except for food and certain other items. The SUT rate consists of both a statewide rate and a local rate. Approximately half of the revenue derived from the statewide rate is deposited into the General Fund, while the remainder is allocated to local governments. Localities also have the option of imposing, with voter approval, add-on rates to raise revenues for cities, counties, or special districts.

Proposition 30

The passage of Proposition 30 increased the sales tax rate by 0.25 percentage point from January 1, 2013, to December 31, 2016. It is estimated to increase SUT revenues by $611 million in 2012-13, and $1.3 billion in 2013-14.

Internet Retailers

Beginning September 15, 2012, the state imposes a use tax collection for certain out-of-state-retailers, particularly internet retailers. The budget assumes $107 million in General Fund revenue for 2012-13, and $150 million for 2013-14 due to the change in law. Amazon would have been subject to this law, but they opted to open offices within California and as a result of having a physical presence in California, the company is required to collect sales taxes for online purchases.

Corporation Tax

Corporation tax is about 9.3 percent of all General Fund revenues in the budget year. The budget estimates corporation tax revenues will decrease significantly in 2012-13 by 10.7 percent from $8.5 billion to $7.6 billion, and will increase by 2.2 percent from $8.9 to $9.1 billion in 2013-14. The budget discusses the impact that the passage of Proposition 39 will have on the Corporation Tax.

Proposition 39

Prior to the passage of Proposition 39, the ability for corporations to elect which sales tax method to use had a negative impact on Corporation Tax revenue. With the passage of Proposition 39, multi-state businesses are required to determine taxable income attributable to California using the single sales tax method. The budget estimates that the Proposition 39 increases corporation tax revenue by $440 million in 2012-13, and $900 million in 2013-14.

Enterprise Zone Reform

The Governor's Budget assumes savings related to new regulations for Enterprise Zone program, which is estimated to increase General Fund revenues by $10 million in 2012-13 and $50 million in 2013-14. The reforms are projected to save $310 million over the first five years.

The Enterprise Zone Program is responsible for the designation and administrative oversight of the 42 Enterprise Zones authorized by the state legislature. Targeting economically distressed areas throughout California, the program provides special incentives designed to encourage business investment and promote the creation of new jobs. The purpose of the program is to stimulate economic development by providing tax incentives to businesses enabling private sector market forces to revive the local economy. Each Enterprise Zone is administered by its local jurisdiction working with local agencies and business groups to promote economic growth through business expansion, attraction and retention.

The Department of Housing and Community Development (HCD) is the responsible agency for implementing the reforms to regulations. The proposed regulations as outlined in the Governor's Budget include:

- Limiting retroactive vouchering by requiring all voucher applications to be made within one year of an employee's hire date. Data collected by HCD shows that 30 percent of all Enterprise Zone voucher applications have been retroactive. Retroactive vouchering awards employers for past hiring decisions instead of new job creation.

- Streamlining the vouchering process for hiring veterans and recipients of public assistance by eliminating unnecessary paperwork burdens for participating companies.

- Requiring third party verification of employee residence within a Targeted Employment Area.

- Update Zone audit procedures and procedures for zones that fail audits.

In addition to the regulatory reforms, The Governor's Budget proposes additional legislation to address other issues with Enterprise Zones. At this time, the legislative proposal has not been released. The reforms proposed by the Governor streamline the Enterprise Zone process. This is a change from the Governor's proposal in 2011-12 that sought to eliminate the program in its entirety. The Legislature may consider monitoring the Governor's legislative proposal as well as HCD's regulatory process in order to examine other areas where the Enterprise Zone could be streamlined to run more efficiently. HCD released the regulations on January 11, 2013, in order to move the regulations through the regulatory process by May 2013.

FRANCHISE TAX BOARD

The Franchise Tax Board (FTB) administers the personal income tax and the corporation tax programs, the largest and third-largest contributors to the state's revenue, respectively. The department also performs some non-tax collection activities, such as the collection of court-ordered payments, delinquent vehicle license fees, and political reform audits. The FTB is governed by a three-member board, consisting of the Director Finance, the Chair of the Board of Equalization, and the State Controller. An executive officer, appointed by the board, manages the daily functions of the department. The Governor's Budget proposed expenditures of $750.2 million ($719.1 million General Fund, 10.6 percent increase) and 5,771.2 positions for FTB.

Fund Source (millions)	2011-12 Actual	2012-13 Projected	2013-14 Proposed	BY to CY Change	% Change
General Fund	$556.1	$642.9	$719.1	$76.2	10.6
Special Funds and Accounts	26.6	30.3	31.1	0.8	2.6
Total Expenditure	**$582.7**	**$673.2**	**$750.2**	**$77.0**	**10.3**
Positions	**5,548.7**	**5,626.2**	**5,771.2**	**145.0**	**2.5**

The Governor's Reorganization Plan 2 of 2012, moves FTB from State and Consumer Services Agency to the new Government Operations Agency beginning July 1, 2013.

Major Provisions

Enterprise Data to Revenue

The budget provides for continued funding for FTB's Enterprise Data to Revenue (EDR) project, which will address the agency's return processing and utilization of data, as well as provide connections among various systems. This request constitutes the fifth year of the EDR project and the third year of its implementation. This budget request calls for $152.1 million General Fund support and 184 permanent positions for the EDR project, which is expected to generate $261.6 million in General Fund revenues in 2013-14.

The EDR is a major technology project being built to update and enhance FTB's tax systems. FTB asserts that the EDR Project will allow it to substantially improve detection of underpayment and fraud in order to collect taxes from those who are not paying the full amount that they owe. In addition, FTB indicates that the project will enable it to improve service and give taxpayers better access to their tax records.

FTB Joint Efforts with Employment Development Department

The budget proposes consolidating the activities of the Employment Development Department (EDD) that relate to tax collection (primarily personal income tax withholding and payroll tax administration) with FTB activities in order to improve efficiency and provide additional data-sharing opportunities. The budget includes an increase in Personal Income Tax collections of $3 million General Fund by the FTB and $800,000 General Fund by the EDD as a result of these joint efforts.

Key Provisions

- FTB collects over 65 percent of the state's General Fund revenue and manages non-tax debt programs. FTB relies on the use of a full services data center to provide mainframe and distributed systems access to administer its programs. Workload growth projections indicate that the current mainframe environment cannot support the growth without upgrades. The budget proposes a one-time funding of $3.6 million and ongoing funding of $700,000 beginning in 2013-14 to upgrade FTB's system.

BOARD OF EQUALIZATION

The State Board of Equalization (BOE) is comprised of five members: four members each elected specifically to the Board on a district basis, plus the State Controller. The BOE administers the sales and use tax (including all state and local components), oversees the local administration of the property tax, and collects a variety of excise and special taxes (including the gasoline tax, insurance tax, and cigarette and tobacco products taxes) and various fees (including the underground storage tank fee, e-waste recycling fee, and fire prevention fee). The BOE establishes the values of state-assessed property, including inter-county pipelines, railroads, and regulated telephone, electricity, and gas utilities. The BOE also hears taxpayer appeals of FTB decisions on personal income and corporation taxes.

The Governor's Budget proposes resource support of $555.9 million ($313.5 million General Fund), and 4,847.1 positions for the BOE in fiscal year 2013-14, as shown in the following table. The budget proposes a total funding increase of $28.7 million (5.2 percent), and General Fund support increase of $16.3 million (5.2 percent), compared with spending estimates for the current year. Proposed staffing in the budget would increase by 135.0 positions (2.8 percent) from the current-year estimate.

Fund Source (millions)	2011-12 Actual	2012-13 Projected	2013-14 Proposed	BY to CY Change	% Change
General Fund	$274.1	$297.2	$313.5	$16.3	5.2
Other Funds	63.8	78.8	82.3	3.5	4.3
Reimbursements	136.5	151.2	160.1	8.9	5.6
Total Expenditure	**$474.4**	**$527.2**	**$555.9**	**$28.7**	**5.2**
Positions	4,257.4	4,712.1	4,847.1	135.0	2.8

Major Provisions

Enhancement of Online Registration System

The budget proposes additional resources to enhance the BOE's online registration system (eReg). The proposals include $950,000 ($690,000 General Fund and $260,000 Reimbursements) and 4.0 positions for 2013-14 for enhancements to eReg. Additionally, it proposes $808,000 ($587,000 General Fund and $221,000 Reimbursements) and 4.0 positions in 2014-15 to stabilize the eReg system.

Currently, the BOE's eReg system does not allow tax and fee payers to electronically update and maintain their account. The additional resources will allow taxpayers to register online and make account maintenance adjustments that currently are handled by BOE staff.

Increased Workload Related to Fuel Tax Swap

The Administration's budget proposes $342,000 (Motor Vehicle Fuel Account) for 2013-14 and ongoing in additional resources to continue processing workload associated with the Fuel Tax Swap. These resources include two permanent positions to replace two limited term positions that expire on June 30, 2013, and also request to reclassify two positions. This proposal will increase efficiency by allowing BOE to process claims, meet statutory deadlines for processing claims, and reduce delays in processing refunds.

Joint Operations Center

The budget proposes $300,000 (Federal Funds) in 2013-14 and ongoing to permanently establish two positions to continue participation in Joint Operations Center (JOC). These two positions are set to expire on June 30, 2013. BOE anticipates an estimated $1 million in revenue from JOC audit leads and investigations through continued partnership with the federal government.

PUBLIC SAFETY

California's Public Safety system is comprised of numerous state departments, agencies, offices, boards, commissions, and branches. These entities include: The Judicial Branch, The Commission on Judicial Performance, The Office of the Inspector General, The Judges' Retirement System Contributions, The California Office of Emergency Services, The Department of Justice, The California Victim Compensation and Government Claims Board, The California Department of Corrections and Rehabilitation, The Board of State and Community Corrections, The Commission on Peace Officer Standards and Training, The Office of the State Public Defender, The Military Department, and The California Highway Patrol.

