COMMITTEE ON BUDGET & FISCAL REVIEW
Room 5019, State Capitol
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Quick Summary

Proposed 2013-14 Budget

January 10, 2013

The purpose of this Quick Summary is to provide members and staff of the Legislature with an overview of the Governor's proposed budget for 2013-14. More detailed reviews of the proposals will be developed as the Committee reviews the proposals in public hearings. If you have questions, please contact the committee at (916) 651-4103.

Overall Budget Proposal

The Governor has proposed a budget for 2013-14 which is essentially balanced with respect to revenues and expenditures, and includes several additional proposals that would build a reserve of approximately $1.0 billion. The budget also includes the continuation of established efforts to pay down budgetary debt from past years. Consecutive years of forecasted budget shortfalls of roughly $20 billion have been addressed through significant spending reductions—largely in the areas of corrections, health and human services and education—and increased revenues approved by the voters. As a result, the General Fund is expected to end the current year essentially balanced (with a narrow reserve of $167 million) with the proposed 2013-14 budget incorporating a reserve of approximately $1 billion. The budget includes a total of $99.3 billion in General Fund revenues and other available resources and $97.7 billion in General Fund expenditures. Overall, General Fund spending in 2013-14 is expected to grow by approximately 5 percent from the current year, largely as a result of increased expenditures in education and health care. To provide some context, state budget expenditures peaked in 2007-08 with General Fund spending of about $103 billion. As a share of the state economy, General Fund spending is at its lowest level since 1972-73.

Overview of Governor's Budget Proposal

The Governor's budget proposal includes $99.3 billion in General Fund revenues and other resources and $97.7 billion in total General Fund expenditures, providing for a $1.0 billion reserve. The expenditures in 2013-14 are proposed to be about $4.7 billion higher than revised 2012-13 expenditures. Additional funding is proposed for K-12 education, higher education, and health care. Additional resources that have allowed for modest and largely workload-related expansions are the result of stable underlying revenue growth and temporary taxes approved by the voters in November 2012. The General Fund budget details are summarized in the table below.

2012-13 and 2013-14
General Fund Summary
(Dollars in Millions)

	Revised 2012-13	**Proposed 2013-14**
PRIOR YEAR BALANCE	-$1,615	$785
Revenues and transfers	95,394	98,501
TOTAL RESOURCES AVAILABLE	**$93,779**	**$99,286**
Non-Proposition 98 Expenditures	$55,487	$56,780
Proposition 98 Expenditures	37,507	40,870
TOTAL EXPENDITURES	**$92,994**	**$97,650**
FUND BALANCE	$785	$1,636
Encumbrances	$618	$618
Special Fund for Economic Uncertainties	$167	$1,018
BUDGET STABILIZATION ACCOUNT	**--**	**--**
TOTAL AVAILABLE RESERVE	**$167**	**$1,018**

Current-Year Budget Update

The 2012-13 Budget, adopted in June 2012, included significant expenditure reductions and a reliance on proposed temporary taxes. In the Governor's proposed 2012-13 Budget, the shortfall was $10.3 billion – including a $1.1 billion reserve. By May the budget situation had deteriorated and the deficit had increased to $16.7 billion for the period ending June 30, 2013. This was due to a reduced revenue outlook, higher costs to fund schools, and decisions made by the federal government and courts to block previously-approved budget cuts. In early June, the Legislature adopted a budget that included most of the Governor's May Revision framework, relying primarily on additional expenditure reductions, as well as passage of a tax initiative on the November 2012 ballot (coupled with additional "trigger" budget reductions if the tax initiative were not approved). The budget plan contained $16.6 billion in total solutions for the period ending June 30, 2013, including $8.1 billion in expenditure reductions, $6.0 billion in additional revenues and $2.5 billion in other solutions, as listed in the figure below.

