COMMITTEE ON BUDGET & FISCAL REVIEW
Room 5019, State Capitol
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SENATOR MARK LENO, CHAIR

MAY REVISION HIGHLIGHTS

May 14, 2013

Staff of the Senate Budget and Fiscal Review Committee prepared the attached overview of the May Revision. (More detailed program information follows these Highlights – please see the Table of Contents on page 12.)

Please note that this is not a comprehensive analysis of the May Revision. Staff is currently working on detailed analyses for legislative hearings beginning May 20.

OVERVIEW OF GOVERNOR'S MAY REVISION

On May 14, the Governor released his May Revision for budget year 2013-14. The Governor now projects budget year expenditures of $96.4 billion, revenues of $98.1 billion, and a $1.1 billion reserve. While the reserve level remains the same as in January, there have been considerable adjustments made to the Governor's assumptions about revenues in the current year and budget year, and his May Revision reflects lower Proposition 98 expenditures in the budget year due to these revisions. The Governor's overall budgetary framework continues to be balanced over the forecast period and the budget plan would continue to reduce the "wall of debt" to less than $5 billion by 2016-17.

The General Fund budget summaries for January and May are listed below:

General Fund Budget Summary (in Millions)

	January		May Revision	
	Revised 2012-13	**Proposed 2013-14**	**Revised 2012-13**	**Proposed 2013-14**
Prior Year Balance	**-$1,615**	**$785**	**-$1,658**	**$850**
Revenues and Transfers	95,394	98,501	98,195	97,235
Total Resources Available	**93,779**	**99,286**	**96,537**	**98,085**
Non-Proposition 98 Expenditures	55,487	56,780	55,233	57,004
Proposition 98 Expenditures	37,507	40,870	40,454	39,349
Total Expenditures	**92,994**	**97,650**	**95,687**	**96,353**
Fund Balance	**785**	**1,636**	**850**	**1,732**
Reserve for Liquidation of Encumbrances	618	618	618	618
Total Available Reserve	**$167**	**$1,018**	**$232**	**$1,114**

Economic Forecast Revised Downward. The Governor has reduced his economic forecast since January, especially personal income growth which has been reduced from 4.3 percent in January to 2.2 percent in May. The Governor indicates that this downward revision is mainly due to the expiration of the federal two percent payroll tax reduction at the end of 2012. The Governor has indicated that his January budget did not reflect the expiration of the payroll tax reduction nor did it assume the federal sequestration, which is proposed to further dampen economic growth.

Despite Big April, Governor's Revenue Forecast Down. Revenues at the end of April were expected to end nearly $4.6 billion above the Governor's January expectations for the current fiscal year. The Governor now expects that current year revenues will only be $2.8 billion above January projections, due to accounting methodologies that accrue Proposition 30 revenues to the year the tax liabilities were incurred, other revisions to cash flows assumed in the current year, and reduced sales and corporation tax revenues in the current year.

The revenues in the budget year are also projected to be revised downward from January by $1.8 billion. This is due to lower projected tax revenues from the three major taxes: personal income tax, sales tax and the corporation tax. The personal income tax revisions in the May Revision reflect an assumption that a larger portion of the current-year revenues are due to one-time accelerations attributable to the increase in federal tax rates beginning in 2012.

The General Fund revenue forecasts for the May Revision and the January budget are compared in the following table:

General Fund Revenue Sources (in Millions)

	January		**May Revise**	
Source	**2012-13**	**2013-14**	**2012-13**	**2013-14**
Personal Income Tax	$60,647	$61,747	$63,901	$60,827
Sales Tax	20,714	23,264	20,240	22,983
Corporation Tax	7,580	9,130	7,509	8,508
Other	6,453	4,360	6,545	4,917
Total	**$95,394**	**$98,501**	**$98,195**	**$97,235**

Proposition 98 Calculations Require 103 Percent of Revenue Gain in Current Year, But Guarantee is Down with Revenues in Budget Year. The Legislature and the Governor decided on a legal interpretation of the Proposition 98 guarantee in 2012 that requires the payment of maintenance factor on top of the Proposition 98 test calculation. This resulted in over 90 percent of any additional dollar in revenue being required for Proposition 98. The Governor now predicts that the Proposition 98 formula will require 103 percent of revenues in the current year, mainly due to the maintenance factor interpretation used in the current fiscal year and accrual accounting related to Proposition 30 revenues. The Governor provides $2.9 billion to fund Proposition 98 in the current year. The Governor also projects lower Proposition 98 spending of $1 billion in the budget year, reflecting the lower economic and revenue forecasts.

Overall May Revision Reinvests in Education. Over the two years combined, the Governor finds that there is about $1.9 billion in additional Proposition 98 revenues above the Governor's January level. The Governor assumes these monies are one-time and proposes to invest these monies on a new program to fund professional development, technology and instructional materials to implement the new common core curriculum and to buy down additional deferrals. The Governor indicates that the May Revision provides $1,046 more per K-12 student in 2013-14 than was provided in 2011-12. The Governor's May Revision makes modest modifications to the Local Control Funding Formula proposed in January.

Updated Projections Assume Eroded Health Care Savings. The Governor's May Revision has adjusted costs related to Medi-Cal upward by $500 million, mainly due to delays in implementation of the Coordinated Care Initiative, some additional costs related to the public hospitals and loss of federal funds, and a managed care rate increase.

Includes State Centered Approach to Medi-Cal Expansion. The May Revision clarifies the Administration's approach to implementing the federal Affordable Care Act's optional Medicaid expansion. Under the proposal, the Governor has chosen a state-based approach to implementing the Medicaid expansion. This expansion will increase health care coverage to low-income individuals, not currently eligible for the state's Medicaid program (Medi-Cal). These individuals are currently served mainly through the county indigent health care and clinic programs. The May Revision proposes that over time the state will take on more responsibility for health care and counties will take on more financial responsibility for certain human services programs. The Governor has identified $300 million in reduced county costs on indigent health care related to the Medi-Cal expansion in the budget year that would be dedicated to paying for a larger share of CalWORKs and child care in the budget year. This number would increase to $1.3 billion by 2015-16.