DEPARTMENT OF CORRECTIONS AND REHABILITATION

The California Department of Corrections and Rehabilitation (CDCR) incarcerates the most serious and violent felons, supervises many of them when they are released on parole, and provides rehabilitation programs to help them reintegrate into the community. The CDCR provides safe and secure detention facilities and necessary support services to inmates, including food, clothing, academic, and vocational training, as well as healthcare services.

The mission of the CDCR is to enhance public safety through safe and secure incarceration of the most serious and violent offenders, effective parole supervision, and rehabilitative strategies to successfully reintegrate offenders into our communities.

The CDCR is organized into the following programs: 1) Corrections and Rehabilitation Administration; 2) Juvenile Operations and Offender Programs-Academic and Vocational Education, Parole Operations, and Health Care Services; 3) Adult Corrections and Rehabilitation Operations-Security, Inmate Support, Contracted Facilities, and Institution Administration; 4) Adult Parole Operations-Supervision, Community Based Programs, and Administration; 5) Board of Parole Hearings-Adult Hearings and Administration; 6) Adult Education, Vocation, and Offender Programs-Education, Substance Abuse Programs, Inmate Activities, and Administration; and, 7) Adult Health Care Services. The Corrections Standards Authority was abolished and replaced with the Board of State and Community Corrections as an independent entity on July 1, 2012.

As one of the largest departments in state government, the CDCR operates 36 youth and adult correctional facilities and 43 youth and adult camps. The CDCR also contracts for multiple adult parolee service centers and community correctional facilities. The CDCR operates adult prisoner/mother facilities, youth, and adult parole units and sub-units, parole outpatient clinics, licensed general acute care hospitals, regional parole headquarters, licensed correctional treatment centers, hemodialysis clinics, outpatient housing units, a correctional training center, a licensed skilled nursing facility, and a hospice program for the terminally ill. The CDCR has six regional accounting offices and leases more than two million square feet of office space. The CDCR's infrastructure includes more than 40 million square feet of building space on more than 26,000 acres of land (40 square miles) statewide.

The Governor's 2013-14 Budget proposes funding of $9 billion ($8.7 billion General Fund) for the CDCR's Operations in 2013-14, an increase of 0.4 percent over the 2012-13 spending plan. The Governor's 2013-14 Budget also proposes funding of $2.1 billion ($65.4 million General Fund) for the CDCR's Infrastructure Projects, an increase of 775.2 percent over the 2012-13 spending plan. Total proposed spending for the CDCR is $11.1 Billion (8.8 billion General Fund) for 2013-14.

The Governor's proposal also includes authority for 59,736.2 positions, an increase of 1.9 percent over the 2012-13 level.

CDCR - Programs

Fund Source (000s)	2011-12 Actual	2012-13 Projected	2013-14 Proposed	BY to CY Change	% Change
General Fund	$9,206,232	$8,662,460	$8,694,201	$31,741	0.4%
Proposition 98 - General Fund	19,492	18,204	18,778	574	3.2%
Total General Fund	**$9,225,724**	**$8,680,664**	**$8,712,979**	**$32,315**	**0.4%**
Other Funds	195,125	251,442	252,398	956	0.4%
Total Expenditure	**$9,420,849**	**$8,932,106**	**$8,965,377**	**$33,271**	**0.4%**
Positions	**53,688.4**	**58,607.0**	**59,736.2**	**1,129.2**	1.93%

CDCR - Infrastructure

Fund Source (000s)	2011-12 Actual	2012-13 Projected	2013-14 Proposed	BY to CY Change	% Change
Infrastructure -General Fund	$12,429	$26,905	$65,444	$38,539	143.2%
Infrastructure - Other Funds	751,138	212,794	2,032,388	1,819,594	855.1%
Total Expenditure	**$763,567**	**$239,699**	**$2,097,832**	**$1,858,133**	**775.2%**

Major Provisions

Adult Inmate and Parolee Population

The adult inmate average daily population is projected to decrease from 132,223 in 2012-13 to 128,605 in 2013-14, a decrease of 3,618 inmates, or 2.7 percent. The average daily parolee population is projected to decrease from 57,640 in 2012-13 to 42,958 in 2013-14. These decreases are primarily due to shifting the responsibility of short-term, lower-level offenders from the state to counties pursuant to AB 109 (Committee on Budget), Chapter 15, Statutes of 2011, reductions in the number of felony probationers entering state prison, and the 2012 passage of Proposition 36, which revised California's Three Strikes Law. When compared to the projected average daily population at the 2012 Budget Act, these changes result in a decrease of $190,000 General Fund in 2012-13 and a decrease of $1.7 million General Fund in 2013-14.

Mental Health Population

The average daily population for adult inmates requiring mental health treatment is projected to be 29,923 in 2012-13 and 29,432 in 2013-14. This is an increase of 93 inmates in 2012-13 and a decrease of 398 inmates in 2013-14 in comparison to the population projected in the 2012 Budget Act. Based on the Mental Staffing Ratios, these changes will result in a decrease of $4.3 million in 2012-13 and $7.9 million in 2013-14. Although there is a slight increase in the mental health population in 2012-13, savings are attributable to fewer inmates requiring more costly intensive mental health treatment.

California Health Care Facility and the DeWitt Nelson Correctional Annex, Stockton

The Governor's Budget Proposal includes $18.4 million (General Fund) and 206.5 positions for pre-activation and activation staffing of the California Health Care Facility and its annex, the DeWitt Nelson Correctional Annex (DeWitt). The California Health Care Facility joined with DeWitt will create a unified health care complex allowing both facilities to efficiently transition inmate-patients between the two, while avoiding transportation and security costs as well as the need for expensive medical services in community hospitals and clinics. Construction of the complex is expected to be completed by February 2014, intake is expected to commence in March 2014, and the facility is expected to be fully operational by May 2014.

Community Corrections Performance Incentive Grants

The Governor's Budget Proposal includes $35.8 million (General Fund) for the California Community Corrections Performance Incentive Act of 2009 (SB 678). SB 678 (Leno), Chapter 608, Statutes of 2009, established a system of performance-based funding that shares state General Fund savings with county probation departments when they demonstrate success in reducing the number of adult felony probationers going to state prison because of committing new crimes or violating the terms of probation.

Three-Judge Panel

In 2006, plaintiffs filed a motion to convene a three-judge panel in the Plata lawsuit under the 1996 Prison Litigation Reform Act, claiming that overcrowded conditions in California’s prisons resulted in unconstitutional medical care for inmates. The second lawsuit joined in the three-judge panel, the Coleman case, involves mental health services for inmates. Both lawsuits claimed that care for inmates violates the Eighth Amendment of the U.S. Constitution, which prohibits cruel and unusual punishment of the incarcerated.

In 2007, a three-judge panel was convened to address claims that overcrowding in state prisons results in unconstitutional medical care.

In 2009, the three-judge panel ordered the state to reduce its adult institution population to 137.5 percent of design capacity within two years, equivalent to a reduction of about 40,000 inmates. The state appealed this decision, but in 2011, the U.S. Supreme Court upheld the panel’s finding. Since 2007, California has taken numerous actions to reduce overcrowding. The most significant ongoing actions are realigning lower-level offenders and parole violators to local jurisdictions, and increasing prison health care bed and treatment capacity. These actions have been effective in reducing the prison population while maintaining public safety, eliminating the use of all non-traditional beds, and allowing the CDCR to focus on providing rehabilitation programs to reduce recidivism.

The three-judge panel issued another order in October 2012 requiring the state to develop two plans to reduce the prison population to 137.5 percent of design capacity by June 27, 2013 and December 27, 2013. In the filing, the CDCR contended that "The state has already taken significant actions in all areas this court identified as potential ways to safely reduce the prison population.” The CDCR also argued that "Further prison population reductions to satisfy the court’s population cap cannot be achieved unless the court alters state law, dictates the adoption of risky prison policies, and orders the outright early release of inmates serving prison terms for serious and violent felonies."

The Administration's overall position is that the state is now able to deliver health care to inmates at a level that meets or exceeds constitutional standards ultimately justifying an end to federal court oversight. The Administration references statements made by the Plata case Receiver (Clark Kelso), the Coleman case Special Master (Matthew Lopes), and the newly appointed Secretary of the CDCR (who served as an expert for Plaintiffs at trial), and recent Office of the Inspector General (OIG) reviews to support their contention that the CDCR's medical delivery system is improving.

In the days since the Administration released its most recent court filings, the Coleman case Special Master and the Plata case Receiver have both released statements indicating their disagreement with the state's contention that federal court oversight is no longer needed.

The Court's response to the department's most recent submission is pending.

Juvenile Inmate and Parolee Population

The Division of Juvenile Justice's (DJJ) average daily ward population is decreasing when compared to the 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 (Committee on Budget), Chapter 729, Statutes of 2010, which shifted supervision responsibility for wards released from DJJ to the counties beginning in January 2011.

Pursuant to SB 1021 (Committee on Budget and Fiscal Review), 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. Savings resulting from the elimination of juvenile parole will be realized in the Division of Adult Parole Operations, which assumed responsibility for juvenile parolees in 2011-12.

CDCR Construction

The Governor's Budget Proposal includes one major Capital Outlay project, funding to support project planning efforts, and five minor Capital Outlay projects.

Major Capital Outlay - $6.2 million ($5.4 million General Fund):

- Ironwood State Prison Heating (ISP), Ventilation, and Air Conditioning (HVAC) System – The Governor's 2013-14 budget proposal includes $5.4 million (General Fund) to support the Working Drawings phase of the ISP HVAC project. The purpose of this project is to replace the deteriorated "swamp cooler" cooling system at ISP with an energy efficient HVAC system, to repair the collateral damage caused by the deteriorated system, and to upgrade the emergency smoke evacuation system used during facility fires. Preliminary plans for this proposal were funded in the 2008 Budget Act and approved by the Public Works Board in 2010. The total estimated cost of this project is $149 million ($5.8 million for Preliminary Plans, $5.4 million for Working Drawings, and $138 million for construction). The Governor's 2014-15 budget proposal will likely include $138 million (General Fund) to support the construction phase of the project.