2012-13 Budget Solutions
General Fund
(Dollars in Millions)

EXPENDITURE REDUCTIONS	
Health and Human Services	$1,846
Education	2,349
Other Expenditure Reductions	3,893
TOTAL EXPENDITURE REDUCTIONS	**$8,089**
REVENUES, TRANSFERS AND LOANS	
Additional Revenues	$6,033
Transfers and Loans	2,518
TOTAL REVENUES, TRANSFERS AND LOANS	**$8,551**
TOTAL SOLUTIONS	**$16,640**

The 2012-13 Budget was predicated on the passage of the Governor's tax proposal placed before the voters in November. The measure, as approved, raises tax rates for the personal income tax and the sales and use tax on a temporary basis. The additional revenues consist of:

- **Personal Income Tax Rates on High Income Taxpayers**—Increases personal income taxes for high income taxpayers for seven years, beginning tax year 2012. Under prior law, the maximum marginal personal income tax rate was 9.3 percent. This measure temporarily raises personal income tax rates for higher incomes by creating three new tax brackets with rates above 9.3 percent.

    - A 10.3 percent tax rate on income between $250,000 and $300,000 for individuals and $500,000 and $600,000 for joint filers.
    - An 11.3 percent tax rate on income between $300,000 and $500,000 for individuals and $600,000 and $1 million for joint filers.
    - A 12.3 percent tax rate on income in excess of $500,000 for individuals and $1 million for joint filers.

- **Sales and Use Tax Rate Increase**—Increases the sales and use tax rate by 0.25 percent for four years. The tax increase goes into effect January 2013 and extends through December 2016.

The budget proposal assumes that the current budget will remain balanced by a narrow margin of $167 million, as opposed to the roughly $950 million reserve adopted in the budget. This modest deterioration was due to erosion of some of the solutions adopted with respect to programmatic reductions, a lower increase in property tax related revenues and assets that offset General Fund K-12 expenditures, and other miscellaneous factors including reductions in certain revenue sources.

Proposed Budget Expenditures

Unlike the current year, the proposed budget essentially incorporates no significant new programmatic reductions. The table below summarizes the Governor's proposed expenditures by program area. The most noteworthy changes are in education. For the first time since the recession began in 2008, education funding will increase. The largest change in expenditure by program area is in K-12 education where the Governor proposes $2.8 billion in additional expenditures to fully fund the Proposition 98 guarantee. Funding levels will increase by $1,100 per student over 2012-13. In higher education, the budget provides stable funding over multiple years. Other significant expenditure increases occur in health and human services, largely to expand health care coverage.

General Fund Expenditures
Current and Budget Year
(Dollars in Millions)

Program Area	Revised 2012-13	Proposed 2013-14	Change	% Change
K-12 Education	$38,323	$41,068	$2,745	7.2%
Higher Education	$9,776	$11,109	$1,333	13.6%
Health and Human Services	$27,121	$28,370	$1,249	4.6%
Corrections and Rehabilitation	$8,753	$8,805	$52	0.6%
Business, Consumer Services and Housing	$217	$645	$428	197.2%
Transportation	$183	$207	$24	13.1%
Natural Resources	$2,022	$2,062	$40	2.0%
Environmental Protection	$47	$46	-$1	-2.1%
Labor and Workforce Development	$345	$329	-$16	-4.6%
Government Operations	$661	$742	$81	12.3%
General Government				
Non-Agency Departments	$480	$528	$48	10.0%
Tax Relief / Local Government	$2,520	$421	-$2,099	-83.3%
Statewide Expenditures	$502	$772	$270	53.8%
Legislative, Judicial and Executive	$2,044	$2,546	$502	24.6%
Total	**$92,994**	**$97,650**	**$4,656**	**5.0%**

Other Budget Components

Budget Reserve

The Governor has proposed a balanced budget that includes no significant program reductions. As an integral part of the proposal, the budget includes measures that would result in establishing a modest reserve for economic uncertainties. The components that account for the approximately $1.0 billion reserve are:

- Suspending four local government requirements that have been newly identified as mandates for a savings of $104 million.
- Using 2012-13 funds appropriated above the Proposition 98 minimum guarantee to prepay obligations to schools under previous court decisions for a savings of $172 million.
- Continuing to use miscellaneous state highway account revenues to pay for transportation bond debt service for savings of $67 million.
- Extending the hospital quality assurance fee for additional resources.
- Extending the gross premiums tax on Medi-Cal managed health care plans for additional resources of $364 million.