Governor Makes Additional Small Investments Outside of Proposition 98. Outside of the Proposition 98 Guarantee and the backfill for eroded savings in health care, the Governor has made a few small investments. These investments include $48 million to fund early engagement and subsidized employment in the CalWORKs program and $72 million for county probation departments to fund SB 678 incentive grants. The overall General Fund expenditures by program area for January and revised in May are as follows:

General Fund Expenditures by Agency (In Millions)

	January		May Revise	
Program Area	**2012-13**	**2013-14**	**2012-13**	**2013-14**
K-12 Education	$38,323	$41,068	$41,085	$39,863
Health and Human Services	27,121	28,370	27,001	28,473
Higher Education	9,776	11,109	9,909	10,564
Corrections and Rehabilitation	8,753	8,805	8,763	8,929
Resources	2,022	2,062	2,030	2,118
Environmental Protection	47	46	47	46
Business, Consumer Services & Housing	217	645	217	646
Transportation	183	207	-54	206
Legislative, Judicial, Executive	2,044	2,546	2,002	2,559
General Government				
Non-Agency Departments	480	528	469	516
Tax Relief/Local Governments	2,520	421	2,507	421
Statewide Expenditures	502	772	705	971
Labor and Workforce Development	345	329	345	299
Government Operations	661	742	661	743
Total	**$92,994**	**$97,650**	**$95,687**	**$96,354**

Includes Revenue-Neutral Economic Development Package. The Governor has put forward a new economic development tax proposal that is revenue neutral. The Governor proposes to cap enterprise zone credits and repurpose existing new jobs tax credits into other targeted tax policy programs that spur hiring and job retention. Specifically, the Governor proposes to repurpose some credits to enterprise zones and the new jobs tax credits, to a sales tax exemption for manufacturing equipment, a hiring credit for high unemployment areas and small business, and a tax credit allocation for GOBiz to retain and attract specific businesses.

Continues Commitment to Debt Buy-Down. As in the Governor's Budget, the May Revision continues the Governor's commitment to pay down budgetary debt over the next four years. The May Revision would increase the pay-down of the "wall of debt" in the current year by about $900 million, compared to the Governor's budget, but result in a largely offsetting decrease in the repayment in the budget year. The remainder of the four-year repayment plan proposed in January would remain intact and result in reducing the wall of debt to $4.6 billion at the end of the period. The next table shows changes to the debt repayment plan in 2013-14.

"Wall of Debt" Repayment 2013-14
($ in Millions)

Source of Borrowing	Governor's Budget	May Revision
Deferred Payments to K-14 Education	$1,950	$926
Economic Recovery Bonds	1,474	1,480
Loans from Special Funds	561	561
Unpaid Mandate Costs	0	0
Underfunding Proposition 98	0	0
Deferred Medi-Cal Costs	130	49
Deferral of State Payroll Costs	0	0
Deferred Payments to CalPERS	0	0
Borrowing from Transportation Funds	83	83
Total	**$4,198**	**$3,099**

The May Revision notes the continued persistence of longer-term future liabilities that the state must begin to take on. These include additional funding for the California Public Employees Retirement System (CalPERS), to begin to pay-down the unfunded pension liabilities as well as costs for retired state employees' health care costs. In addition, the May Revision references the state's infrastructure needs—especially in the area of transportation. The Five-Year Infrastructure Plan, discussed in the Governor's budget, has not yet been provided.

Risks Inherent in Budget Plan. The economy has continued its slow recovery and the Administration has taken a conservative approach in its revenue forecasting. Nevertheless, the May Revision notes continued risks related to federal action (or inaction) that could put additional strain on the state budget. Specifically, the Administration points to the implementation of federal health care reform as a large source of future cost pressures. Court decisions in the area of prison population have resulted in significant state costs and, if the state does not prevail in federal courts, there may be additional state costs in the hundreds of millions of dollars annually. Lastly, economic growth and revenue recovery in California is still uncertain and could be influenced by global concerns.

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CORRECTIONS

CALIFORNIA DEPARTMENT OF CORRECTIONS & REHABILITATION

The May Revision includes $9.1 billion ($8.8 billion GF and $252 million other funds) for the California Department of Corrections and Rehabilitation (CDCR). This is an increase of approximately $100 million GF, as compared to the Governor's budget.

Adult Offender Population Adjustment. The May Revision includes an increase of $11.5 million GF in 2012-13 and $6.7 million GF 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 Governor's budget projection) and 128,885 in 2013-14 (an increase of 280 inmates above the Governor's budget projection). The revised average daily parolee population projection is 62,498 in 2012-13 (an increase of 60 parolees above the Governor's budget projection) and 46,358 in the budget year, (a decrease of 1,262 parolees below the Governor's budget 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.

Long-Term Offenders. The May Revision 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. The 2011 Public Safety Realignment changed where offenders, convicted of non-violent, non-serious and non-sex felonies, serve their time from state prison to local incarceration (predominately county jails). Local law enforcement have raised concerns that some of these offenders are sentenced to lengths of times for which local jails are unfit.

Given the population cap imposed on CDCR by the Three-Judge Panel, the May Revision proposal has no population impact. The proposal 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.

Inmate Fire Camps. The May Revision includes $15.4 million GF to expand fire camp capacity by approximately 1,300 inmates. The CDCR *Blueprint* (adopted as part of the 2012-13 budget) 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 GF 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.

Community Corrections Performance Incentive Act (SB 678). The May Revision includes an increase of $72.1 million in funding for county probation departments, pursuant to SB 678 (Chapter 608, Statutes of 2009). The Governor's budget included $35.8 million for SB 678, a significant reduction over the current year funding level of $138.9 million. SB 678 provides county probation departments with a share of state savings accrued due to reductions in prison admissions of adult felony probation failures. The act required counties to implement evidence-based supervision and treatment practices for adult probationers, in order to receive funds. 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.

Drug Interdiction Program. The May Revision proposes $6.6 million GF to support various initiatives targeted at reducing the flow of drugs into prisons. The proposal intends to increase correctional staff and inmate safety, reduce inmate violence and the use of solitary confinement, and increase participation in rehabilitative programs.

Health Care Reorganization. The May Revision proposes the establishment of an Undersecretary, and related executive positions, to oversee CDCR's adult inmate health care services programs in order to support the transition of inmate health care back to the state. The positions would not be filled until a transition plan and timeline have been finalized.

In 2001, a federal class-action lawsuit alleged that the dire state of medical care in California state prisons violated the 8th amendment of the U.S. Constitution, which prohibits cruel and unusual punishment. In 2002, the State settled the lawsuit by agreeing to reform the system. In 2005, the court removed control of prison medical care from the state and appointed a federal receiver to oversee the reform process. The receiver's job is to bring the level of medical care in California prisons to a standard which no longer violates the U.S. Constitution. Once that goal is accomplished and sustainability is ensured, the court will return control of prison medical care to the state.

Division of Juvenile Justice (DJJ). The May Revision includes decreases of \$353,000 (Proposition 98 GF) in 2012-13 and \$2.4 million (\$1.4 million GF and \$1.0 million Proposition 98 GF) in 2013-14 due to DJJ population adjustments and cost changes. 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 May Revision also reflects changes in the way that the DJJ's funding need is determined. These include: 1) establishment of a ward-driven Operating Expenses and Equipment funding mechanism, 2) funding the cost of mental health treatment provided by the Department of State Hospitals, and 3) funding the actual salaries for filled custody positions. These changes were driven by the significant downsizing of DJJ's population and operations in recent years.