- Statewide Budget Packages and Advance Planning – The Governor's 2013-14 budget proposal includes $750,000 (General Obligation Bond Funds) to support workload associated with planning capital outlay projects at youth and adult correctional facilities. This workload typically consists of site assessments, environmental reviews, and the development of scope, cost, and schedule projections.

Minor Capital Outlay - $2.7 million (1988 Prison Construction fund):

- Mule Creek State Prison, Central Control Staircase – The Governor's 2013-14 budget proposal includes $600,000 (1988 Prison Construction fund) to support the design and construction of an enclosed staircase to provide staff carrying weapons, tools and equipment with safe and secure roof access. The existing "ships ladder" poses safety concerns and has contributed to numerous staff injuries in the past.

- N. A. Chaderjian Youth Correctional Facility, Install HVAC System in Housing Unit I - The Governor's 2013-14 budget proposal includes $600,000 (1988 Prison Construction fund) to support the removal of the existing evaporative cooling system and the installation of a new HVAC system for Housing Unit I. This proposal moves toward compliance with a CDCR guideline requiring that mixed use (inmate and staff) areas maintain a maximum indoor temperature of 89 degrees Fahrenheit. Further, the Administration contends that this HVAC upgrade is necessary to mitigate serious health concerns for the youth residing in this building who are taking heat-sensitive medications.

- N. A. Chaderjian Youth Correctional Facility, Install HVAC System in Housing Unit II - The Governor's 2013-14 budget proposal includes $600,000 (1988 Prison Construction fund) to support the removal of the existing evaporative cooling system and the installation of a new HVAC system for Housing Unit II. This proposal moves toward compliance with a CDCR guideline requiring that mixed use (inmate and staff) areas maintain a maximum indoor temperature of 89 degrees Fahrenheit. Further, the Administration contends that this HVAC upgrade is necessary to mitigate serious health concerns for the youth residing in this building who are taking heat-sensitive medications.

- California Correctional Center, Air Cooling Units, Sierra Unit - The Governor's 2013-14 budget proposal includes $442,000 (1988 Prison Construction fund) to support the design and installation of an evaporative cooling system for the Sierra Living Unit. This proposal moves toward compliance with a CDCR guideline requiring that mixed use (inmate and staff) areas maintain a maximum indoor temperature of 89 degrees Fahrenheit. Further, the Administration contends that this cooling system upgrade is necessary to mitigate serious, heat-related, health concerns for staff and inmates.

- California Correctional Center, Air Cooling Units, Cascade Unit - The Governor's 2013-14 budget proposal includes $442,000 (1988 Prison Construction fund) to support the design and installation of an evaporative cooling system for the Cascade Living Unit. This proposal moves toward compliance with a CDCR guideline requiring that mixed use (inmate and staff) areas maintain a maximum indoor temperature of 89 degrees Fahrenheit. Further, the Administration contends that this cooling system upgrade is necessary to mitigate serious, heat-related, health concerns for staff and inmates.

Key Provisions

- CDCR Technical Adjustments - The Governor's 2013-14 budget proposal includes numerous, no-cost, technical changes to the CDCR's budget. The proposed changes will help to ensure accuracy in expenditure reporting and aid in tracking program and institution budgets. This proposal also aligns legal staffing strategies with the Victims Bill of Rights Act of 2008 (Marsy's Law), which requires the Board of Prison Hearings to maintain an independent legal staff.

PUBLIC SAFETY REALIGNMENT

In 2011, Governor Edmund G. Brown Jr. signed AB 109 and AB 117 (Committee on Budget), Chapter 39, Statutes of 2011. These pieces of legislation have been instrumental in helping California close the revolving door of low-level inmates cycling in and out of state prisons. These pieces of legislation also serve as the cornerstone of California's solution for reducing the number of inmates in the state's 33 prisons to 137.5 percent of design capacity by May 24, 2013, as ordered by the U.S. Supreme Court.

All provisions of AB 109 and AB 117 were prospective from the 2011 implementation dates. Contrary to some media reports, no inmates were transferred from state prison to county jails or released early.

Custody
Effective October 11, 2011, the Public Safety Realignment shifted funding (for county-by-county funding details, see Base AB 109 Allocations chart on the following page) and responsibility for housing non-violent, non-sexual, and non-serious offenders and parole violators from the state to county jurisdictions. Nonetheless, counties are statutorily allowed to "contract back" with the State to house local offenders as necessary.

Community Supervision
The CDCR continues to have jurisdiction over all offenders who were on state parole prior to October 2011. Effective October 2011, county-level agencies assumed supervisory responsibilities for current non-violent (irrespective of prior convictions), current non-serious (irrespective of prior convictions), and some sex offenders upon release from state prison. County-level supervision responsibilities do not include the following offender populations as they continue to be supervised by the CDCR:

- Inmates paroled from life terms to include third-strike offenders:
- Offenders whose current commitment offense is violent or serious, as defined by California's Penal Code §§ 667.5(c) and 1192.7(c).
- High-risk sex offenders, as defined by the CDCR.
- Mentally Disordered Offenders.
- Offenders on parole prior to October 1, 2011.

Funding Realignment

In November 2012, California voters passed Proposition 30, which created a constitutional amendment prohibiting the Legislature from reducing Realignment funding to the counties. Realignment is funded with a dedicated portion of state sales tax revenue and Vehicle License Fees as outlined in trailer bills AB 118 (Committee on Budget), Chapter 40, Statutes of 2011, and SB 89 (Committee on Budget and Fiscal Review), Chapter 35, Statutes of 2011. The following table reflects base Realignment funding, by county, through 2013-14.

BASE AB 109 Allocations (Public Safety)						
County		2011-12 Total		*2012-13 Total		*2013-14 Total
ALAMEDA		$10,402,192		$29,816,533		$35,092,345
ALPINE		$185,064		$256,036		$184,878
AMADOR		$701,328		$1,251,879		$1,364,765
BUTTE		$3,177,024		$5,862,129		$6,767,777
CALAVERAS		$488,080		$908,739		$958,225
COLUSA		$337,160		$540,584		$522,012
CONTRA COSTA		$5,259,544		$19,692,463		$23,097,173
DEL NORTE		$345,000		$654,043		$656,463
EL DORADO		$1,439,464		$3,479,869		$4,004,701
FRESNO		$9,978,832		$21,347,403		$25,056,239
GLENN		$466,520		$775,411		$800,235
HUMBOLDT		$1,789,128		$3,503,028		$4,031,990
IMPERIAL		$1,534,328		$3,279,358		$3,767,044
INYO		$311,288		$502,576		$476,983
KERN		$12,186,968		$24,092,737		$28,308,592
KINGS		$3,266,576		$6,256,784		$7,294,651
LAKE		$1,008,264		$1,864,123		$2,090,164
LASSEN		$525,712		$893,064		$939,632
LOS ANGELES		$124,735,264		$272,620,890		$322,775,072
MADERA		$1,967,880		$3,609,349		$4,157,904
MARIN		$1,592,952		$4,770,006		$5,474,273
MARIPOSA		$283,064		$445,051		$408,825
MENDOCINO		$1,199,560		$2,203,219		$2,491,922
MERCED		$2,914,384		$5,459,092		$6,290,279
MODOC		$185,064		$269,551		$200,894
MONO		$210,936		$392,882		$347,035
MONTEREY		$4,406,336		$8,236,989		$9,581,542
NAPA		$1,263,848		$2,609,961		$2,973,900
NEVADA		$669,968		$1,892,063		$2,123,426
ORANGE		$25,734,096		$57,456,878		$67,840,512
PLACER		$3,454,168		$6,457,394		$7,473,069
PLUMAS		$270,128		$461,529		$428,359
RIVERSIDE		$23,516,944		$44,235,728		$52,173,857
SACRAMENTO		$14,738,496		$28,809,133		$33,896,589

SAN BENITO		$706,032		$1,217,393		$1,323,895
SAN BERNARDINO		$28,729,368		$57,094,872		$67,410,183
SAN DIEGO		$27,977,120		$60,367,223		$71,288,397
SAN FRANCISCO		$5,787,176		$17,497,869		$20,496,246
SAN JOAQUIN		$7,657,976		$15,205,480		$17,838,057
SAN LUIS OBISPO		$2,584,712		$5,419,688		$6,243,730
SAN MATEO		$4,822,248		$13,784,742		$16,155,688
SANTA BARBARA		$4,441,616		$8,277,832		$9,629,926
SANTA CLARA		$14,103,456		$34,473,225		$40,609,072
SANTA CRUZ		$1,989,656		$5,395,344		$6,215,148
SHASTA		$3,406,912		$6,474,232		$7,552,273
SIERRA		$185,064		$284,024		$217,659
SISKIYOU		$592,352		$1,015,179		$1,084,314
SOLANO		$4,362,824		$8,754,282		$10,194,576
SONOMA		$3,735,232		$9,313,487		$10,857,540
STANISLAUS		$6,800,280		$12,635,731		$14,793,173
SUTTER		$1,391,640		$2,657,183		$3,029,803
TEHAMA		$1,441,424		$2,704,408		$3,085,745
TRINITY		$259,936		$402,917		$358,905
TULARE		$6,409,848		$12,094,205		$14,151,617
TUOLUMNE		$762,480		$1,322,285		$1,448,172
VENTURA		$6,502,968		$15,508,740		$18,138,720
YOLO		$3,441,232		$6,306,599		$7,294,376
YUBA		$1,212,888		$2,236,588		$2,531,460
TOTAL		**$399,850,000**		**$865,350,002**		**$ 1,016,000,000**

*2012-13 and 2013-14 Figures Do Not Include Growth

BOARD OF STATE AND COMMUNITY CORRECTIONS

The mission of the Board of State and Community Corrections (BSCC) is to provide statewide leadership, coordination, and technical assistance to promote effective state and local efforts and partnerships in California's adult and juvenile criminal justice system, including providing technical assistance and coordination to local governments related to 2011 public safety realignment. This mission reflects the principle of aligning fiscal policy and correctional practices, including prevention, intervention, suppression, and supervision. The goal is to promote a justice investment strategy that fits each county and is consistent with the integrated statewide goal of improved public safety through cost-effective, promising, and evidence-based strategies for managing criminal justice populations.