Debt Management and Cash

The budget proposes to continue the Governor's established procedure of working down the so-called "Wall of Debt," the term applied to the accumulation of debts, deferrals, and budgetary obligations that occurred over recent years. In 2013-14, the Governor proposes to dedicate $4.2 billion to repay these types of budgetary borrowing. The proposed budget incorporates a long-term plan to continue this process over the next several years. At the end of 2010-11, the debt accumulation was approximately $35 billion; by the end of 2012-13, this is expected to drop to $28 billion. The budget plan is structured such that upon the expiration of the temporary taxes, the wall of debt is substantially addressed.

The budget reflects the state's moderately improved cash position. Maintaining an adequate cash balance allows the state to pay its bills on a timely basis. Given that the state receives revenues on an uneven basis throughout the year, the state's cash position varies. In order to cover the low points in the state's cash position, the state engages in short-term cash flow borrowing using internal resources or deferrals, as well as through external borrowing. The budget relies on internal borrowing, but given the improvement in the cash status, no new education payment deferrals are incorporated in the budget. In addition, a short-term (within the budget year) Revenue Anticipation Note (RAN) borrowing of $7 billion is incorporated in the Governor's proposed budget.

General Fund Revenues

California relies on a broad range of taxes and other revenues to support the activities of the General Fund. However, the personal income tax, sales and use tax and corporation taxes typically account for just over 90 percent of General Fund revenues. For the budget year, the personal income tax is expected to generate $61.8 billion (63 percent), the sales and use tax $23.3 billion (24 percent) and the corporation tax $9.1 billion (9 percent). For the current year, the personal income tax and the sales and use tax show slight improvements (less than 1 percent) over the 2012 Budget Act. In contrast, the corporation tax shows an erosion of about 10 percent, continuing a long-term trend.

Based on continued moderate economic growth in the state and the passage of two tax measures in November 2012, the major revenue sources are expected to grow by 2.5 percent for the personal income tax, 1.1 percent for the sales and use tax, and 2.2 percent for the corporation tax. The budget includes increased revenues from personal income taxes and sales and use taxes due to the passage of Proposition 30. Personal income tax revenues will increase by $3.2 billion in 2011-12, $4.8 billion in 2012-13 and $4.9 billion in 2013-14. Sales and use tax revenues will increase by $611 million and $1.3 billion in 2012-13 and 2013-14, respectively. The passage of Proposition 39 will result in additional corporation tax revenues of $440 million in 2012-13 and $900 million in 2013-14.

Enhanced Budgeting Process

In 2011, the Legislature passed SB 14, mandating that Performance Based Budgeting be implemented in all state agencies. The measure was subsequently vetoed by the Governor. The Governor issued an executive order, Executive Order B-13-11, directed the Department of Finance to modify the budget process to increase efficiency and place a greater emphasis on accomplishing goals. The Administration has already conducted zero-base reviews for state hospitals and state prisons. The proposed budget reflects a continued effort by the Administration to implement the Enhanced Budget Process Executive Order. This Budget proposal includes the following provisions:

- Each board, bureau, commission or division within the Department of Consumer Affairs to directed to determine appropriate enforcement and licensing performance measures. Performance measure data will continue to be provided annually in each year's budget.

- The California Department of Human Resources (CalHR) is streamlining services, expanding the use of consortium examinations, accelerating the approval process for routine personnel issues, and modernizing training classes that are available online.

- Both the Department of Transportation (Caltrans) and the Department of Public Health (DPH) are in the process of a multiyear process to zero-base their budgets.

Additionally, the Department of Veterans Affairs, the Department of Resources Recycling and Recovery, and the Department of Toxic Substance Controls will begin the review process in order to initiate the enhanced budgeting process.

Realignment Implementation Status

The budget continues the 2011 State-local Realignment and reflects continued implementation of 2011 Public Safety Realignment component. Through Chapter 15, Statutes of 2011 (AB 109), this realignment created a community-based correctional program where lower-level offenders remain under local jurisdictions. The Administration continues to work collaboratively with counties and other stakeholders to address implementation issues associated with Realignment. However, the Budget does not propose any additional programmatic changes related to AB 109. The 2011 Realignment also included fiscal, and in some instances programmatic, changes that impacted multiple health and human services programs. The Governor's Budget does not propose any additional programmatic changes related to the 2011 realignment of these health and human services programs. Funding for realigned programs can be found in the 2011 Realignment Estimate display in Item 5196 of the Governor's Budget.