GENERAL GOVERNMENT

REDEVELOPMENT AGENCIES

The May Revision provides no new proposals related to the dissolution of Redevelopment Agencies (RDAs), but provides an update of the expected fiscal impact on the state, local governments and school districts. The May Revision indicates that as a result of the dissolution of RDAs, additional general purpose revenues will flow to local governments in 2012-13 and 2013-14 combined, in the following amounts: $1.4 billion to counties, $1.1 billion to cities, and $500 million to special districts. These resources represent a combination of additional property tax revenues and former RDA cash and cash equivalents. The annual amount for allocation in the out-years will be approximately $650 million.

The May Revision estimates that Proposition 98 General Fund savings from the dissolution of RDAs will be $2.1 billion in 2012-13 (the same as in the Governor's budget). The savings in 2013-14 is expected to be $1.5 billion or $400 million more than the Governor's budget. Ongoing annual savings associated with the RDA dissolution are expected to be $825 million—$265 million higher than in the Governor's budget. The increase in savings stems from an increase in remittances from RDA successor agencies, increases from adjustments to enforceable obligations, and increases in property tax revenues.

TAX PROGRAMS FOR ECONOMIC DEVELOPMENT

The May Revision calls for a sharp overhaul of the state's existing tax credit programs for employment and business incentives. The proposal would be revenue neutral for the state and thus, have no direct budgetary impact. The proposal would essentially 'cap' the existing Enterprise Zone (EZ) credits and other related incentives at the existing revenue impact level of $750 million and, together with the existing inventory of 2009 New Jobs Credits of $240 million, repurpose these into more effective and efficient programs, comprising:

- Exemption from the state sales tax (currently 4.25 percent) for equipment purchases by manufacturing businesses or biotech research and development industries.
- Revised and reconstituted hiring credit for areas with high unemployment and poverty rates and for small businesses, focusing on long-term unemployed, unemployed veterans, and people on public assistance.

- Additional tax credit tools for the Governor's Office of Business and Economic Development (GOBiz) to allocate for specific business attraction or retention initiatives.

WALL OF DEBT

The May Revision continues the Governor's Budget plan to pay-down the "wall of debt"—constituting the overhang of external and internal borrowing and deferral of certain payments related to actions of the prior administration. The debt will be reduced to $27 billion in the current year, versus $35 billion outstanding in 2011. The May Revision will increase the pay-down of the debt by the end of 2012-13 by $900 million, with a largely corresponding decrease in pay-down in 2013-14. The change is mostly related to a shift across years in the payment of deferrals to K-14 education.

DEBT SERVICE AND CASH BORROWING

Budget year debt service requirements will decrease by $141 million from the Governor's budget to a total of $5.7 billion ($4.9 billion General Fund). The decrease is due to a projected premium generated from future bond sales in the budget year, a smaller 2013 bond sale than projected, savings related to spring bond financings, then offset by a reduction in federal bond subsidies due to the 'sequester.' Current year debt service will decrease by $292 million, for a total of $4.7 billion ($4.0 billion General Fund). The savings stem from a projected increased premium generated from spring 2013 bond sales, savings related to bond financings, and an increase in federal bond subsidy payments. Due to a decrease in interest rates, internal and external cashflow and budgetary borrowing costs will decrease by $50 million.

STATE CONTROLLER'S OFFICE

The May Revise includes a total of $14.5 million ($11.9 million General Fund) to address workload associated with completing specific tasks associated with the 21st Century Project, including legal costs, payroll migration, payroll stabilization, and payroll reconciliation. Prior to its suspension, the project was forecasted to require $38 million in funds for 2013-14. However, the Technology Agency suspended this project in February.

SECRETARY OF STATE

The Governor's May Revision includes an increase of $5.7 million in Business Fees Funds and 56 positions to achieve a five-day processing time for all business filings until the implementation of an automated business filing system. This reflects a continuation of the support in the recently signed AB 113, which appropriated $1.3 million in Business Fees Funds to address the business filings backlog.

STATE TREASURER'S OFFICE

The May Revision includes certain changes to the State Treasurer's Office (STO) and related boards and commissions. These proposals include additional support and trailer bill language for the California School Finance Authority and for the California Alternative Energy and Advanced Transportation Financing Authority. There is also a slight increase for the STO for a new debt management system.

BOARD OF EQUALIZATION

The May Revision includes additional funding for the Board of Equalization (BOE). The first proposal relates to administrative costs of $1.3 million and four positions for the collection of the Hazardous Waste Fee collection costs based on increased workload. The second proposal is for trailer bill language to address reimbursement for retailers collecting the Lumber Products Fee. Finally, the May Revision includes proposed trailer bill language that would clarify that software delivered on media is tangible personal property and subject to the sale tax provisions in law.

HEALTH

HEALTH CARE REFORM

- **State-Based Expansion of Medi-Cal for Newly Eligible.** The May Revision proposes a state-based expansion of Medi-Cal for newly eligible childless adults, with incomes up to 138 percent of the federal poverty level, as provided under the federal Affordable Care Act (ACA).

  The Medi-Cal benefit package for these newly eligible individuals would be the current Medi-Cal benefit package, including county-administered specialty mental health services and county-supported substance use disorder services. Long-term care services would be covered, provided that the federal government approves the retention of an asset test for these services. At a county's discretion, existing enrollees and newly eligible individuals could receive an enhanced benefit package for substance use disorders.

  The cost to implement this expansion is $1.5 billion ($21 million General Fund and $1.5 billion federal funds) in 2013-14. Under the ACA, the federal government will pay for 100 percent of the costs for this population for the first three years (2014-2016), with funding gradually decreasing to 90 percent in 2020.

- **County Savings on Indigent Care Determined Based on Actual Experience.** The May Revision estimates that counties would save $300 million in 2013-14, $900 million in 2014-15, and $1.3 billion in 2015-16 as individuals who were previously uninsured would gain health coverage through Medi-Cal expansion or through health coverage available through Covered California (California's Health Benefit Exchange).

  The Administration indicates that these are only estimates and it proposes that a mechanism be developed to determine the level of county savings based on *actual* experience. This mechanism would reflect actual county costs for providing services to Medi-Cal and uninsured patients and the revenues received for such services. (The revenues would include patient care revenues, federal funds, health realignment dollars, and net county contributions to health care services.)

