



**GETTING CALIFORNIA WORKING AGAIN**  
**BLUEPRINT *for a* RESPONSIBLE BUDGET**



California State Assembly  
**Democratic Caucus**

# HIGHLIGHTS OF GOVERNOR'S PROPOSED 2013-14 MAY REVISION

**MAY 14, 2013**

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CHAIR, ASSEMBLY BUDGET COMMITTEE

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## **OVERVIEW**

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

Last week, the Assembly Democrats laid out *Blueprint for a Responsible Budget*, and to his credit, the Governor's May Revision tracks well with our Blueprint principles of Fiscal Responsibility, Strengthening the Middle Class, and Delivering Effective, Efficient Services. Specifically, the Governor's proposal parallels the Blueprint by, among other things:

- Providing a balanced budget each and every year of the forecast period, and accelerating debt payments to schools;
- Strengthening the middle class by setting education as a key priority, making a modest attempt to improve the safety net, and by providing an economic development proposal; and,
- Improving effective and efficient services by adopting our proposal to cut the Secretary of State's business filings to five days.

Of course, with any early proposal, differences remain to be resolved as the budget process continues, including, among other things:

- Reaching an agreement on school funding formula changes for the benefit of low income and English learners will require broader efforts to directly reduce child poverty with increased assistance and assurances that all schools districts and all low income and English learners benefit from the changes;
- Lowering student fees for middle class families at the UC and CSU with the Middle Class Scholarship;
- Providing court funding, with accountability, that avoids the worst impacts of court cutbacks; and,
- Beginning the important task of crafting a workable Rainy Day Fund that captures spiking capital gains revenues and preserves them for times of economic downturn.

In total, the Governor's May Revision forecasts revenue changes from the January forecast of a \$2.8 billion increase in the current year, and a \$1.8 billion decrease in the budget year.

The revised proposal assumes \$98.1 million in revenue and \$96.4 million in expenditures for 2013-14. With various changes, outlined in the chart below, the Governor's May Revision includes a \$1.1 billion reserve.

**May Revision Changes to the January 10 Budget (\$ Billions)**

Starting Reserve (January 10)	\$1.1
Increased Current Year Revenues	2.8
Increase Current Year Prop 98 Spending	-2.9
Reduced Budget Year Revenues	-1.8
Reduced Budget Year Prop 98 Spending	1.0
Reduced Borrowing Costs	0.5
Increased baseline Medi-Cal Costs	-0.5
Medi-Cal Expansion Saving	0.3
Various Other Adjustments	0.6
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May Revision Reserve	\$1.1

The Assembly Budget Committee will immediately begin reviewing the Governor's proposal and economic forecast, as well as the LAO's economic forecast, and hold extensive subcommittee hearings to craft the Assembly's final version of the State Budget.

**SUMMARY OF CHARTS**

**2013-14 General Fund Summary**

(in millions)

	<b>2012-13</b>	<b>2013-14</b>
<b>Prior Year Balance</b>	<b>-\$1,658</b>	<b>\$850</b>
Revenues and Transfers	\$98,195	\$97,235
<b>Total Resources Available</b>	<b>\$96,537</b>	<b>\$98,085</b>
Non-Proposition 98 Expenditures	\$55,233	\$57,004
Proposition 98 Expenditures	\$40,454	\$39,349
<b>Total Expenditures</b>	<b>\$95,687</b>	<b>\$96,353</b>
<b>Fund Balance</b>	<b>\$850</b>	<b>\$1,732</b>
Reserve for Liquidation of Encumbrances	\$618	\$618
Regular Reserve (SFEU)	\$232	\$1,114

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

	<b>2012-13</b>	<b>2013-14</b>	<b>Dollar Change</b>	<b>Percent Change</b>
Personal Income Tax	\$63,901	\$60,827	-\$3,074	-4.8%
Sales and Use Tax	20,240	22,983	2,743	13.6%
Corporation Tax	7,509	8,508	999	13.3%
Insurance Tax	2,156	2,200	44	2.0%
Liquor Tax	325	332	7	2.2%
Tobacco Taxes	91	89	-2	-2.2%
Motor Vehicle Fees	29	23	-6	-20.7%
Other	3,944	2,273	-1,671	-42.4%
<b>Total</b>	<b>\$98,195</b>	<b>\$97,235</b>	<b>-\$960</b>	<b>-1.0%</b>