The BSCC is organized into the following programs:

- Administration, Research and Program Support;
- Corrections Planning and Grant Programs;
- Local Facility Standards, Operations and Construction; and,
- Standards and Training for Local Corrections.

SB 92 (Budget and Fiscal Review Committee), Chapter 36, Statutes of 2011 as amended by AB 116 (Budget Committee), Chapter 136, Statues of 2011, abolished the Corrections Standards Authority (CSA) within the CDCR and established the BSCC as an independent entity, effective July 1, 2012. The BSCC absorbed the previous functions of the CSA as well as various other public safety programs previously administered by the Office of Emergency Services (formerly the California Emergency Management Agency).

The Governor's 2013-14 Budget proposes funding of $129.2 million ($44.3 million General Fund) for BSCC Operations in 2013-14, a decrease of 3.4 percent from the 2012-13 spending plan.

The Governor's proposal also includes authority for 80.8 positions, an increase of 14.9-percent over the 2012-13 level.

Fund Source (000s)	2011-12 Actual	2012-13 Projected	2013-14 Proposed	BY to CY Change	% Change
General Fund	$0	$41,503	$44,285	$2,782	**6.7%**
Other Funds	0	92,188	84,898	-7,290	**-7.9%**
Total Expenditure	$0	$133,691	$129,183	-4,508	**-3.4%**
Positions	0	70.3	80.8	10.5	**14.9%**

Major Provisions

Local Criminal Justice Facility Construction

The Governor's 2013-14 Budget proposal does not include any expenditures from the $500 million authorized for the adult local criminal justice facilities financing program SB 1022 (Committee on Budget and Fiscal Review), Chapter 42, Statutes of 2012. The BSCC is working expeditiously to implement this newly authorized financing program and implementation of the program. However at this juncture, the program is not far enough along to reasonably predict when the first state expenditures will occur. Depending on the actual timing of when conditional awards are made and the specific project schedules for counties that receive those awards, it is possible that some level of expenditures from this financing program could occur during fiscal year 2013-14.

Key Provisions

- **Administrative Personnel -** The Governor's budget proposes 9.0 positions to be funded from existing resources for research activities, the administration of the local jail construction financing program and other administrative functions necessary for the Board to operate as an independent entity.

- **City Law Enforcement Grants** - As part of the 2012 Budget Act, $20 million was allocated for city law enforcement agencies, with the allocation formula to be developed by the BSCC in consultation with the Department of Finance. This funding was provided in an attempt to slow the steady erosion of funding for city police agencies over the last several years. To further this initiative, the Governor's 2013-14 Budget proposal includes an additional $4 million (General Fund) augmentation to the 2012 budget and an additional $7.5 million (General Fund) in 2013-14.

JUDICIAL BRANCH

The mission of the Judicial Branch is to resolve disputes arising under the law and to interpret and apply the law consistently, impartially, and independently to protect the rights and liberties guaranteed by the Constitutions of California and the United States, in a fair, accessible, effective, and efficient manner.

The Lockyer-Isenberg Trial Court Funding Act of 1997 provided a stable and consistent funding source for the trial courts. Beginning with fiscal year 1997-98, consolidation of the costs of operation of the trial courts was implemented at the state level, with the exception of facility, revenue collection, and local judicial benefit costs. This implementation capped the counties' general purpose revenue contributions to trial court costs at a revised 1994-95 level. The county contributions become part of the Trial Court Trust Fund, which supports all trial court operations. Fine and penalty revenue collected by each county is retained or distributed in accordance with statute. Each county makes quarterly payments to the Trial Court Trust Fund equal to the fine and penalty revenue received by the state General Fund in 1994-95, as adjusted by amounts equivalent to specified fine and fee revenues that counties benefited from in 2003-04. The Trial Court Facilities Act of 2002 provided a process for the responsibility for court facilities to be transferred from the counties to the state by July 1, 2007. The Trial Court Facilities Act of 2002 also established several new revenue sources, which went into effect on January 1, 2003. These revenues are deposited into the State Court Facilities Construction Fund for the purpose of funding the construction and maintenance of court facilities throughout the state. Counties contribute revenues for the ongoing operation and maintenance of court facilities based upon historical expenditures for facilities transferred to the state.

The Governor's 2013-14 Budget proposes funding of $3.1 billion ($1.2 billion General Fund) for Judicial Branch operations in 2013-14, an increase of 7.1 percent above the 2012-13 Budget Act. The Governor's 2013-14 Budget also includes $48.3 million (Immediate and Critical Needs Account) for court infrastructure needs, a decrease of 93.2 percent from the 2012-13 Budget Act.

The Governor's proposal also includes authority for 1,979.9 positions, a decrease of less than one percent from the 2012-13 level.

Judicial Branch

Fund Source (000s)	2011-12 Actual	2012-13 Projected	2013-14 Proposed	BY to CY Change	% Change
General Fund	$1,214,932	$754,927	$1,155,019	$400,092	53.0%
Other Funds	1,885,167	2,145,719	1,951,387	-$194,332	-9.1%
Total Expenditure	**$3,100,099**	**$2,900,646**	**$3,106,406**	**$205,760**	**7.1%**
Positions	**1,832.0**	**1,980.2**	**1,979.9**	**-0.3**	**0.0%**

Judicial Branch Infrastructure

Fund Source (000s)	2011-12 Actual	2012-13 Projected	2013-14 Proposed	BY to CY Change	% Change
Infrastructure - General Fund	$0	$0	$0	$0	0.0%
Infrastructure - Other Funds	600,816	708,199	48,339	-$659,860	-93.2%
Total Expenditure	**$600,816**	**$708,199**	**$48,339**	**-$659,860**	**-93.2%**

Since the 2007-08 Fiscal Year, state General Fund support for the Judicial Branch has been reduced on a fairly consistent basis. However, the Administration, the Legislature, and the Judicial Council have mitigated these reductions by employing a mix of permanent and temporary solutions, including transfers from special funds, fee increases, and use of trial court reserves.

The Governor’s 2013-14 Budget proposes a $200 million transfer from the Immediate and Critical Needs Account (normally reserved for Judicial Branch construction needs) to support trial court operations. While the proposed transfer would definitively aid in avoiding potentially crippling cuts to trial court operations, it would also result in the delay of several courthouse construction projects for up to one year. That said, this funding strategy would allow a number of the most critical court construction projects to continue, as prioritized by the Judicial Council.

Major Provisions

Trial Court Reserves
Effective July 1, 2014, trial court reserves will be limited to one-percent of the courts' total yearly allocation. In the meantime, trial courts are being allowed to utilize existing reserves to mitigate the impacts of past, present and forthcoming cost increases and reductions. It is expected that all trial court reserves exceeding the allowed one-percent will be expended or redirected at the end of the 2013-14 fiscal year.

Long Beach Courthouse
The Governor's 2013-14 Budget proposal includes $34.8 million (Immediate and Critical Needs Account) for the new Long Beach Courthouse's annual service fee payment. The initial payment to Long Beach Judicial Partners LLC is due upon occupation of the property, which is expected to be September 2013. This payment amount is contracted to continue for the next 35 years.

Key Provisions

- **Trial Court Efficiencies -** The Governor's 2013-14 Budget proposes a range of statutory changes intended to assist the Judicial Branch in effectively managing monthly trial court cash flow issues, reduce workload through administrative efficiencies, and increase user fees.

- **Organizational Restructuring -** The Governor's 2013-14 Budget proposes a restructuring of the Judicial Council and the Judicial Council Facility Program as a result of recommendations included in the Strategic Evaluation Committee "Report on the Administrative Office of the Courts."

DEPARTMENT OF JUSTICE

The constitutional office of the Attorney General, as chief law officer of the state, has the responsibility to see that the laws of California are uniformly and adequately enforced. This responsibility is fulfilled through the diverse programs of the Department of Justice.

The Department of Justice is responsible for providing skillful and efficient legal services on behalf of the people of California. The Attorney General represents the people in all matters before the Appellate and Supreme Courts of California and the United States; serves as legal counsel to state officers, boards, commissioners, and departments; represents the people in actions to protect the environment and to enforce consumer, antitrust, and civil laws; and assist district attorneys in the administration of justice. The Department provides oversight, enforcement, education, and regulation of California's firearms/dangerous weapon laws; provides evaluation and analysis of physical evidence; regulates legal gambling activities in California; supports the telecommunications and data processing needs of the California criminal justice community; and pursues projects designed to protect the people of California from fraudulent, unfair, and illegal activities.

The Governor's 2013-14 Budget proposes funding of $754.3 million ($174.3 million General Fund) for Department of Justice operations in 2013‑14, an increase of 3.7 percent above the 2012-13 Budget Act.

The Governor's proposal also includes authority for 4,713.3 positions, an increase of less than one percent above the 2012-13 level.

Fund Source (000s)	2011-12 Actual	2012-13 Projected	2013-14 Proposed	BY to CY Change	% Change
General Fund	$101,377	$166,747	$174,261	$7,514	4.5%
Other Funds	483,795	560,749	580,043	$19,294	3.4%
Total Expenditure	**$585,172**	**$727,496**	**$754,304**	**$26,808**	**3.7%**
Positions	**4,351.8**	**4,698.3**	**4,713.3**	**15.0**	**0.3%**

Major Provisions

Gambling Control
Effective July 1, 2013, pursuant to the Governor's Reorganization Plan No. 2 of 2012, the 2013-14 Compliance and Licensing Divisions of the California Gambling Control Commission are transferring to the DOJ. The Governor's 2013-14 Budget proposal includes an increase of $3.6 million from the Indian Gaming Special Distribution Fund and $1.1 million from the Gambling Control Fund to reflect this transfer.