Major Budget Components – Summary by Program Area

Overall Proposition 98 – K-14 Education

Current Year – Overall Funding Levels. The Governor's Budget estimates that the Proposition 98 guarantee will be **$53.5 billion** reflecting a number of adjustments in 2012-13. These adjustments include a $426 million increase in the minimum guarantee from new revenues generated by tax increases approved by statewide voters as part of Proposition 39 in November 2012. The net of all these adjustments leaves the minimum guarantee $163 million below the level appropriated by the 2012-13 budget act, as revised. The Budget continues this additional $163 million and scores funds to retire existing Proposition 98 "settle-up" obligations.

Budget Year – Overall Funding Levels. The Budget provides Proposition 98 funding of **$56.2 billion** for K-14 education in 2013-14, an increase of $2.7 billion above the revised 2012-13 budget. This level of funding includes a $520 million increase in the Proposition 98 minimum guarantee as a result of new Proposition 39 revenues. The Administration estimates that Proposition 98 will be a Test 3 year in 2013-14.

Reduction of Inter-Year Payment Deferrals. The Budget proposes an increase of approximately **$1.9 billion** in Proposition 98 General Fund to reduce inter-year budgetary deferrals for K-14 education in 2013-14. This proposed amount provides approximately $1.8 billion for K-12 schools and $179 million for community colleges.

Proposition 39 Funding for Energy Efficiency Programs. The Governor proposes to allocate all energy efficiency funding required by Proposition 39 to schools and community colleges beginning in 2013-14. As such, the Budget provides $450 million to establish a new Energy Efficiency Program for K-12 schools and community colleges in 2013-14 and proposes to continue funding for this purpose at $500 million a year for the following four years. Of the $450 million proposed in 2013-14, $400.5 million (89 percent) would be appropriated to K-12 schools and $49.5 million (11 percent) would be appropriated to community colleges. The Department of Education and the Community College Chancellor's Office would be responsible for allocating funding on a per student basis and could consult with the California Energy Commission and Public Utilities Commission on regulations for use of the funds.

Proposition 98 - K-12 Education -- Major Spending Proposals

The Governor's budget includes a year-to-year increase of nearly **$2.1 billion** in Proposition 98 funding for K-12 education in 2013-14. Per the Governor, ongoing K-12 Proposition 98 per pupil expenditures increase from **$7,967** provided in 2012-13 to **$8,304** in 2013-14. The Governor's major K-12 spending proposals are identified below.

New K-12 School Finance Formula and Appropriations. The Governor proposes an increase of **$1.6 billion** to implement a new **Local Control Funding Formula** for both school districts and county offices of education beginning in 2013-14. The formula would be phased in over a seven year period, estimated to be completed by 2019-20. The new formula replaces the Weighted Pupil Formula proposed by the Governor last year, but includes some similar and some new features based upon input from education stakeholders.

The proposed Local Control Funding Formula collapses K-12 revenue limits and almost all categorical programs into one formula accompanied by new accountability requirements. Major features of the new formula are summarized below:

- Provides a base grant, with per-student funding varying by grade span for grades K-3, 4-6, 7-8 and 9-12. (The Administration estimates a base rate of approximately $6,816 per student, equal to the current undeficited statewide average base revenue limit. New funding would be allocated to bring districts to new targeted funding levels including reflecting the base grant, plus supplemental fund and grade span factors. For example, districts further from the target level would receive a larger share of new funds. Districts with funding above the targeted level would receive no additional funds.)

- Provides supplemental funding based on the number of disadvantaged students (unduplicated counts of low-income students, English learner students, and students in foster care). Supplemental funding is equal to 35 percent of the base grant. Funding supplements also include a concentration factor for districts where more than 50 percent of students are disadvantaged. When the proportion of low-income students, English learner students, and students in foster care exceeds 50 percent of its total student population, the school district will receive an additional concentration grant equal to 35 percent of the base grant for each low-income student, English learner student, and student in foster care above the 50 percent threshold.