**General Fund Expenditures**  
(in millions)

<b>Category:</b>	<b>2012-13</b>	<b>2013-14</b>	<b>Change</b>	<b>% Change</b>
Education (K-12)	\$41,085	\$39,863	-1,222	-3.0%
Health and Human Services	27,001	28,473	1,472	5.5%
Higher Education	9,909	10,564	655	6.6%
Transportation	-54	206	260	481.5%
Legislative, Judicial, Executive	2,002	2,559	557	27.8%
General Government:				
Non- Agency Depts.	469	516	47	10.0%
Tax Relief/Local Gov	2,507	421	-2,086	-83.2%
Statewide Exp.	705	971	266	37.7%
Corrections and Rehabilitation	8,763	8,929	166	1.9%
Natural Resources	2,030	2,118	88	4.3%
Environmental Protection	47	46	-1	-2.1%
Government Operations	661	743	82	12.4%
Business, Consumer Services & Housing	217	646	429	197.7%
Labor and Workforce Development	345	299	-46	-13.3%
<b>Total</b>	<b>\$95,687</b>	<b>\$96,353</b>	<b>\$666</b>	<b>0.7%</b>

**2013-14 Total Expenditures**  
(in millions)

<b>Category:</b>	<b>General Fund</b>	<b>Special Funds</b>	<b>Bond Funds</b>	<b>Totals</b>
Education (K-12)	\$39,863	\$119	\$5	\$39,987
Health and Human Services	28,473	17,714	76	46,263
Higher Education	10,564	45	422	11,031
Transportation	206	8,179	5,107	13,492
Legislative, Judicial, Executive	2,559	2,720	275	5,554
General Government:				
Non- Agency Depts.	516	1,584	3	2,103
Tax Relief/Local Gov	421	3,439	-	3,860
Statewide Exp.	971	664	-	1,365
Corrections and Rehabilitation	8,929	2,272	3	11,204
Natural Resources	2,118	1,228	1,284	4,630
Environmental Protection	46	2,452	127	2,625
Government Operations	743	223	14	980
Business, Consumer Services & Housing	646	743	92	1,481
Labor and Workforce Development	299	564	-	863
<b>Total</b>	<b>\$96,353</b>	<b>\$41,946</b>	<b>\$7,408</b>	<b>145,707</b>

**K-12 EDUCATION****Overall Proposition 98**

- Increases the Proposition 98 minimum guarantee in the current year by \$2.9 billion. Specifically, the May Revision provides a revised funding level of \$56.5 billion in 2012-13. This increase is driven by higher revenues as well as a higher maintenance factor payment. Furthermore, the year-to-year growth increases significantly relative to the January estimates. Specifically, 2011-12 General Fund revenues *decrease* by \$300 million and 2012-13 General Fund revenues *increase* by \$2.9 billion.
- Reduces Proposition 98 funding by \$941.4 million in the Budget Year. Specifically, the May Revision provides \$55.3 billion in 2013-14. The reduction in the guarantee is primarily driven by decreases in 2013-14 General Fund revenue estimates, which the Administration estimates to be \$1.8 billion lower than January levels.
- Applies \$1.8 billion towards repaying K-14 inter-year deferrals in 2012-13 (\$1.6 billion for K-12, \$180 million for CCCs). This accelerates debt repayment, freeing up ongoing resources sooner.
- Reduces K-14 inter-year deferral payments by \$1 billion (\$909 million K-12, \$115 million CCC) in 2013-14, for a total payment of \$920 million in the budget year. Despite a reduction in the amount of deferrals paid down in the budget year, the May Revision retires an additional \$760 million in deferrals over the two-year period relative to the January budget (\$4.2 billion total deferral payments in January, \$4.9 billion in the May Revision).
- Withdraws the adult education proposal from the January Budget, which was rejected by the Assembly, and proposes to maintain the status quo for existing K-12 and Community College Adult Education programs for two years. However, the Administration proposes to transition to a new adult education program comprised of regional adult education providers, who would determine what programs to offer and how to allocate state funding. This proposal includes:
  - \$30 million in Proposition 98 General Fund in 2013-14 for two-year planning and implementation grants, and \$500 million Proposition 98 General Fund in 2015-16 to fund programs jointly administered by regional consortia of community college districts and school districts. These consortia can include other providers such as workforce investment boards, community-based organizations and local correctional facilities.

- The planning grants and \$500 million in funding will be awarded jointly by the State Department of Education and the Chancellor's Office, with at least \$350 million of the funding going to existing adult education providers.
- The new program will only award funding to specific areas of instruction, including English as a second language, citizenship, high school diploma, general education development (GED), and workforce development. Consortia also will be required to develop course sequencing pathways to allow adult learners to progress from adult education courses to other programs, such as college-level career technical and academic programs.
- The districts within each consortia must maintain their current level of spending on adult education in 2013-14 and 2014-15 to be eligible for the new funding.
- Modifies the Governor's January proposal related to Proposition 39 revenues:
  - Provides a total of \$464 million (\$413 million for K-12, \$51 million for community colleges). This reflects an increase of \$14 million above the January budget due to higher Proposition 39 revenues. Of the \$14 million, the May Revision provides \$12.5 million to K-12 schools and \$1.5 million to community colleges.
  - Provides minimum grants of \$15,000 for districts with less than 200 students and \$50,000 for other small districts that would receive less than that amount through the per student allocation.
  - Provides \$4 million and 8 positions from the Energy Resources Programs Account for the California Energy Commission to provide technical assistance to small districts.