Firearms – Customer Background Checks and Dealer Support Center
The Governor's 2013-14 Budget proposal includes a temporary (two-year) expenditure authority increase of $3.2 million from the Dealers' Record of Sale Special Account to address increased firearm purchase background check workload and to maintain a firearms dealer customer support center contract with Verizon. The primary driver of this augmentation is a significant upswing in the number of firearm purchases being initiated statewide.
The proposal also includes 7.0 permanent positions and a permanent augmentation of $659,000 million from the Dealers' Record of Sale Special Account to support the establishment of an in-house firearms dealer customer support center. This new unit will assume all firearms dealer customer support duties currently contracted to Verizon. This approach is expected to result in significant savings considering that the state's contracted rate with Verizon is $3.53 per transaction; while, DOJ projects an internal cost of $0.83 per transaction.

OFFICE OF EMERGENCY SERVICES

Effective July 1, 2013, pursuant to the Governor's Reorganization Plan No. 2 of 2012, the California Emergency Management Agency was re-named the Office of Emergency Services (OES).

The principal objective of the OES is to reduce vulnerability to hazards and crimes through emergency management, homeland security, and criminal justice to ensure a safe and resilient California. The OES responds to and coordinates emergency activities to save lives and reduce property loss during disasters and facilitates/coordinates recovery from the effects of disasters. On a day-to-day basis, the OES provides leadership, assistance, training, and support to state and local agencies and coordinates with federal agencies in planning and preparing for the most effective use of federal, state, local, and private sector resources in emergencies. This emergency planning is based upon a system of mutual aid whereby a jurisdiction relies first on its own resources, and then requests assistance from its neighbors. The OES's plans and programs are coordinated with those of the federal government, other states, private sector, utilities, and state and local agencies within California.

During an emergency, the OES functions as the Governor's immediate staff to provide guidance and coordinate the state's responsibilities under the Emergency Services Act and applicable federal statutes. It also acts as the conduit for federal assistance through natural disaster grants and federal agency support. Additionally, the OES is responsible for the development and coordination of a comprehensive state strategy related to all hazards, including terrorism prevention, preparedness, response and recovery.

Further, the OES improves the criminal justice system in California by providing financial and technical assistance to local governments, state agencies, and the private sector for homeland security, public safety, and victim services.

The Governor's 2013-14 Budget proposes funding of $1.2 billion ($103 million General Fund) for OES operations in 2013-14, a decrease of 1.1 percent from the 2012-13 Budget Act.

The Governor's proposal also includes authority for 538.1 positions, a decrease of less than one percent from the 2012-13 level.

Fund Source (000s)	**2011-12 Actual**	**2012-13 Projected**	**2013-14 Proposed**	**BY to CY Change**	**% Change**
General Fund	$113,293	$112,737	$103,011	-$9,726	-8.6%
Other Funds	995,292	1,145,618	1,141,471	-$4,147	-0.4%
Total Expenditure	**$1,108,585**	**$1,258,355**	**$1,244,482**	**-$13,873**	**-1.1%**
Positions	**519.2**	**542.6**	**538.1**	**-4.5**	**-0.8%**

Major Provisions

California Disaster Assistance Act Program
The Governor's proposal includes a $10 million reduction to the California Disaster Assistance Act Program which provides state financial assistance to counties, cities and special districts for recovery efforts related to a disaster. This reduction aligns the appropriation with actual expenditures for this program and is not anticipated to impact disaster recovery capabilities in any way.

Key Provisions

- **Replace General Fund with Antiterrorism Fund -** The Governor's proposal also includes a reduction of $500,000 General Fund and an offsetting increase of $500,000 from the Antiterrorism Fund to support the California Specialized Training Institute. This funding shift will result in $500,000 General Fund savings while continuing to provide the same level of support to the training Institute.

CALIFORNIA HIGHWAY PATROL

The California Highway Patrol's (CHP's) mission is to ensure the safe, convenient, and efficient transportation of people and goods across the state's highway system and to provide the highest level of safety and security to the facilities and employees of the State of California.

The Governor's 2013-14 Budget proposes funding of $1.9 billion ($0 General Fund) for CHP operations in 2013-14, an increase of 1.8 percent above the 2012-13 Budget Act.

The Governor's proposal also includes authority for 11,052.5 positions, an increase of less than one percent above the 2012-13 level.

Fund Source (000s)	2011-12 Actual	2012-13 Projected	2013-14 Proposed	BY to CY Change	% Change
General Fund	$0	$0	$0	$0	0.0%
Motor Vehicle Account, State Transportation Fund	1,646,189	1,704,462	1,755,776	$51,314	3.0%
Other Funds	159,842	198,025	181,422	-16,603	-8.4%
Total Expenditure	**$1,806,031**	**$1,902,487**	**$1,937,198**	**$34,711**	**1.8%**
Positions	**10,616.0**	**11,052.7**	**11,052.5**	**-0.2**	**0.0%**

Key Provisions

- **Relocation of the Bakersfield Area Office -** The Governor's Budget includes $2.1 million from the Motor Vehicle Account to support costs associated with the previously approved relocation of the CHP's Bakersfield Area Office and Dispatch Center.

- **Advance Planning and Site Selection -** The Governor's Budget also includes $1.5 million to fund workload associated with planning future office relocations and upgrades. A significant amount of the CHP's current infrastructure is in need of replacement and upgrade in order to support the department's public safety mission. This proposal will enable the CHP to identify the most appropriate methods of moving forward in addressing the department's infrastructure needs.

CALIFORNIA MILITARY DEPARTMENT

The Military Department is responsible for the command, leadership and management of the California Army and Air National Guard and five other related programs. The purpose of the California National Guard is to provide military service supporting this state and the nation. The three missions of the California National Guard are to provide: 1) mission ready forces to the federal government as directed by the President; 2) emergency public safety support to civil authorities as directed by the Governor; and, 3) support to the community as approved by proper authority. The Military Department is organized in accordance with federal Departments of the Army and Air Force staffing patterns.

The Governor's 2013-14 Budget proposes funding of $153.5 million ($44.9 million General Fund) for Military Department operations in 2013-14, an decrease of 2.2 percent from the 2012-13 Budget Act.

The Governor's proposal also includes authority for 812.7 positions, an increase of less than one percent above the 2012-13 level.

Fund Source (000s)	2011-12 Actual	2012-13 Projected	2013-14 Proposed	BY to CY Change	% Change
General Fund	$42,902	$44,004	$44,918	$914	2.1%
Other Funds	81,743	112,916	108,538	-$4,378	-3.9%
Total Expenditure	**$124,645**	**$156,920**	**$153,456**	**-$3,464**	**-2.2%**
Positions	**683.2**	**807.7**	**812.7**	**5.0**	**0.6%**

In addition to the funding that flows through the State Treasury, the Military Department also receives Federal Funding directly from the Department of Defense. The following table shows the funding that flows directly from the Department of Defense and the positions funded by this funding source.

Military Other Federal Funds

	Positions			Expenditures		
	Actual Positions 2011-12	Estimated Positions 2012-13	Proposed Positions 2013-14	Actual Expenditures 2011-12*	Estimated Expenditures 2012-13*	Proposed Expenditures 2013-14*
10 Army National Guard	2,162.0	2,162.0	2,162.0	$536,500	$536,500	$536,500
20 Air National Guard	1,528.0	1,528.0	1,528.0	288,500	288,500	288,500
30 Office of the Adjutant General	483.0	483.0	483.0	108,000	108,000	108,000
Total Other Federal Funds [1]	**4,173.0**	**4,173.0**	**4,173.0**	**$933,000**	**$933,000**	**$933,000**

[1] These federal funds are displayed for informational purposes but are not included in the program or statewide totals because the funds are not deposited in the State Treasury.

Major Provisions

Military Behavioral Health Staff

The Governor's Budget includes $815,000 (Mental Health Services Fund) to support 5.0 Behavioral Health Officer positions in the California National Guard. The proposed positions will join 2.0 existing clinical positions in providing behavioral health services, support, and referrals to a military population of roughly 24,000 individuals, located throughout California's 58 counties. The influx of military personnel returning to California from combat zones abroad coupled with recent increases in suicides and other acts of violence among current and former military personnel, has created a new workload that is not absorbable by existing clinical staff. This proposal would provide military personnel with significantly improved access to trained and experienced behavioral health personnel.

Key Provisions

- **State Active Duty Employee Compensation.** The Governor's budget includes $1.2 million ($526,000 General Fund) to support state active duty personnel cost increases. In accordance with Sections 320 and 321 of the Military and Veterans code, pay for state active duty personnel must be aligned with federal military pay scales granted by Congress.

- **Federal Fund Authority increase.** The Governor's budget includes a Federal Trust Fund authority increase of $17 million. This expenditure authority increase is necessary to enable the Military Department to fully expend federal grant dollars appropriated to California for facility maintenance projects.

TRANSPORTATION

California has the most complex and highly utilized transportation system in the country, including highways, roads, railways, airports, bridges, seaports, border crossings, and public transit systems. This system continues to grow and increase in complexity, as California's population grows, its economy transforms, and its land use changes. The challenge of meeting the growth needs as well as maintaining the existing systems fall to a unique partnership between the federal government, large regional transportation planning entities, local governments, special districts and the State.

The State of California's role in transportation policy is derived from several of the key functions it serves. The State:

- Owns all State highways and is responsible for maintaining, rebuilding, and expanding these highways.
- Serves as the point of contact and fiscal agent for most federal transportation funds.
- Allocates state funding, including bond funds.
- Programs a portion state funding for state run-projects.
- Owns the High-Speed Rail Authority and is responsible for constructing, operating, and maintaining the system.
- Administers state-supported intercity rail funding on three corridors and local transit funding for some rural local entities.

As the Budget Committee considers transportation policy this year, it helps to be mindful of our central role in the intergovernmental partnerships necessary to tackle the host of challenges faced by our transportation network.