- **County Savings on Indigent Care Redirected to Support Human Services Programs at the Local Level.** The May Revision proposes to redirect the previously specified county savings on indigent care to support human services programs at the local level. These programs include CalWORKs, CalWORKs-related child care programs, and CalFresh (formerly Food Stamps), as discussed in the Human Services section of this report.

  Additionally, the May Revision proposes that the state assume a greater financial responsibility for health care programs, including the California Children's Services Program, which provides specialized services for children with severe chronic health conditions.

- **Pregnant Women Shift to Covered California.** The May Revision includes a decrease of $26.4 million General Fund in 2013-14 to reflect that pregnant women with incomes between 100 percent and 200 percent of the federal poverty level, who are currently eligible for Medi-Cal, would instead receive health coverage through Covered California, beginning in 2014.

  The May Revision proposes for the state to cover all cost sharing not covered by the federal advance premium tax credits and any Medi-Cal benefits that are not provided under the coverage obtained via Covered California.

- **Newly Qualified Immigrants Shift to Covered California.** The May Revision includes a decrease of $5.4 million General Fund in 2013-14 to reflect that individuals, who would otherwise have been eligible under Medi-Cal as newly qualified immigrants, would instead receive coverage through Covered California, beginning in 2014.

  The May Revision proposes for the state to cover all cost sharing not covered by the federal advance premium tax credits and any Medi-Cal benefits offered under the expansion benefit package that are not provided under the coverage obtained via Covered California.

- **County Administrative Costs.** The May Revision includes an increase of $71.9 million in 2013-14 for increased county costs to implement the ACA. This includes additional resources to process new applications and redeterminations, develop training materials, train county eligibility workers, and support planning and implementation activities. The Administration proposes to base future appropriations on a time study of resource needs, beginning in 2015-16.

MEDI-CAL PROGRAM

- **Coordinated Care Initiative.** The Coordinated Care Initiative (CCI) integrates medical, behavioral health, and long-term support and services for individuals who are eligible for both Medi-Cal and Medicare (dual eligibles) through a single health plan. The CCI also enrolls dual eligibles in managed care plans for their Medi-Cal benefits. The CCI is a demonstration project in eight counties. The state and federal government entered into a Memorandum of Understanding (MOU) regarding the CCI on March 27, 2013. The following changes are proposed in the May Revision:

    - Delay the CCI start date from October 1, 2013 to no sooner than January 1, 2014.

    - Implement a scheduled phasing-in of CCI enrollment. Los Angeles County would phase-in beneficiaries over 12 months (subject to discussions with the federal government). San Mateo County would enroll all beneficiaries over three months. Orange, San Diego, San Bernardino, Riverside, Alameda, and Santa Clara counties would phase-in over 12 months.

    - Reflect a revised number of enrollees estimated at 456,000, which is almost half the size of the number of enrollees estimated in the 2012 budget. This includes a cap of no more than 200,000 participants in Los Angeles County.

  As modified, the CCI saves $119.6 million General Fund in 2013-14. This amount includes the net benefit of moving to a higher tax rate on Medi-Cal managed care plans discussed later in this section. The modifications require statutory changes.

- **Managed Care Organization Tax.** The May Revision proposes a permanent reauthorization of a tax on Medi-Cal managed care plans. In 2012-13, the tax rate would be equal to the gross premiums tax (2.35 percent) and in 2013-14, and beyond, the rate would be equal to the state sales and use tax rate (3.94 percent). This proposal generates $128.1 million General Fund savings in 2012-13 and $342.9 million in General Fund savings in 2013-14.

- **Updated Caseload Projections for Medi-Cal.** The May Revision reflects updated caseload forecasts for Medi-Cal and a resulting decrease of about $90.2 million General Fund in 2012-13 and an increase of $583.4 million General Fund in 2013-14. The average monthly caseload for 2013-14 is projected to be 9,410,867, which represents an increase of 738,867 beneficiaries from the Governor's January budget.

- **Withdrawal of Managed Care Efficiencies Proposal.** The Governor's January Budget proposed $135 million General Fund savings, as a result of implementing efficiencies in managed care. The May Revision withdraws this proposal.

- **Current Year Operating Shortfall.** DHCS will seek a supplemental appropriation in the current year to fund the cost increases resulting from various erosions to prior savings proposals. The current shortfall is estimated to be approximately $482.9 million.

MANAGED RISK MEDICAL INSURANCE BOARD (MRMIB)

- **Defers Elimination of Managed Risk Medical Insurance Program (MRMIP).** The Governor's January budget assumed the phase-out of MRMIP with the implementation of the federal Affordable Care Act (ACA). The May Revision defers the elimination of MRMIP and other state-only programs affected by the ACA.

- **Transfers Infants to the Department of Health Care Services (DHCS).** The May Revision proposes to transition infants born to mothers enrolled in the Access for Infants and Mothers (AIM) program, whose income is between 250 and 300 percent of the federal poverty level, to DHCS. The AIM program provides comprehensive health care to pregnant women and infants.

DEPARTMENT OF STATE HOSPITALS

The May Revision includes $1.6 billion ($1.5 billion GF) for support of the Department of State Hospitals (DSH).

- **Establish Additional Intermediate Care and Acute Units.** The May Revision includes an increase of $22.1 million ($16 million GF) and 173 positions (primarily level-of-care staff) to establish four new units and convert one existing unit at three state hospitals. This proposal would increase the number of Intermediate Care and Acute Unit beds by 155 and better accommodate patient populations for Lanterman-Petris-Short, Incompetent to Stand Trial, Mentally Disordered Offender, and Sexually Violent Predator commitments.

- **Patient Management and Bed Utilization Unit.** The May Revision proposes $1.8 million GF and 18 positions to establish a Patient Management Unit dedicated to managing patient bed needs, in order to maximize utilization within state hospitals. The unit is intended to provide more appropriate patient-security level placement, reduce wait lists, and provide a centralized patient population data repository to track referrals, transfers, wait lists, rejections, and demographics.

- **Psychiatric Inpatient Hospital Programs Within the California Department of Corrections and Rehabilitation (CDCR).** The May Revision includes a decrease of $10 million GF and 3.1 positions to reflect the transition of beds operated within CDCR institutions from DSH-Salinas and DSH-Vacaville to the Correctional Health Care Facility in Stockton, and an adjustment to staffing standards and relief factors. This proposal is consistent with CDCR's Mental Health Bed Plan and provides necessary inpatient treatment staff for the psychiatric programs within CDCR facilities. Activation of the Correctional Health Care Facility beds results in the transition of 450 inpatient beds from DSH-Salinas and DSH-Vacaville.