**K-12 Adjustments**

- Increases funding for the Local Control Funding Formula by \$240 million, for a total of \$1.9 billion. The proposal is largely unchanged from the January Budget proposal. Key differences include expansion of academic accountability to empower county superintendents, the Fiscal Crisis and Management Assistance Team, and the Superintendent of Public Instruction to intervene in districts that fail to meet State Board of Education academic standards. The May Revision also proposes to modify the supplement and concentration funding calculations as follows:
  - Extends English learner supplement eligibility to seven years.
  - Calculates EL/LI enrollment based on a three year rolling average.
  - Increases spending requirements on supplemental and concentration funds.

- Provide Regional Occupation Centers and Programs and Home-to-School transportation joint powers authorities with continued direct funding for two additional years
- Provides an additional \$4 million to County Offices of Education to transition to their new formula proposed under the Governor's Local Control Funding Formula.
- Provides \$1 billion in one-time funds in 2012-13 to assist schools in implementing Common Core standards, consistent with the goals of the Assembly Budget Blueprint. Funding can be used for professional development, instructional materials, and technology enhancements. Proposes to provide this funding on a per pupil basis, providing roughly \$170 per pupil.
- Provides \$60 million to backfill the Special Education sequestration reduction. Proposes to allocate this funding to SELPAs based on the AB 602 formula.
- Withdraws the January proposal to amend the laws governing independent study and technology-based instruction. The administration indicates that it remains committed to amending these laws and will work to produce a new proposal during the coming year.

**Child Care and Development Programs**

- Makes caseload changes to the CalWORKs child care programs and make a technical adjustment capped programs to reflect increase in the 0-4 child population.

## **HIGHER EDUCATION**

### **University of California and California State University**

- Continues the Administration's Multi-Year Stable Funding Plan, including an increase in General Fund support for UC and CSU of \$125.1 million in 2013-14. Each segment could receive up to a 20-percent General Fund increase (\$511 million) between 2013-14 and 2016-17 if tuition does not rise and both segments improve graduation rates; the number of transfer students from community colleges; the number of degrees completed, particularly by low-income students; and a reduction in the cost-per-degree.
- Withdraws the specific performance measurements proposed in April, and instead states the Administration will continue to work with the Legislature, the segments and stakeholders to create an accountability plan.

### **California Community Colleges**

- Increases Proposition 98 General Fund support for apportionments by \$30 million in 2013-14. The May Revise withdraws the January Budget proposal to provide an unallocated apportionment increase, and instead specifies that the increase go toward the following items:
  - \$87.5 million for a cost of living adjustment representing 1.57 percent of base apportionments;
  - \$89.4 million for enrollment growth; and,
  - \$50 million for student support services.
- Revises a January Budget proposal to change the Board of Governors Fee Waiver Program. The original proposal was rejected by the Assembly. The new proposal would take effect in 2014-15 and requires students applying for the BOG Fee Waiver to provide documents detailing financial need within one academic term, requires the Board of Governors to establish criteria that provide emancipated students the opportunity to demonstrate they are living independently of their parents and financially in need.
- Continues a January Budget proposal to consolidate K-12 and Community College apprenticeship programs at the Chancellor's Office. The May Revise also removes the Community College apprenticeship program from categorical flexibility and allows community colleges to administer programs outside their geographic boundaries.

- Decreases Proposition 98 General Fund by \$70.8 million to reflect increased property tax estimates, and decreases Proposition 98 General Fund to reflect revised estimates of student fee revenue.
- Alters the deferral paydown proposal in the January Budget by increasing the paydown in 2012-13 by \$179 million and paying down \$65 million in 2013-14.

**California Student Aid Commission**

- Decreases General Fund support by \$23.6 million in 2012-13 and \$42 million in 2013-14 to reflect Cal Grant participation estimates.
- Decreases Temporary Assistance for Needy Families funding by \$18.7 million and provides a like increase in General Fund to reflect revised Cal Grant participation estimates.
- Increases the use of the Student Loan Operating Fund (SLOF) by \$38.1 million and provides a like decrease in General Fund to reflect the availability of SLOF funds to offset General Fund costs.