The Future of Transportation Funding Needs

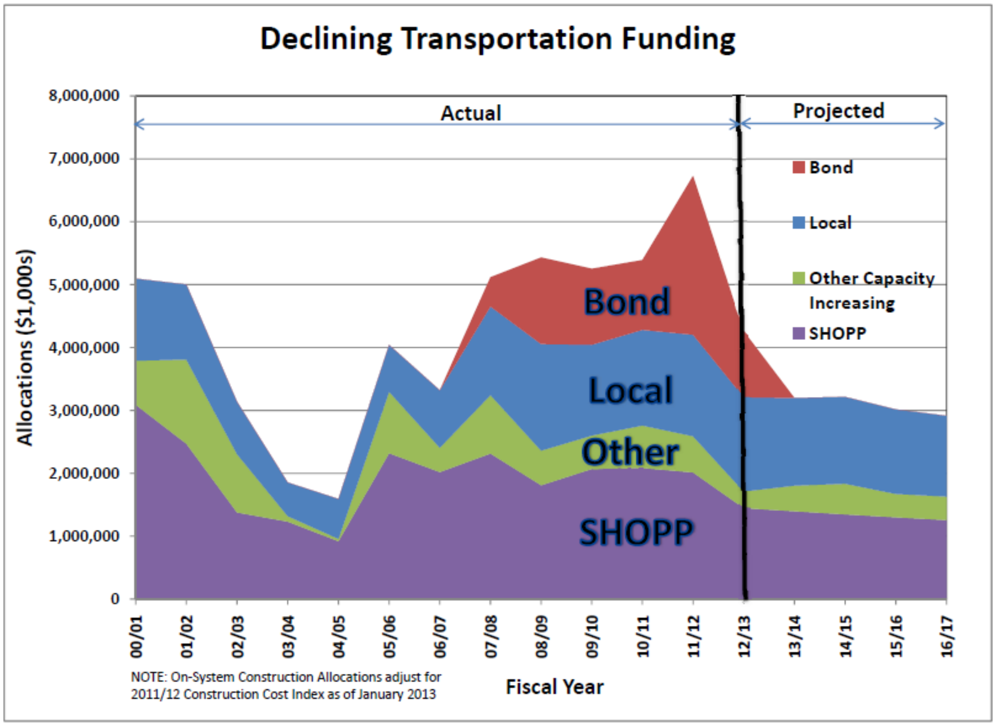
On October 27, 2011, the California Transportation Commission issued the 2011 Statewide Transportation Needs Assessment. This document paints a picture of State transportation funding needs over the next decade. The report concluded that California would need $538.1 billion, excluding the development of the High-Speed Rail project, but that existing funding sources would provide $242.4 billion or 45 percent of the need over the same period. The chart below illustrates the needs.

Cost: ($ billions)	**Maintenance**	**System Expansion and Preservation**	**Total**
Highways	$ 79.7	$86.3	$165.9
Local Roads	102.9	26.5	129.3
Public Transit	142.4	32.2	174.5
Inter-City Rail	0.2	6.2	6.4
Freight Rail	0.1	22.3	22.4
Seaports	4.6	7.5	12.1
Airports	10.4	5.5	15.9
Land Ports	1	0	1
Intermodal Facilities	0	5.9	5.9
Bike/Pedestrian	0	4.5	4.5
Total	**$341.1**	**$197**	**$538.1**

The Needs Assessment provides a good picture of the State's policy changes involving transportation as it illustrates that a profound funding gap exists to continue the existing policy direction. However, this report may exaggerate this gap because it was not conducted with a uniform methodology or standard, to defining the "needs" i.e. what are the needs to achieve a level of traffic congestion. Therefore, it may be more of a "wants" assessment rather than a "needs" assessment. Further discussion and analysis should help further refined our needs.

It is very likely a more refined list of "must have" transportation projects exceed the available resources, especially if the needs of the High Speed Rail project are considered. Therefore, the Assembly needs to consider how to address this funding imbalance. One possible approach is to consider strategies to reduce the overall expected costs. The Legislative Analyst Office (LAO) has suggested that the State adopt two strategies as part of its transportation planning efforts that reduce costs. First, increase investment in preventative maintenance, which helps extend the useful life of the existing infrastructure. Second, collect and analyze data to fine tune expansion efforts, the LAO believes that additional data could help identify smaller and more targeted expansion to relieving congestion than our current methodology. Such analysis would allow the State to get more benefit from existing limited funding.

Funding for Transportation and the Five Year Infrastructure Plan.
The Administration has expressed its intent to release the first "5 Year Plan for Infrastructure" issued in over five years. This plan will likely reinforce information already available that illustrates the near-term future of transportation funding. With the exhaustion of State's existing Bond issuance on the horizon, the discussion must begin regarding how the state will fund its infrastructure needs. The chart below illustrates total funding for transportation project and the important role recent bond financing has played in the State's expenditures.

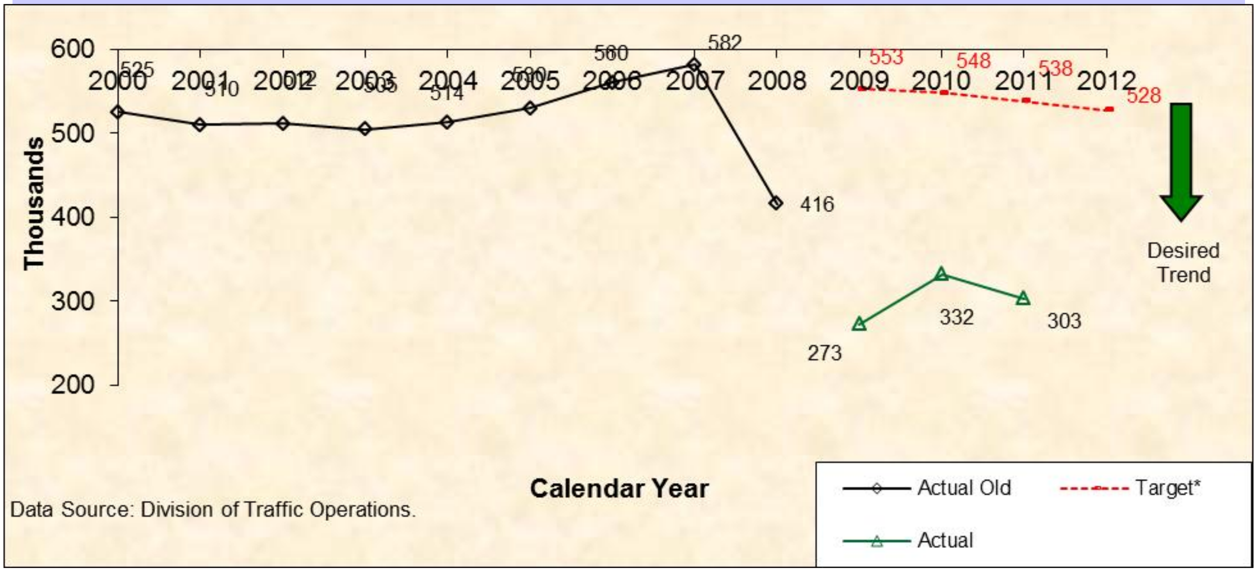


Mirage of Progress

Over the last five years, Californians have enjoyed historically low levels of traffic congestion—due in a large part due to the dramatic rise in the price of gasoline and the dramatic reduction in economic activity due to the Great Recession. This trend is reflected in the chart below, as measured by Caltrans in their performance measures:

Caltrans Objective 2.1 – *By 2012, reduce daily vehicle hours of delay by 30,000 hours throughout the transportation system.*

PM 2.1a **Statewide daily vehicle hours of delay**



So what happens to traffic congestion when the recovery fully occurs? Will California return to the ugly congestion levels return? It will require continued oversight by the Assembly to make sure that any problems are detected early.

Working Group Proposed

The Governor's Budget Summary references the Needs Assessment in its framing of transportation policy discussion for the coming year. The Summary then introduces the concept of a workgroup to consider transportation funding convened by the new Transportation Agency.

Beginning in the spring of 2013, the Agency will convene a workgroup consisting of state and local transportation stakeholders to refine the transportation infrastructure needs assessment, explore long-term, pay-as-you-go funding options, and evaluate the most appropriate level of government to deliver high-priority investments to meet the state's infrastructure needs.

While the Administration will begin these discussions while budget deliberations are ongoing, it is likely that the findings of this work group would not be projected until long after the budget is passed. The Assembly will need to consider how deliberations during the budget discussions will interface with this stakeholder process.

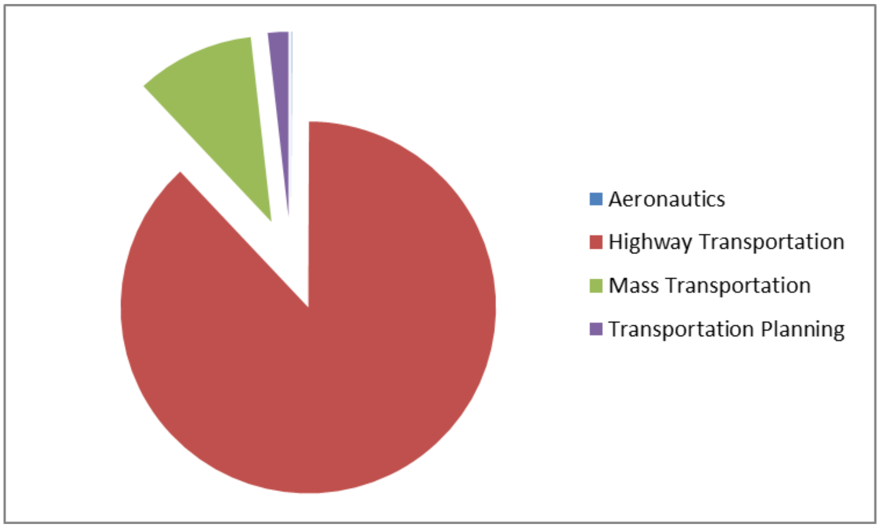
STATE DEPARTMENT OF TRANSPORTATION (CALTRANS)

The Department of Transportation (Caltrans) constructs, operates, and maintains a comprehensive transportation system with more than 50,000 miles of highway and freeway lanes. In addition, Caltrans provides intercity rail passenger services under contract with Amtrak, and assists local governments with the delivery of transportation projects, as well as other transportation-related activities.

The Governor's Budget proposes $12.8 billion, including $83.4 million from the General Fund. This reflects a decrease of $474.2 million, mostly reflecting less appropriation of bond funds than in the enacted 2012-13 Budget.