DEPARTMENT OF PUBLIC HEALTH

- **AIDS Drug Assistance Program (ADAP).** The May Revision proposes a decrease of $12.5 million (other funds) in 2012-13 and a decrease of $46.4 million (other funds) in 2013-14 as a result of updated caseload, implementation of the federal Affordable Care Act, and cost projections since the Governor's January budget.

OFFICE OF STATEWIDE HEALTH PLANNING AND DEVELOPMENT

- **Healthcare Workforce Development Grant Funds.** The May Revision includes \$21 million in reimbursements to deliver healthcare workforce development incentive programs, funded through a grant from the California Endowment. OSHPD received a total grant of \$52 million that would be spent over four years. Of the budget year amount, \$14 million is for health profession scholarships and loan repayments and \$7 million is to provide financial support to family practice residency, family nurse practitioner, physician assistant, and registered nurse education programs.

MENTAL HEALTH SERVICES OVERSIGHT AND ACCOUNTABILITY COMMISSION

- **Evaluation Master Plan.** The May Revision includes \$947,000 Mental Health Services Fund and six positions to begin implementation of the Mental Health Services Act (Proposition 63) Evaluation Master Plan. These resources fund the initial costs of the five-year Evaluation Master Plan, beginning in 2013-14, which includes steps to maintain and upgrade the performance monitoring system, and evaluation studies.

HIGHER EDUCATION

University of California (UC) and California State University

- The Governor's January budget proposed a multi-year funding plan: 1) an increase in the General Fund contribution to each institution's prior-year funding base, for a proposed 20 percent increase in General Fund appropriations over a four-year period; 2) a freeze on UC and CSU resident tuition from 2013-14 to 2016-17; and 3) proposed accountability changes to improve student outcomes and accountability.

- The May Revision retains the multi-year funding plan and tuition freeze. It delays the implementation of the accountability plan while the Administration continues to work with the Legislature and stakeholders in developing the plan.

- The Governor's January budget proposed capping the number of state-subsidized units students can take at UC and CSU. The May Revision withdraws the proposal to cap the number of units.

California Community Colleges (CCC)

- The May Revision rescinds the Governor's January proposal to provide an unallocated base increase to CCC of $197 million. Instead it provides $226.9 million additional Proposition 98 General Fund to be allocated as follows: $87.5 million for a cost-of-living adjustment; $89.4 million for growth and to restore access; and $50 million for student support services, as detailed in the Student Success Act of 2012. Enrollment growth and the cost-of-living adjustment each represent base increases of 1.6 percent.

- The January budget proposed to restructure and increase funding for the adult education system, currently administered by CCC and K-12 school districts, by setting aside $300 million Proposition 98 General Fund in 2013-14 for adult education. The May Revision withdraws this proposal and maintains the status quo for two years and proposes the development of regional adult education consortia, supported with additional dedicated adult education funding. This includes $30 million in 2013-14 for two-year planning grants, and $500 million in 2015-16 to support the regional consortia of community college districts and school districts. Funding would be prioritized to critical areas of instruction.

- The Governor's proposed budget would have capped the number of units community college students could take while receiving a general fund subsidy starting in 2013-14. The May Revision withdraws this proposal.

- The Governor's proposed budget required all students seeking financial aid to fill out a Free Application for Federal Student Aid (FAFSA) form. The May Revision proposes to provide students one academic term to provide financial need documentation and delay implementation of the new policies to the 2014-15 academic year.

- The May Revision proposes to use the current year increase in Proposition 98 obligations to pay down additional CCC deferrals in 2012-13 by $180 million. The May Revision proposes to pay down less deferrals ($115 million) than initially proposed in January, but still over the two-year budget period, CCC deferrals are reduced by $404 million.

Financial Aid

- The May Revision proposes a decrease of $23.6 million General Fund in 2012-13 and $42 million General Fund in 2013-14 to reflect revised participation estimates in the Cal Grant program.

- The May revision proposes to decrease TANF by $18.7 million, with a similar increase in General Fund in 2013-14, to reflect revised Cal Grant program participation estimates. Combined with the TANF funds included in the Governor's Budget, the May Revision offsets $924.2 million in Cal Grant General Fund costs.

- The May Revision proposes an increase of $38.1 million in Student Loan Operating Funding to offset General Fund Cal Grant costs, for a total proposed offset (including the January 10 budget proposal) of $98.1 million.

HUMAN SERVICES

Department of Social Services (DSS)

REALIGNMENT RELATED TO HEALTH REFORM

As discussed in the Health section of this report, the May Revision proposes to determine a level of county savings related to decreased county costs for indigent health care, and to correspondingly require counties to use those savings to take on increased fiscal responsibility for human services programs at the local level. The May Revision refers to these transitions as happening "over time" and impacting the California Work Opportunities and Responsibilities to Kids (CalWORKs) and CalWORKs-related child care programs, as well as CalFresh (formerly called "food stamps") administration costs. The Administration estimates that the shifts will include approximately $300 million in 2013-14, $900 million in 2014-15, and $1.3 billion in 2015-16. The Administration indicates that counties would continue to be responsible for the coordination of client services and would have opportunities to reinvest caseload savings and revenue growth in CalWORKs and related child care programs, while receiving some protection against above-average costs that result from economic downturns or policy changes outside the counties' control. Finally, the Administration indicates that additional details related to these proposed changes will be available later this week.

CALWORKS

CalWORKs, the state's version of the federal Temporary Assistance for Needy Families program, provides cash assistance and welfare-to-work services to eligible low-income families with children. In the last several years, CalWORKs has sustained very significant reductions, as well as programmatic restructuring. The Governor's January budget and May Revision assume continuation of those changes, along with a $142.8 million GF increase (initially proposed in January) for employment services and a $48.3 million GF increase (proposed in the May Revision) to address recent trailer bill requirements related to improving efforts to engage clients in welfare-to-work as early and as effectively as possible, and to assist them in removing barriers to success. The $48.3 million is intended to be tied to implementation of new protocols for appraising clients' backgrounds and needs, support for families in crisis to gain stability, and enhanced opportunities for subsidized employment. The Administration indicates that it intends to refine ongoing estimates related to the resources needed for these activities in the 2014-15 budget.

IN-HOME SUPPORTIVE SERVICES (IHSS)

The IHSS program provides personal care services to approximately 420,000 qualified low-income individuals who are aged (over 65), or who have disabilities. Services include tasks like feeding, bathing, bowel and bladder care, meal preparation and clean-up, laundry, and paramedical care.

The May Revision recognizes $176.4 million GF savings in 2013-14 resulting from the recent settlement of the three lawsuits described in the chart below, which are all based on reductions made as part of recent years' budget agreements that were enjoined from taking effect by federal courts.