## **TRANSPORTATION**

- Reduces Capital Outlay Support staffing by \$36.3 million and 184 positions to reflect reduced workload from the wind-down of Proposition 1B and the American Recovery and Reinvestment Act funds for transportation projections.
- Expands the Caltrans Zero-Based Budgeting effort to Equipment and Stormwater programs.
- Increases \$18.6 million for AMTRAK operating expenses to reflect the federal requirement that short distance service become entirely state supported.

## **HUMAN SERVICES**

### **CalWORKs**

- As part of the Health Care Reform proposal (please see the Health Section for additional details), proposes that counties assume greater financial responsibility for CalWORKs, CalWORKs-related child care programs, and CalFresh administrative costs. The May Revision states that counties would be responsible for the coordination of all client services and would be allowed to reinvest caseload savings and revenue growth in CalWORKs and related child care programs based on their local needs and priorities. Eligibility, grant levels, and rates would continue to be set at the state level. The state would continue to provide funding for above-average costs that result from economic downturns or policy changes outside counties' control.
- Includes \$48.3 million General Fund to implement additional appraisal protocols, promote family stabilization, and provide enhanced subsidized employment opportunities for CalWORKs recipients. As part of the program changes made in the 2012-13 budget, including a reduction in the welfare to work services clock from 48 to 24 months, the state was expected to provide for system changes that would assure that families would receive the up-front and ongoing services they need to identify and address barriers within the dramatically reduced time that they can receive supportive services. The May Revision states that the appropriate level of ongoing resources for these system changes, termed "Early Engagement," will be determined in the 2014-15 Governor's Budget.
- Continues to not provide a cost of living adjustment (COLA) or grant increase for CalWORKs or Supplemental Security Income/State Supplementary Payment (SSI/SSP) recipients. The Assembly's Blue Print for a Responsible Budget made clear that additional financial assistance, such as a grant increase, is needed to address child poverty as part of any agreement to target school funds to the educational benefit of low income and English learners. CalWORKs families live far below the poverty level, with grants at the same dollar levels they were in 1987, or at 39% of the federal poverty line. Research confirms that children raised in poverty are biologically permanently and adversely affected by poverty, slowing their brain development and further inhibiting their chances for success in school. Low-income children exhibit weaker inhibitory control and have diminished capacity for working memory. They are far less likely to finish high school and are more likely to become dependent on public resources as adults.

### **In-Home Supportive Services (IHSS)**

- Increases General Fund in IHSS by \$80.3 million in 2012-13 and by \$120 million in 2013-14 as a result of increases caseload projections resulting primarily from increases costs per case and from an erosion of savings associated with the health

care certification requirement. More recipients are securing the required certification than was assumed in the Governor's Budget.

- Reflects savings of \$176.4 million General Fund in the 2013-14 for the 8 percent across-the-board IHSS hours reduction effective July 1, 2013, pursuant to the settlement agreement reached with plaintiffs with respect to the *Oster and Dominguez* class-action lawsuits. This reduction drops to 7 percent on July 1, 2014. Bills pending in the Legislature effectuate the settlement, including the repeal of prior reductions.
- Includes \$518,000 (\$259,000 General Fund) and four positions in the Department of Social Services to staff the Statewide Authority responsible for collective bargaining with unions representing individual providers in counties that have transition to the CCI. The administration expects to convene the Statewide Authority before the first county completes its transition into managed care.

### **Other Department of Social Services Programs**

- Proposes the use of carryover funds to backfill the current year reduction and half of the 2013-14 budget year reduction to the Community Care Licensing program as a result of a loss of funds due to sequestration reductions. Proposes authority to transfer \$2.1 million from the Child Health and Safety Fund for this purpose and states that this fund has sufficient reserves to absorb this increase on a one-time basis.
- Decreases General Fund by \$94.5 million in 2012-13 and by \$126.5 million in 2013-14 as a result of decreased caseload projections in the CalWORKs and SSI/SSP programs.

### **Department of Developmental Services**

- Includes an increase of \$344,000 (\$241,000 General Fund) in 2012-13 and \$2.5 million (\$1.7 million General Fund) in 2013-14 to reflect anticipated costs related to the Sonoma Developmental Center Program Improvement Plan requirement to contract with Independent Consultative Review Experts to develop an action plan to bring the facility into compliance with federal requirements. Includes provisional language authorizing up to \$10 million in additional funding to address costs necessary to implement the action plan. Also assumes increases of \$7.4 million in 2012-13 and \$15.7 million in 2013-14 to backfill the loss of federal funding resulting from the withdrawal of four residential units at Sonoma from the Medicaid Providing Agreement, ensuring continued federal funding for Sonoma's remaining six Intermediate Care units.
- Increases purchase of services funding by \$42.1 million (\$14.7 million General Fund) in 2012-13 and \$36.3 million (\$9.4 million General Fund) in 2013-14, due to higher utilization and cost per service.