Fund Source	2011-12 Actual	2012-13 Projected	2013-14 Proposed	BY to CY Change	% Change
General Fund	$83,416	$83,416	$83,416	0	0
State Highway Account	3,222,847	3,284,642	3,518,387	233,745	7.1
Public Transportation Account	239,733	338,493	353,516	15,023	4.4
Other Special Funds	298,605	142,296	136,220	(6,076)	(4.3)
Federal Funds	4,720,462	4,482,451	4,602,218	119,767	2.7
Reimbursements	1,150,313	1,167,565	1,798,684	631,119	54.1
Prop 1A Bond Funds	69,850	277,657	76,938	(200,719)	(72.6)
Prop 1B Bond Funds	1,630,829	3,483,983	2,216,908	(1,267,075)	(36.4)
Total Expenditure	**$11,416,055**	**$13,260,503**	**$12,786,287**	**(474,216)**	**(3.6)**
Positions	20,095.3	19,803.5	19,773.5	(30)	(0.2)

The bulk of Caltrans funding is spent on highways, with 17,250 positions dedicated to this function. The chart below illustrates Caltrans funding by program:



Major Provisions

MAP 21 Implementation and Administrations Active Transportation Program Proposal
From 2005 until July 2012, federal transportation funding was given to the State through and act called SAFETEA-LU which allocated the funding in several prescriptive categories that left the State with little flexibility or choice about how the funding was used. In July of 2012, President Obama signed MAP 21, which appropriated federal transportation funds in fewer categories and gave the State more flexibility regarding how the money would be spent. However, while we got more flexibility, overall California received the same exact level of federal funding. The additional flexibility coupled with a flat budget has many transportation stakeholders nervous because they don't know how much federal funding they will get from the State. In some cases entire programs, like the Safe Routes to Schools program, that were mandatory under SAFETEA-LU, are completely optional to fund under MAP 21.

The Administration used existing appropriation authority in the 2012-13 budget to avoid having to appropriate the MAP 21 funds through statute. However, because of the uncertainty regarding the use of these funds, the Assembly pushed to appropriate MAP 21 in a bill that would appropriate the funds in a way that was consistent with the way the funding went out under SAFETEA-LU. Such an approach would have assured stakeholders and made the funding predictable.

The Governor’s Budget Proposal does not contain a proposed appropriation for federal MAP 21 funds, although the Administration did stipulate that it intends to mirror some elements of the SAFETEA-LU funding allocation in its administration of the funds.

In addition, the Governor's Budget Summary references the creation of the Active Transportation Program in forthcoming Trailer Bill. This proposal would result in a shift of $134.2 million in state and federal resources and a reduction of five positions in 2014‑15 to consolidate five existing programs into a single Active Transportation Program. Active transportation refers to any method of travel that is human‑powered, such as walking and bicycling. Currently, there are five separate programs that fund bicycle, pedestrian, and mitigation projects, including the federal Transportation Alternatives Program (which also includes the Recreational Trails Program), federal and state Safe Routes to

Schools Programs, state Environmental Enhancement and Mitigation Program, and the state Bicycle Transportation Account program.

According to the Administration some current projects are eligible for grants under several programs, and project sponsors often find it necessary to submit multiple applications for the same project. The new consolidated Active Transportation Program will streamline this process and fund high‐priority projects that reduce greenhouse gas emissions consistent with the objectives of SB 375 (Steinberg), Chapter 728, Statutes of 2008, as well as provide safety benefits.

Since it is the Legislature's role to appropriate funds, the Assembly may wish to weigh in as to whether it believes the Legislature should continue to delegate its discretion regarding the use of these federal funds to the Administration.

Prop 1B Bond Funding

Proposition 1B, the Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006, was approved on November 7, 2006, it was the transportation component of an infrastructure package of four separate infrastructure bonds package that provided funding for roads, schools, housing, and flood control projects. Proposition 1B dedicated $19.925 billion over a ten year period to fund State Transportation Improvement Program (STIP) and State Highway Operation and Protection Programs (SHOPP) projects, corridor improvement projects, congestion relieve upgrades, public transit expansion, reduction of air pollution and enhancement of anti-terrorism security at ports.

Of the total $19.925 billion in authority for Proposition 1B, $12,025 billion is reserved for ten programs funded through Caltrans. Appropriations are made annually to those programs, based upon anticipated project funding needed for that year. As of June 30, 2012, approximately $8.6 billion in appropriations had been allocated by the California Transportation Commission for transportation projects through the ten programs.

The Governor’s Budget requests and appropriation of $238.4 million in Proposition 1B funding for 2013-14. This request reflects that anticipated needs of the budget year.

The Assembly will need to further discuss, analyze, and discuss this proposal to insure that it appropriates enough to keep all projects moving forward, but does not encourage the sale of bonds before projects are ready to spend the Bond proceeds.

In 2009, the State cash crisis derailed the Pooled Money Investment Account (PMIA) system, which used to lend capital projects state special fund balances to begin bond projects prior to the actual sale of bonds for these projects. Since that time, projects have had to wait until bonds were sold before they could get State cash to begin projects. On November 30, 2011, the California had an unspent balance of bond proceeds of $9.7 billion for 35 different issued bonds, about 35.5 percent of the total funds issued.

In 2012, the Department of Finance spearheaded various changes in the way bond funds are managed, and the development of a commercial paper funding mechanism, which has reduce this unspent amount of bond proceeds. However, the problem has not been completely solved and will need additional oversight in the 2013 process.

Key Provisions

- **Zero Base Budget-Local Assistance Program.** The Budget proposes a reduction of $1.5 million and 20 positions associated with the implementation of various efficiency measures, including the establishment of staffing levels that are consistent across 12 district offices, a shift of $13.4 million from state funds to local federal funds for state costs that support local transportation projects, and an audit by the Department of Human Resources to ensure position classifications are appropriate for the work being performed.

- **Zero Base Budget-Planning Program.** The Budget proposes an increase of $8.4 million and 10 positions to address additional workload and implement various efficiency measures, including streamlining and standardizing Caltrans' planning documents, reducing administrative costs for existing grant programs, conducting a position classification audit by the Department of Human Resources, right-sizing personal service funding to reflect actual salaries, and adding additional positions to complete necessary project initiation documents.

- **Continue Using Miscellaneous State Highway Account Revenues for Transportation Debt Service.** The Budget proposes to continue to transfer $67.0 million in special fund revenue to offset transportation debt service costs on a permanent basis. The State Highway Account generates a portion of its revenue from sources other than excise taxes on gasoline, such as rental income and the sale of surplus property. Since 2010-11, this revenue source has been used to offset General Fund debt service costs on specified general obligation transportation bonds.

STATE TRANSIT ASSISTANCE

State Transit Assistance (STA) provides the budget for the State Transportation Assistance program, which provides funding to regional transportation planning agencies for mass transportation programs. Funding for the State Transit Assistance is allocated by statute and administered by State Controller.

Fund Source	2011-12 Actual	2012-13 Projected	2013-14 Proposed	BY to CY Change	% Change
General Fund	$0	$0	$0	0	0
State Transportation Fund	396,017	415,173	391,972	(23,201)	(5.6)
Prop 1B Bond Funds	766,971	598,171	479,717	(118,454)	(19.8)
Total Expenditure	**$1,162,988**	**$1,013,344**	**$871,689**	**($141,655)**	**(14)**
Positions	0	0	0	0	0.0

CALIFORNIA HIGH-SPEED RAIL AUTHORITY

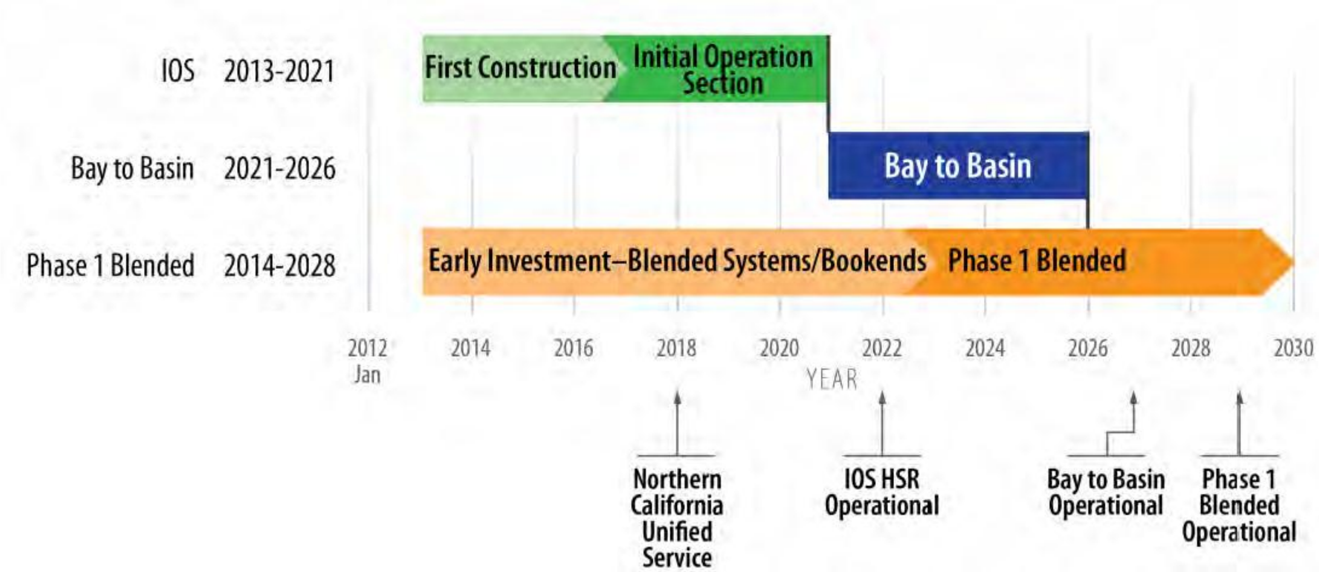
The California High-Speed Rail Authority's mission is to plan, design, build, and operate a high-speed train system for California. The High-Speed Rail Authority is responsible for the development and construction of a high-speed passenger train service between San Francisco and Los Angeles/Anaheim (Phase I), with extensions to San Diego and Sacramento and points in-between (Phase II). Proposition 1A, enacted in November 2008, authorizes $9 billion in bond proceeds for the rail lines and equipment, and an additional $950 million for state and local feeder lines. The federal government has also awarded the Authority nearly $3.5 billion, most of which has been designated to fund portions of the project in the Central Valley.