Policy	**Name of Lawsuit Enjoining Policy from Taking Effect**
Loss of eligibility for individuals with assessed needs below specified thresholds	*Oster (V.L.) v. Lightbourne, et al. (Oster I)*
Across-the-board reduction of 20 percent of authorized hours, with specified exceptions	*Oster (V.L.) v. Lightbourne, et al. (Oster II)*
Reduction in state participation in provider wages (from maximum of $12.10 to $10.10 per hour)	*Dominguez v. Schwarzenegger, et al.*

The Senate passed a current-year budget trailer bill on May 13, 2013 (SB 67) that would codify the settlement agreement, which includes the repeal of these prior reductions and the establishment of an across-the-board reduction of eight percent in authorized hours of IHSS that would apply to all recipients in 2013-14, followed by an ongoing, across-the-board reduction of up to seven percent that can be triggered off, in whole or in part, by an "assessment" on home care services, including IHSS, which results in enhanced federal funding for IHSS. That legislation, along with an appropriation for the costs of mailing related notices to recipients that is contained in SB 68, is currently awaiting action in the Assembly.

The May Revision additionally proposes changes to the timing, scope, and estimated savings related to the Coordinated Care Initiative, as discussed in the Health section of this report, along with $518,000 ($259,000 GF) and four positions at DSS to support the related shift of collective bargaining responsibilities from participating counties to the state.

OTHER

The May Revision for DSS also proposes:

- To update January's caseload estimates based on more recent data for CalWORKs, IHSS, and the Supplemental Security Income/State Supplementary Payment (SSI/SSP) programs;
- To pass through an estimated 0.6 percent Consumer Price Index-based federal cost-of-living increase, as of January 1, 2014, to SSI/SSP recipients;
- To increase specified foster care payments in 2013-14 by an estimated 2.65 California Necessities Index-based cost-of-living adjustment; and
- To backfill some 2012-13 and 2013-14 reductions to Community Care Licensing that would otherwise result from federal sequestration reductions to the Social Services Block Grant.

Department of Developmental Services (DDS)

DDS oversees services and care provided to approximately 258,000 children and adults with developmental disabilities who reside in the community and in four state-operated developmental centers (DCs), as well as one state-operated community facility. Between 2009-10 and 2012-13, state budgets have included over $1.3 billion in General Fund cost containment solutions related to developmental services.[1]

The May Revision continues to include the following proposals from the Governor's January budget:

- A $46.7 million ($31.9 million GF) increase in costs resulting from the scheduled sunset of a reduction of 1.25 percent to the rates paid to regional centers and community-based providers of services;
- Increases of $15 million GF in 2012-13 and $9.9 million GF in 2013-14, along with related trailer bill language, to support payments by regional centers of health insurance co-pays for services identified as necessary in the consumer's IPP;

[1] Estimate tied to savings in the years the policies were enacted. Several of these changes also result in ongoing, annual savings, although the amounts will vary over time and in combination with caseload and other changes.

- Savings from the payment of annual fees of $150 or $200 by families with children under the age of 18 living at home who receive services from regional centers beyond eligibility determination, needs assessment, and service coordination, along with statutory changes to make the policy permanent;

- Continuation of $8.2 million ($4.4 million GF) in enhanced funding for 88 staff positions at the Lanterman Developmental Center that would otherwise have been eliminated pursuant to the standard ratios of staff to residents; and

- A $2.4 million increase ($1.3 million GF) to allow the Sonoma Developmental Center to hire approximately 36 additional direct care staff.

The May Revision also proposes:

- Up to $37.9 million ($35.0 million GF) across 2012-13 and 2013-14 to: 1) backfill the loss of federal funding resulting from the withdrawal from federal certification for four intermediate care facility units on the Sonoma Developmental Center campus, and 2) implement a Program Improvement Plan in order to bring the facility back into compliance with federal requirements. Of this total, $7.4 million GF for 2012-13 was included in SB 68, a current-year budget bill which the Senate recently passed, and which is awaiting action in the Assembly;

- An increase of $25 million GF in 2012-13 to backfill for funds supporting the Early Start program that were previously anticipated to be provided by the California Child and Families (First 5) Commission. This funding was also included in SB 68;

- The backfill with General Fund of $5.7 million in 2012-13 and $11.9 million in 2013-14 federal funding losses tied to the impacts of federal sequestration on Title XX Social Services Block Grant funding;

- A $0.6 million backfill and $2.8 million reduction to the Early Start program in 2013-14, resulting from federal sequestration and a reallocation of funds among states; and

- Updates to January's caseload estimates based on more recent data.

K-12 EDUCATION AND CHILD CARE

Proposition 98 – K-14

Current Year – Overall Funding Levels Increase by $2.9 Billion. The Governor proposes total Proposition 98 spending of **$56.5 billion** in 2012-13 for K-14 education, which reflects the estimated minimum guarantee at May Revise. Due to changes in General Fund revenues, the Proposition 98 funding level is **$2.9 billion** higher than the estimate of the minimum funding guarantee in January. The guarantee increases by $1.1 billion, as a result of higher total 2012-13 General Fund revenues. The guarantee also increases by $1.8 billion due to a higher maintenance factor payment. This higher payment is driven by higher year-to-year growth in General Fund revenues. The year-to-year growth increases significantly relative to the January estimates because (1) 2011-12 General Fund revenues *decrease* by $300 million and (2) 2012-13 General Fund revenues *increase* by $2.9 billion.

Budget Year – Overall Funding Levels Decrease by $941 Million. The Governor proposes Proposition 98 funding of **$55.3 billion** for K-14 education in 2013-14, which reflects the estimated minimum guarantee at May Revise. This reflects a decrease of **$941 million** from the minimum guarantee level in January. The reduction in the guarantee is primarily driven by decreases in 2013-14 General Fund revenue estimates, which are $1.8 billion lower than January levels.

Governor Accelerates and Increases K-14 Education Deferral Paydowns. The May Revision retires an additional **$760 million** in deferrals in the current and budget years, relative to the January budget ($4.2 billion total deferral payments in January, $4.9 billion in the May Revision), as follows:

- **Additional Current Year Deferral Paydowns.** Pays down **$1.8 billion** in additional deferrals for K-14 education ($1.6 billion for K-12 education and $180 million for community colleges), for a total paydown of $4.0 billion in 2012-13.
- **Reduces Budget Year Deferral Paydown.** Reduces deferral paydowns by **$1 billion** for K-14 education ($909 million K-12 education and $115 million community colleges), for a total K-14 budget year paydown of $920 million in 2013-14.