- Contains an increase of \$1.5 million (\$0.9 million General Fund) in 2012-13 and \$1.5 million (\$0.9 million General Fund) in 2013-14 due to slightly higher caseload in the Developmental Centers and increased per-case costs. Caseload is slightly higher because fewer individuals than projected have transitioned to community living settings.
- Includes an increase of \$5.7 million General Fund in 2012-13 and \$11.9 million General Fund in 2013-14 to backfill a sequester reduction to the Social Services Block Grant (Title XX), which is used to partially fund regional center purchase of services. Also proposes an increase of \$613,000 General Fund in 2013-14 to backfill the sequester reduction to the Early Start IDEA Part C grant for regional center purchase of services.
- Increases funding in 2012-13 by \$25 million to backfill lower-than-anticipated funding from the First 5 Commission.

## HEALTH SERVICES

### Federal Health Care Reform

- Implements a state-based expansion of the Medi-Cal program, increasing eligibility for most childless adults up to 138 percent of the federal poverty level (FPL), including the following:
  - Newly eligible beneficiaries will receive the same benefits as the currently-eligible population, including county-administered specialty mental health services and county-supported substance use disorder services, with the following exceptions.
    - Long-Term Care services will be covered for the new population provided federal approval is granted for retaining an asset test for these services.
    - Counties will be given the option of providing both currently and newly eligible beneficiaries enhanced benefits for substance use disorders.
  - Assumes \$1.5 billion Federal funds to implement the expansion.
  - Assumes an increase of \$21 million General Fund reflecting the following:
    - Transitions pregnant women, with income between 100 and 200 percent FPL, from Medi-Cal to Covered California and covers their share of cost, for savings of \$26.4 million;
    - Transitions newly qualified immigrants from Medi-Cal to Covered California and covers their share of cost, for savings of \$5.4 million;
    - Increases County funding for Medi-Cal administration by \$71.9 million to reflect increased workload related to implementing the expansion; and,
    - Bases future appropriations for county administration on a time study of resource needs, beginning in 2015-16.
- Establishes a mechanism to determine the level of county savings, based on actual experience, including the following components:
  - Each county will measure actual costs, for providing services to Medi-Cal and uninsured patients, and actual revenues, including patient care revenue, federal funds, health realignment dollars, and net county contributions.
  - Savings will be determined by the difference between actual costs and revenues, and these savings will be redirected to support human services programs.

- Assumes a gradual shift, "over time" from the state to counties of financial responsibility for CalWORKs, CalWORKs-related child care programs and CalFresh. Proposes that counties would assume responsibility for the coordination of all client services and would gain the opportunity to reinvest caseload savings and revenue growth into these programs. Maintains authority for eligibility, grant levels, and rates at the state level.
- Assumes a shift of \$300 million in 2013-14, \$900 million in 2014-15, and \$1.3 billion in 2015-16 and 2016-17 from health services to human services programs locally.
- Requires the state to seek to develop a new Medicaid Waiver to replace the existing Bridge to Reform Waiver that expires in 2015, in order to maximize federal funding that supports county-run public hospitals and clinics.
- Shifts financial responsibility for California Children's Services (CCS) from counties to the state "over time."
- Requests that "consideration be given to the appropriate role of counties in the Medical Therapy Program."

**Department of Health Care Services (Medi-Cal)**

- Modifies the existing proposal to re-establish the "Managed Care Organization Tax (MCO tax)." Proposes that the 2012-13 tax amount will be equal to the gross premiums tax, and in 2013-14 and on-going, the tax rate will be equal to the state sales tax rate. The MCO tax will result in current year General Fund savings of \$128.1 million for the Managed Risk Medical Insurance Board, and \$342.9 million in General Fund savings in 2013-14 for Medi-Cal.
- Modifies the Coordinated Care Initiative (CCI) by: 1) reflecting the updated size and scope of the project, reflecting a cap on LA County participation included in the Memorandum of Understanding with the federal government; 2) reflects changes to the implementation schedule, beginning no sooner than January 2014, with a 12-month phase-in for all counties except San Mateo, which will implement over three months; and, 3) assumes a new General Fund savings amount of \$119.6 million in 2013-14, which reflects the proposed higher MCO tax rate.

**Managed Risk Medical Insurance Board**

- Defers the elimination of the Managed Risk Medical Insurance Program and other state-only programs affected by the Affordable Care Act.
- Transfers Access for Infants and Mothers (AIM)-linked infants, in families with incomes between 250 and 300 percent of federal poverty, from Healthy Families to Medi-Cal.