April 2012 Revised Business Plan

On April 2, 2012, the High-Speed Rail Authority issued a Revised Business Plan that articulated the current project approach for the High-Speed Rail system. The report estimated that it would take until 2028 and cost approximately $68 billion to allow for a one-seat High-Speed Rail ride from San Francisco to Los Angeles.

The map below, prepared by HSRA, illustrates the funding for Initial Operating Segment and Blended early investments, proposed in the budget. The final Phase 1 Blended route would link San Francisco to Los Angeles.

The chart below, prepared by the Authority, provides an overview of the construction timeline:



The Business Plan identifies three phases for the project:

1. **Initial Operating Segment—** 300-mile segment from Merced to the San Fernando Valley. The plan envisions that High-Speed Rail Service begins on this segment in 2022 and that it would include connections with regional/local rail for blended operations, so riders could transfer to other rail systems. The business plan also identifies closing the rail gap between the Bakersfield and LA Basin as a priority for this phase. The Authority reports that it will accelerate environmental review work on that gap.

2. **Bay to Basin—** 410 miles of High-Speed Rail service from the San Jose to the San Fernando Valley, expected to beginning in 2026.

3. **Phase 1 Blended—** 520 miles of service that allows a one-seat ride from San Francisco's Transbay Terminal to downtown Los Angeles that would begin in 2028. While this is the last Phase of the project to be completed, the revised business plan begins making investments in "blended" activities in the near term, as these investments result in immediate benefits for users of existing regional and commuter rail systems.

The Business plan also mentions Phase 2 of the project, which would provide 800 miles of services that would include San Diego and Sacramento, as well as linking to several existing rail systems this would occur after Phase 1 is completed.

The Revised Business Plan reflects the "Blended Approach" for final build out, which means that High-Speed Rail will use existing regional and commuter rail lines in urban and metropolitan areas for service, rather than building dedicated rail lines. This significantly reduces the costs of the project and shortens the project completion time. The project also invests High Speed Rail bond funding into improvements to the "bookends", existing rail in the Bay Area and Los Angeles, which allows existing rail users to see the benefits of High-Speed Rail investment in the near future.

The 2012 Budget Act appropriated approximately $8 billion for the high-speed rail project for the following purposes:

- $5.8 billion for the first phase of the Initial Operating Section from Madera to Bakersfield.
- $1.1 billion for early improvement “bookend” projects to upgrade existing rail lines in Northern and Southern California, which will lay the foundation for future high-speed rail service as it expands into these areas.
- $819.3 million for connectivity projects to enhance local transit and intercity rail systems that will ultimately link to the future high-speed rail system.

Since the funding for planning and construction have already been appropriated in 2012, the Governor’s 2013-14 budget proposals focus on requests to increase and maintain the existing administration structure of the Authority. However, the 2012 budget provided extensive reporting requirements that will allow the Assembly to conduct oversight on the project this year. The chart below illustrates the expected expenditures for the High-Speed Rail Authority.

Fund Source	2011-12 Actual	2012-13 Estimated	2013-14 Proposed	BY to CY Change	% Change
General Fund	$0	$0	$0	0	0
Federal Trust Funds	0	660	18	(642)	(97.3)
Prop 1A Bond Funds	14,719	23,818	121,106	97,288	408.5
Total Expenditure	**$14,719**	**$24,478**	**$121,124**	**96,646**	**394.8**
Positions	32.4	71.5	86	14.5	20.2

Major Provisions

86 Positions Cannot Oversee a $68 billion Infrastructure Project

The Governor's Budget includes four BCPs for a total of $9.97 million and 20 positions to increase staffing, combined with proposals to continue funding for outreach, project management and financial contracts. With these additional positions, the High-Speed Rail System will continue to grow as the project rolls out.

One of this Budget Change Proposal is for the continuation of funding for $4 million Program Management Oversight contract. While such a contract provides helpful support the Authority, concerns have been raised that the Authority relies too much on contracted staff to provide oversight functions that should be performed by state employees.

In a January 2012 report by the Bureau of State Audits, the Auditor raised this as a concern. Among the findings of that report:

- The Authority is significantly understaffed and has struggled to oversee its contractors and subcontractors, who outnumber its employees by about 25 to one.

- The Authority may have compromised providing effective oversight by placing the largest portion of the program's planning, construction and oversight in the hands of contractors—in particular, the entity that manages the program (Program Manager).

- By relinquishing significant control to the Program Manager, the Authority may not be aware of or have addressed areas of significant concern that could impact the program.

- Similar to our prior audit, we found over 50 errors and inconsistencies of various types in three Program Manager's monthly progress reports we reviewed and noted several significant discrepancies between the regional contractors' reports and those of the Program Manager

The Assembly should scrutinize the level of staffing proposed for the Authority at this early stage of the project, it is essential to ensure that the State interests are protected with sufficient staffing to oversee what will be the largest infrastructure project in the United States.

Funding Structure May Benefit from Further Refinement

Last year, the Administration explored simplifying the planning and acquisition budgeting for High-Speed Rail to give the project more flexibility to use funding efficiently. Funding to date has been appropriated annually by project segment. The Administration has reported that in some cases the project has had to slow work in one segment because it lacked the ability to move funding between segments and that annual appropriate process leads to delays. The Assembly may wish to consider if there is an alternative budgeting structure that provides the transparency and oversight of the current structure but gives the Administration more flexibility to administer the funding.

DEPARTMENT OF MOTOR VEHICLES

The Department of Motor Vehicles (DMV) promotes driver safety by licensing drivers, and protects consumers and ownership security by issuing vehicle titles and regulating vehicle sales. The DMV also collects the various fees that are revenues to the Motor Vehicle Account. The Department is currently reviewing its methods of providing services to the public and developing alternatives to visiting the field offices.

The Governor's Budget proposes $991.5 million, (Special Funds), an increase of $39.6 million from the revised current year budget. The budget also includes a reduction of 30 positions.

Fund Source	2011-12 Actual	2012-13 Estimated	2013-14 Proposed	BY to CY Change	% Change
General Fund	$1	$0	$0	0	0
State Highway Account, State Transportation Fund	$46,355	$49,036	$9,159	($39,877)	(81.3)
Motor Vehicle Account, State Transportation Fund	804,783	858,259	939,971	$81,712	9.5
Motor Vehicle License Fee Account, Transportation Tax Fund	24,911	18,200	16,716	(1,484)	(8.2)
Other Special Funds	2,457	7,482	6,130	1,692	38.1
Federal Trust Fund	2,457	7,482	5,129	(2,353)	(31.4)
Reimbursements	14,702	14,408	14,408	$0	0
Total Expenditure	**$899,291**	**$951,823**	**$991,513**	$39,690	4.2
Positions	**8,287.5**	**8,239.3**	**8,209.3**	(30)	(0.4)

Key Provisions

- **Grass Valley Field Office**. The DMV has a Capital Outlay request for $6.5 million to begin construction of a 7,583 square foot field office building in Grass Valley. This facility would replace the current 1,998 square foot facility that was formerly a California Highway Patrol building. The Assembly has previously approved funding for planning documents for this project in the 2012-13 budget.

- **Implementation of SB 1298 (Padilla).** The Governor's Budget includes $980,000 and two limited-term positions for the implementation of SB 1298 (Padilla), Chapter 570 Statues of 2012, which allows for the testing of autonomous vehicles. The bill requires DMV to adopt regulations to specify insurance requirements, testing, equipment, and performance standards for the safe operation of autonomous vehicles.

SECRETARY FOR TRANSPORTATION

The Transportation Agency develops and coordinates the policies and programs of the State's transportation entities to achieve the State's mobility, safety, and air quality objectives from its transportation system.

Effective July 1, 2013, the Governor's Reorganization Plan No. 2 of 2012 created the Secretary for Transportation. The 2013-14 transportation responsibilities of the Secretary for Business, Transportation, and Housing are merging into this Secretary. The 2011-12 and 2012-13 budget information for transportation responsibilities is displayed in the Secretary for Business, Transportation, and Housing (Organization Code 0520). In addition, the Office of Traffic Safety is merging with this Secretary. The 2011-12 and 2012-13 budget information for the Office of Traffic Safety is displayed in Organization Code 2700 under the new Transportation Agency.

The 2013-14 Budget includes $101.5 million and 58 positions for the Secretary for Transportation. Most of these resources ($97.4 million and 32 positions) are associated with the activities that were previously performed by the Office of Traffic Safety.

CALIFORNIA TRANSPORTATION COMMISSION

The California Transportation Commission (CTC) advises and assists the Administration and the Legislature in formulating and evaluating State policies, plans and funding for California's transportation programs.

The Governor's Budget proposes $28.6 million for the CTC; an increase of about $125,000 from the current year level funding. CTC has a staff of 19 positions, unchanged from the prior year.

BOARD OF PILOT COMMISSIONERS

The Board of Pilot Commissioners for the Bays of San Francisco, San Pablo, and Suisun licenses and regulates maritime pilots who guide vessels entering or leaving those bays and navigate on their tributaries to Sacramento and Stockton. Seven members of the Board are appointed by the Governor with the consent of the Senate, and the Secretary of the Business, Transportation, and Housing Agency is an ex officio member. All operational expenses of the Board are funded by a surcharge on pilotage fees set by the Board based on pilotage fees set by the Legislature. A pilot continuing education training program and a pilot trainee training program are funded by two separate surcharges on vessel movements set by the Board.

The Governor's Budget proposes $2.2 million for the Board of Pilot Commissions; an increase of about $5,000 from current year funding. The Board has 4 positions, unchanged from the prior year.