Proposition 39 Energy Efficiency Programs for K-14 Education. The Governor proposes several changes to his January proposal, which provided a total of **$450 million** for Energy Efficiency projects for K-14 education in 2013-14. (Of this amount, $400.5 million was proposed for K-12 education and $49.5 million for community colleges). May Revise changes are outlined below:

- Provides an increase of **$14 million** in Proposition 39 energy-related revenues, with $**12.5 million** provided to K-12 local educational agencies (LEAs) 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 LEAs in identifying cost-effective energy savings and establishing baselines and tracking performance.

Proposition 98 – Other Major Changes for K-12 Education.

Compared to the Governor's January budget, here are some of the major changes proposed by the May Revise:

Current Year Investment in Common Core Standards. The Governor proposes **$1 billion** in one-time Proposition 98 funding in 2012-13, to assist schools in implementing the new Common Core standards. Per the Governor, this investment will allow school districts, charter schools and county offices of education to make significant one-time time investments in professional development, instructional materials, and enhancements to technology, in order to better implement Common Core standards. The $1 billion in one-time funds will provide an average of $170 per pupil, outside of the Local Control Funding Formula. Funding would be available over a two year period.

Increased Funding for Local Control Funding Formula (LCFF). The Governor's May Revise provides an additional **$240 million** in Proposition 98 funding, above the January budget, to increase base resources for local educational agencies under the Governor's LCFF in 2013-14. The Governor's proposal brings total new funding for LCFF to **$1.9 billion** in 2013-14 -- the first year of implementation. Of the $240 million increase proposed by the Governor, **$236 million** is provided for school districts and charter schools and **$4 million** is provided for county offices of education.

Other Formula-Related Modifications to LCFF. The Governor proposes the following changes to supplemental and concentration funding under the LCFF:

- Calculates enrollments for low-income students, English learner students, and students residing in foster care based on a three-year rolling average.
- Requires county offices of education to review data for low income students, English learner students and students in foster care and requires the data to be subject to audit as a part of each LEAs annual financial and compliance audit.
- Allows LEAs to receive supplemental funding for English learner students for up to seven years, instead of five years.
- Provides Regional Occupational Centers/Programs and Home-to-School Transportation programs with joint powers authorities with continued direct funding for two additional years, through 2014-15.
- Standardizes annual growth adjustments.

Expanded Accountability Features for LCFF. The May Revise further proposes to:

- Assure that supplemental and concentration funding be expended in a manner that benefits the students generating those funds. To further this goal, new provisions include assurances for proportional spending, supplemental funding, and annual audits.

- Expand 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.

- Includes new accountability provisions for students residing in foster care. Notably, the May Revise requires the Department of Education to report on the educational progress of students residing in foster care. In addition, county offices of education will be required to develop plans to coordinate services and records among LEAs for students residing in foster care.

Adult Education. The Governor's May Revise rescinds the January proposal that would have provided community colleges with **$300 million** in base funding for adult education. Instead, the Governor proposes to provide **$30 million** in 2013-14 for community colleges and school districts (through their adult schools) to create joint plans for serving adult learners in their area. Providers would have two years to form regional consortia and develop plans for coordinating and integrating services. Beginning in 2015-16, the Administration proposes to provide **$500 million** to the regional consortia to deliver adult education.

Independent Study and Technology-Based Instruction Proposals Delayed. The Department of Education and the Legislative Analyst's Office raised concerns about the calculation of average daily attendance (ADA) and accountability for student outcomes under the Governor's January proposals for independent study and technology- based education. The Governor recognizes these concerns and, as a result, proposes to delay consideration of changes to the 2014-15 budget.

Special Education Backfill. The Governor proposes **$60 million** in Proposition 98 funding to backfill the loss of federal special education funding, due to the sequestration reduction effective in 2013-14. These new funds will be allocated to Special Education Local Planning Areas (SELPAs) based on the AB 602 funding formula.

Further Consolidates Special Education Programs. Beyond the Governor's January proposals, the May Revision proposes to (1) consolidate the Regional Occupational Centers/Programs for students with low-incidence disabilities into a new Low Incidence Block Grant and (2) consolidate two separate funding streams that compensate LEAs for extraordinary costs. Both these proposals were recommended by the LAO.

Child Care and Development

Decrease to Stage 3 Funding Proposal. The May Revision proposes a total of **$143 million**, which is about $20 million (12 percent) less than the current year funding level and $30 million (17 percent) less than was proposed in January. Reductions are primarily due to (1) the federal sequestration cut to the federal child care block grant ($14.5 million) and (2) the decision not to backfill one-time funds provided by the State Assembly in 2012-13 ($13.5 million).

Provides Slight Increase Rather Than Slight Decrease to "Capped" Programs. The May Revision provides 0.20 percent growth increase to General Child Care, non-CalWORKS Alternative Payment, Migrant Child Care, and State Preschool. This would result in net year-to-year increase of **$2.3 million** across all these programs. (The May Revision reverses the Governor's January proposal, which had included -0.5 percent reduction, totaling $575,000.)

No Notable Changes to Stage 2 Funding Proposal. The May Revision proposes a total of $398 million, essentially the same as in January.

Reduces Quality Improvement Activity Spending by $1.4 Million. The May Revision proposes a reduction due to a federal sequestration cut to the federal child care grant. Because fewer one-time carryover funds are also available for 2013-14 compared to 2012-13, the total year-to-year reduction in quality spending would be $2.8 million ($68.9 million in 2013-14 compared to $71.7 million in 2012-13).

LABOR

EMPLOYMENT DEVELOPMENT DEPARTMENT

- Proposes a decrease of $351 million in 2012-13 and a decrease of $72 million in 2013-14, to reflect a projected decrease in Unemployment Insurance (UI) benefit payments; a lower unemployment rate; and the discontinuation of the federal benefits extension program in December 2013.

- Proposes a 17.7 percent reduction in payouts to approximately 350,000 to 400,000 unemployed individuals who normally receive a full benefit check. This reduction is a result of decreased federal support for the Emergency Unemployment Compensation Program, which is designed to support unemployed individuals who have exhausted their regular unemployment benefits. The reduction is a result of the federal sequestration.

- Proposes an increase of $29.7 million from the Contingent Fund for the administration of the UI program in order to retain approximately 300 positions to process payment of UI benefits, process UI claims, and collect payroll taxes.

NATURAL RESOURCES

- **Inmate Fire Camps**. The May Revision includes an increase of $15.4 million, under the Department of Corrections and Rehabilitation, to reflect 3,800 state prison inmates participating in fire camps. This follows a previous assumption that fire camps would decrease to 2,500 inmates in the budget year, and a corresponding budget reduction that was included in the January budget. Based on recent projections, there are sufficient eligible inmates to maintain all current fire camps and crews. These fire camps are coordinated with the Department of Forestry and Fire Protection (CalFIRE) to provide emergency fire suppression services throughout the state.