**Department of State Hospitals**

- Increases the number of beds in state hospitals by 155 for patients in the following categories: Lanterman-Petris-Short, Incompetent to Stand Trial, Mentally Disordered Offender, and Sexually Violent Predator. Allocates \$22.1 million (\$16 million General Fund) and 173 positions (primarily Level of Care staff) to establish four new units and convert one existing unit at three state hospitals.
- Establishes a Patient Management Unit to manage patient bed needs to maximize utilization within state hospitals. Allocates \$1.8 million General Fund and 18 positions in 2013-14.
- Decreases \$10 million General Fund and 3.1 positions at the Salinas and Vacaville Psychiatric facilities reflecting the transition of 450 patients from those facilities to the new California Health Care Facility in Stockton.

**Mental Health Services Oversight and Accountability Commission**

- Allocates \$947,000 (Mental Health Services Act Fund) and 6 positions to begin implementation of the 5-year Evaluation Master Plan, approved by the Commission on March 28, 2013.

**Department of Public Health**

- Reduces funding for the AIDS Drug Assistance Program (ADAP) by \$12.5 million (other funds) in 2012-13 and by \$46.4 million (other funds) in 2013-14 to reflect updated caseload and cost projections.

**Office of Statewide Health Planning and Development (OSHDP)**

- Allocates \$21 million (reimbursements from a grant from The California Endowment) for healthcare workforce development incentive programs.

## **NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION**

### **Proposition 39**

- Continues to allocate all Proposition 39 funding to schools and community colleges. It also continues to propose that the Department of Education and the Chancellor's Office for the California Community Colleges be responsible for distributing funding. However, the May Revision proposes a minimum grant level of \$15,000 for exceptionally small local education agencies. The proposal also provides other education agencies the greater of \$50,000 or their per-ADA distribution.

Additionally, the May Revision proposes \$4 million Energy Resources Programs Account and 8 positions to enable the CEC to provide technical assistance to small local education agencies. Finally, the May Revision proposes an increase of \$12.5 million for K-12 energy efficiency projects, based on higher Proposition 39 revenues.

This proposal continues to differ substantially from the language of Proposition 39, which 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. It directed 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 (1) specifies that all funded projects must be coordinated with CEC and CPUC; and, (2) creates a new nine-member oversight board to annually review and evaluate spending from the fund.

### **Air Resources Board**

- Loans \$500 million from the Greenhouse Gas Reduction Fund (Cap and Trade auction revenues) to the General Fund.

The Air Resources Board released its Draft Cap-and-Trade Auction Proceeds Investment Plan: Fiscal Years 2013-14 through 2015-16, on April 16, 2013. This document is a draft of the first investment plan for cap-and-trade auction proceeds. The purpose of this plan is to evaluate the opportunities for greenhouse gas emission reductions, and identify priority State investments to help achieve greenhouse gas reduction goals and yield valuable co-benefits. The final version of this plan, along with an expenditure plan was anticipated in the May Revision.

The Governor's Budget had originally proposed offsetting a total of \$500 million General Fund spending associated with greenhouse gas mitigation (\$200 million in the current year and \$300 million in the budget year). However, now the Governor proposes loaning that amount to the General Fund.

The Governor contends that loaning these proceeds will not interfere with the objectives of the three-year investment plan or AB 32 because it is short-term and the monies will be repaid with interest when necessary to meet the needs of the Fund. However, it is unclear when the loan will be repaid and how that will impact achieving the goals of AB 32.

**Department of Forestry and Fire Protection**

- Increases by \$51 million General Fund for emergency wildfire suppression costs. The Emergency Fund (E Fund) provides necessary resources to the Department of Forestry and Fire Protection's emergency fire suppression efforts. Over the last five years, average emergency firefighting costs have been higher than the E Fund budgeted amount. The number and severity of fires caused by extremely dry winter and spring conditions in the state this year demonstrate the unpredictability of fire suppression costs. This proposal increases the E Fund to \$172 million.

**Department of Food and Agriculture**

- Increases by \$2.5 million (Food and Agriculture Fund) in 2013-14 and 2014-15 to help prevent the spread of the Asian Citrus Psyllid and Huanglongbing disease.