- **CalFIRE Emergency Fund.** The May Revision proposes an increase of $51 million General Fund to reflect historic expenditures for emergency wildfire suppression costs. This increases the Emergency Fund (E-Fund) to $172 million annually. The E-Fund provides funding to CalFIRE for the state's emergency fire suppression efforts above and beyond its base budget. This new funding level reflects the state's current five-year average cost for fighting major wildfires in the state.

- **California Conservation Corps Fuels Management.** The May Revision includes $5 million (Proposition 40) and 12.5 positions annually, for three years for fire prevention and fuel reduction activities, to be performed by the California Conservation Corps, in sensitive watershed areas to protect water quality and reduce wildfire risk. Fuel reduction projects will be prioritized in coordination with CalFIRE.

- **Aviation Management Unit Contract Increase**. The May Revision includes an increase of $952,000 (General Fund) for CalFIRE's Aviation Management Unit. This proposal is intended to provide logistical support to coordinate acquisition of parts for the existing CalFIRE aviation fleet.

- **Fireworks Disposal Management.** The May Revision includes $500,000 (General Fund) to fund two existing arson and bomb investigator positions and to provide additional resources to dispose of seized and dangerous fireworks that are stockpiled throughout the state. The proposal includes trailer bill language to allow local governments to sell seized fireworks to both licensed fireworks wholesalers and importer/exporters of fireworks.

ENVIRONMENTAL PROTECTION

- **Cap and Trade Auction Revenues.** The May Revision includes a $500 million one-time loan from the Greenhouse Gas Reduction Fund (Cap and Trade auction revenues) to the General Fund. There is no proposed funding or loan in the current year. The Administration is responsible for developing a three-year investment plan for the Greenhouse Gas Reduction Fund. The purpose of the Fund is to achieve greenhouse gas reductions in this state, consistent with the objectives of AB 32. The Governor's budget had proposed investing $500 million of the Fund in programs achieving this objective that were currently or could be funded by the General Fund. At this time, the agencies have not fully developed program proposals and, according to the Administration, need further time to design and develop their programs to ensure that when the programs receive funds, they will further the purposes of AB 32 and maximize long-term greenhouse gas reductions.

- **Cap and Trade Oversight.** The May Revision includes an increase of $1.3 million and two positions from the Cost of Implementation Account to enhance oversight of Cap and Trade auction activities and budgetary administration. This proposal includes $1 million for contracts to audit the Air Resources Board's internal processes, procedures, and security protocols, as well as external contractors conducting the Cap and Trade auctions and collecting funds.

- **SB 535 Implementation Fund Shift.** The January budget included $577,000 for the Office of Environmental Health Hazard Assessment from the Greenhouse Gas Reduction Fund (Cap and Trade auction revenues) to identify disadvantaged communities in California, as required by Chapter 830, Statutes of 2012 (SB 535). This proposal will shift funding for SB 535 implementation from the Greenhouse Gas Reduction Fund to the Cost of Implementation Account in the Air Pollution Control Fund.

ENERGY

- **Proposition 39.** The May Revision proposes to allocate $400.5 million from the Proposition 98 General Fund to K-12 local educational agencies, on a per-ADA basis to support energy efficiency projects. This is a slight increase of $12.5 million, based on revised revenue estimates from January. The method of funding is relatively unchanged. The proposal does include a minimum grant level of $15,000 to exceptionally small local educational agencies. Additionally, the May Revision proposes $4 million and eight positions to the California Energy Commission, to provide technical assistance to small local educational agencies. This funding is intended to help identify cost-effective energy savings opportunities for K-12 school facilities, and to provide guidance on establishing baselines and tracking performance.

AGRICULTURE

- **Citrus Pest and Disease Prevention Program.** The May Revision includes an increase of $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 EMPLOYMENT AND RETIREMENT

RETIREMENT

Technical Adjustments to Various Public Employment and Retirement Budget Items. Makes technical adjustments to various public employment and retirement budget items. The item regarding the California Public Employment Retirement System (CalPERS) basically incorporates their approved budget into the Budget Act. The California State Teachers Retirement System (CalSTRS) requests a slight increase of $2.1 million and based on creditable compensation by participants. The May Revision does not include adjustments for health rates and pension rates, which will be available in June.

CALIFORNIA DEPARTMENT OF HUMAN RESOURCES

Includes a net increase of $749,000 ($427,000 General Fund) and a request for 8.5 two-year limited-term positions to maintain approval authority for the Career Executive Assignment Program, unlawful appointments, and classification and/or certification action requests and will also support the development of a pilot program to manage these appointments that will ultimately be transitioned to the department level.

TRANSPORTATION

DEPARTMENT OF TRANSPORTATION

The May Revision calls for several changes in the funding and programs for the Department of Transportation (Caltrans).

- A reduction of $36.3 million and 184 positions for engineering, design, and construction oversight activities of the Capital Outlay Program. Caltrans work is expected to decline significantly as a result of decreased workload associated with the depletion of Proposition 1B funds and the expiration of the American Recovery and Reinvestment Act (ARRA) funds.

- Two zero-based budgeting initiatives that will result in changes in funding and resources for the Equipment Program and the Stormwater Program:
    - Equipment Program—a reduction of $12.8 million and 41 state positions and a one-time augmentation of $10.3 million in operating expenses for equipment.
    - Stormwater Program—a redirection of $2.1 million from contract services to fund 25 new state positions to implement the new National Pollution Discharge Elimination System stormwater permit.

- Increase in operating expenses for AMTRAK of $18.6 million to comply with the federal operating requirements for intercity passenger service. The federal Passenger Rail Investment and Improvement Act of 2008 requires that all short distance AMTRAK corridor services be 100 percent state supported.

DEPARTMENT OF CALIFORNIA HIGHWAY PATROL

The May Revision calls for a significant increase of $17 million from the Motor Vehicle Account to replace a portion of the Department of California Highway Patrol (CHP) air fleet. The CHP will replace three helicopters and one airplane, which will be used for speed enforcement, patrolling rural roadways, emergency response and homeland security. Currently, the department has 15 helicopters and 15 airplanes. The CHP will also conduct a base workload analysis to determine the level of aircraft need for core services and design a replacement program.

VETERANS AFFAIRS

The May Revision includes $305.2 million General Fund to support the activities of the California Department of Veterans Affairs (CDVA). This reflects a decrease of $11.41 million in General Fund support, as proposed in the Governor's January budget.

- The May Revision proposes converting the skilled nursing facility units to domiciliary units at the West Los Angeles Veterans Home. This will result in a decrease of $3.2 million in General Fund and 35.6 positions in 2013-14.