**PUBLIC SAFETY**

**California Department of Corrections and Rehabilitation**

- Increases the California Department of Corrections and Rehabilitation's (CDCR) budget by \$100 million (from \$9 billion to \$9.1 billion).
- Increases funding for county probation departments by \$72.1 million (General Fund) pursuant to the California Community Corrections Performance Incentive Act SB 678 (Leno), Chapter 608, Statutes of 2009. This augmentation continues to provide resources to county probation departments that demonstrate success in reducing the number of adult felony probationers going to prison or jail for committing new crimes or violating the terms of probation. These efforts are targeted at reducing recidivism and encourage alternatives to incarceration.
- Expands fire camp capacity by roughly 1300 inmates at a cost of \$15.4 million (General Fund). The CDCR Blueprint and the Governor's January budget proposal assumed the number of inmates eligible to be placed in fire camps would decrease to 2,500 in 2013-14. Accordingly, the Governor's Budget included a \$15.4 million (General Fund) reduction to reflect lower levels of custody staffing. However, based on more recent projections, there are a sufficient number of eligible inmates to maintain all current fire camps and crews. Housing these additional inmates in fire camps provides overcrowding relief, expands credit-earning opportunities, and provides sufficient statewide coverage for fire suppression.
- Proposes statutory changes to allow counties to house offenders sentenced to lengthy jail terms in CDCR facilities, provided the county agrees to accept an equivalent average daily population of short-term offenders. Given the population cap imposed on CDCR by the Three-Judge Panel, the proposal has no population impact. The proposal also relies on County Parole Boards to make the determination to send long-term inmates to state prison after they have served three years of their sentence in a county jail. Lastly, the proposal establishes a presumption of a minimum level of split sentencing, but authorizes a judge to make an exception if the judge determines that a split sentence is not appropriate.
- Increases budget by \$6.6 million (General Fund) to support various initiatives targeted at reducing the flow of drugs into prisons.
- Increases budget by \$11.5 million (General Fund) in 2012-13 and \$6.7 million (General Fund) in 2013-14 to support various costs directly related to adult inmate and parole population changes. The revised average daily population projections for adult inmates are 132,621 in 2012-13 (an increase of 404 inmates above the 1/10/13 projection) and 128,885 in 2013-14 (an increase of 280 inmates above the 1/10/13 projection). The revised average daily parolee population projection is 62,498 in

2012-13 (an increase of 60 parolees above the 1/10/13 projection) and 46,358 in the budget year, (a decrease of 1,262 parolees below the 1/10/13 projection). The mental health population is projected to be 31,889 in the current year and 31,753 in the budget year, an increase of 6.6 percent in 2012-13 and 7.9 percent in 2013-14, compared to the projections included in the Governor's Budget, but only a 1.3 percent increase in the mental health population since the beginning of 2012-13.

- Decreases the Division of Juvenile Justice (DJJ) budget by \$353,000 (Proposition 98) in 2012-13 and \$2.4 million (\$1.4 million General Fund and \$1.0 million Proposition 98) in 2013-14. The revised average daily population projections for DJJ wards are 821 in the current year and 679 in the budget year, which is a decrease of 50 wards in the current year and 234 wards in the budget year, compared to the projections included in the Governor's Budget.

The Governor's May Revision proposal reflects a significant change in the way the DJJ is funding is calculated. Historically, DJJ funding has been tied closely to the number of wards being housed in the state's juvenile correctional facilities. However, the Administration is now proposing to keep funding for the DJJ virtually flat irrespective to recent population reductions in order to support true operating costs.

### **Judiciary**

- Makes no restorations to the Judicial Branch's budget, leaving the appropriation level virtually unchanged from the Governor's January budget proposal.

The Assembly Democrats' Blueprint for a Responsible Budget calls for protecting Court funding with strong, new accountability measures. Therefore, any restorations of court funding will come with strict accountability and reporting requirements to ensure the courts allocate resources in accordance with the appropriations.

### **California Highway Patrol**

- Increases the California Highway Patrol's (CHP) budget by \$17 million (Motor Vehicle Account) to replace three helicopters and one airplane. This request will provide one-time funding to replace the four aircraft with the highest flight hours (each of these aircraft currently have over 14,000 flight hours logged). The CHP will also conduct an analysis over the next year to create a plan for modernizing the rest of its aging aircraft.

## **GENERAL GOVERNMENT**

### **Secretary of State**

- Includes 56 new positions and \$5.7 million to further help eliminate business-filing backlogs.
  - Includes language requiring the Secretary of State to report on its progress regarding the five-business day processing time requirement for filings.
  - Reflects Assembly Democratic Blueprint by referencing AB 113, a bill recently signed by the governor providing \$1.6 million in the current year to eliminate business-filing backlogs and maintain an average five-business day processing time.

### **State Controller**

- Provides \$14.5 million on a one-year basis to address workload associated with completing specific tasks for the 21<sup>st</sup> Century project, which was suspended earlier this year.

### **Employment Development Department**

- Decreases Unemployment Insurance benefit payments by \$351 million in 2012-13 and \$72 million in 2013-14 to reflect a decreasing benefit payments due to a lower unemployment rate and the proposed discontinuation of extended federal benefits in December 2013.
- Decreases federal funding for Emergency Unemployment Compensation Program by approximately \$468 million in federal fiscal years 2013 and 2014 due to the federal sequestration. These reductions result in a 17.7-percent reduction in benefits to 350,000 to 400,000 unemployed Californians.
- Increases use of the Contingent Fund by \$29.7 million to retain 300 positions to pay UI benefits, process UI claims, answer telephone calls, and collect payroll taxes. These positions would have been lost due to lowering unemployment rates and a funding shortfall in the program, caused by federal cutbacks. Even with this increase in funding, EDD is slated for a decrease of 870 positions in 2013-14 compared to 2012-13. The Contingent Fund is supported by penalties and interest assessed to employers who are delinquent in tax payments.

**Department of Veterans Affairs**

- Converts 84 beds in the West Los Angeles Veterans Home from skilled nursing facility beds to domiciliary beds, allowing for a decrease of \$3.2 million General Fund and 35.6 positions in 2013-14 and a decrease of \$5.1 million General fund and 67 positions in 2014-15 and allowing the department to better meet the needs of veterans in the Los Angeles area.

## **LOCAL GOVERNMENT**

- Provides lower redevelopment revenue estimates for counties and cities in 2012-13 and 2013-14 from \$1.6 billion to \$1.4 billion for counties and from \$1.2 billion to \$1.1 billion for cities.
- Provides higher redevelopment revenue estimates for special districts from \$400 million to \$500 million.
- Maintains unchanged the Proposition 98 General Fund Savings resulting from the dissolution of RDAs at \$2.1 billion for 2012-13.
- Includes increases for Proposition 98 General Fund savings for 2013-14 from \$1.1 billion to \$1.5 billion and includes increased ongoing savings of \$825 million as compared to the January budget of \$600 million.

**REVENUES**

**Revenues**

- Provides that overall revenues estimates are higher than the Governor's Proposal by \$2.8 billion in the current year and lower than expected in 2013-14 by \$1.8 billion. The differences for the Personal Income Tax, Sales and Use Tax, and the Corporation Tax are reflected in the chart below:

	2011-12			2012-13			2013-14		
	January Forecast	May Forecast	Difference	January Forecast	May Forecast	Difference	January Forecast	May Forecast	Difference
Personal Income	53.8	54.3	0.5	60.6	63.9	3.3	61.7	60.8	-0.9
Sales Tax	18.7	18.7	0	20.7	20.2	-0.5	23.3	23	-0.3
Corporation Taxes	7.9	7.2	-0.7	7.6	7.5	-0.1	9.1	8.5	-0.6
Other	6.7	6.6	0	6.5	6.6	0.1	4.4	4.9	0.5
<b>Total</b>	<b>87.1</b>	<b>86.8</b>	<b>-0.2</b>	<b>95.4</b>	<b>98.2</b>	<b>2.8</b>	<b>98.5</b>	<b>97.2</b>	<b>-1.3</b>

\*As noted in the chart above, in 2013-14, total revenues decline by \$1.8 billion, but the total reported in the May revision document is a \$1.3 billion decline due to the accounting of \$491 million of Special Fund borrowing

**Job Creation and Economic Development**

- Proposes to reform the state's job creation and economic development incentives by reshaping the Enterprise Zone program and the New Jobs Hiring Credit by doing the following:
  - Refocusing the hiring credit to specific areas with high unemployment and poverty rates.
  - Proposing to expand the Enterprise Zone sales tax program to a statewide, upfront sales tax exemption for manufacturing or biotech research and development equipment purchases; and
  - Creating the California Competes Recruitment and Retention Fund to be administered by GO-Biz to provide business tax credits in exchange for investments and employment expansion in California.
  - These are similar to concepts discussed in the Assembly Democratic Blueprint to

make government more efficient.

**Budget Year Debt Service**

- Projects decreases to the Budget year debt service by \$141.9 million for a total of \$5.7 billion
- Decreases can be attributed to the following:
  - Projected premium generated from future bond sales in the budget year,
  - Smaller spring 2013 bond sale than projected,
  - Savings related to bond refinancing's this spring, and,
  - An increase of \$30.7 million from reduced Build America bonds (BAB) subsidy payments due to federal sequestration.

**Current Year Debt Service**

- Projects decreases in current year debt service by \$292.1 million for a total of \$4.7 billion
- Decreases can be related to the following:
  - Increased premium generated from the spring 2013 bond sales,
  - Savings related to bond refinancing, and,
  - An increase of \$12.4 million form reduced BABs subsidy payments due to federal sequestration.