- Provides supplemental funding for elementary and high school: additional supplement for K-3 (intended to be used for Class Size Reduction) and for 9-12 (intended to be used for career technical education). In future years, districts would have to maintain class sizes of 24 or fewer students in order to qualify for K-3 supplement.

- Excludes two categorical programs –Targeted Instructional Improvement Grants (TIIG) and Home-to-School Transportation – from the new formula. Funding for these programs would be permanently locked in at existing allocations, but districts use those funds for any purpose.

- Excludes a number of programs from the new formula and continues these programs as separate categorical programs, such as Special Education, After School Education and Safety, Child Nutrition, Preschool and various programs that are not distributed to all districts (High-Speed Internet Access, Fiscal Crisis Management and Assistance Team, etc.)

- Includes a new two-part funding formula for county offices of education to provide a per-student allocation for students in community and court schools and unrestricted funding stream for general operations and support for school districts. This allocation would be made based county office operations as well as on the number of students and number of districts in the county.

- Requires that all school districts produce and adopt a District Plan for Student Achievement concurrent and aligned with each district's annual budget and spending plan. Plans are required to address how districts will use state funding received through the new funding formula toward improvement in following categories:

    - Basic conditions for student achievement qualified teachers, sufficient instructional material, and school facilities in good repair.

    - Programs or instruction that benefit low-income students and English language learners.

  - Implementation of Common Core content standards and progress toward college, career readiness, as measured by the Academic Performance Index, graduation, completion of college preparatory and career technical education.

- Eliminates most programmatic and compliance requirements that school districts, county offices of education, and charter schools are currently subject to under the existing system of school finance. Important requirements that remain in place include federal accountability requirements, as well as fiscal and budgetary controls and academic performance requirements.

Reduction of Inter-Year Payment Deferrals. Budget provides an increase of $1.8 billion Proposition 98 General Fund to reduce inter-year budgetary payment deferrals for K-12 education in 2013-14. This new funding will reduce total, ongoing inter-year deferrals to $5.6 billion for K-12 schools at the end of 2013-14.

New Energy Efficiency Program. The Governor proposes $400.5 million in new Proposition 39 funds (see previous section) that would be available to K-12 schools for energy efficiency projects. The Department of Education would be responsible for allocating funding on a per student basis and could consult with the California Energy Commission and Public Utilities Commission on regulations for use of the funds. The Governor proposes to continue funding for this purpose for four additional years.

Mandate Block Grant Funding. As a continuation of education mandate reforms enacted in 2012-13, the Budget proposes to increase the K-12 Mandate Block Grant by $100 million in 2013-14 to fund two additional K-12 mandates – High School Science Graduation Requirement and Behavior Intervention Plans – in 2013-14. This will bring total funding for the K-12 Mandate Block Grant to approximately $267 million in 2013-14. The Governor proposes legislation to restructure the state Behavioral Intervention Plan program, in order to eliminate most state reimbursable costs for mandate.

Adult Education and Apprenticeship Realignment. The Budget proposes to consolidate administration of Adult Education and Apprenticeship programs within the California Community Colleges. Currently Adult Education programs are funded and administered by both K-12 school districts and community colleges. The Governor proposes to eliminate this bifurcated system and create a more accountable and centralized adult education learning system within the community colleges. The Budget proposes $315.7 million Proposition 98 funding community colleges for this purpose in 2013-14. Of this amount, $300 million is new Proposition 98 funding and $15.7 million is shifted from the K-12 Apprenticeship Program. The Budget proposes to allocate funding for the consolidated program through a new Adult Education Block Grant based upon the number of adults served.

Other K-12 Education Budget Proposals

Charter Schools. The Budget proposes the following changes intended to address financial and operational challenges for charter schools identified by the Governor:

- Shifting the Charter School Facility Grant Program and the Charter School Revolving Loan Program from the Department of Education to the California School Finance Authority to improve the efficiency of charter school program administration and disbursement of funds to local charter schools. The Authority already administers similar programs.

- Modifying the funding determination process for non-classroom based charter schools by limiting it to the first and third years of operation in most instances. Charter schools that are found to be out of compliance with minimum standards and applicable laws will be required to comply with annual funding determinations.

- Expanding the Charter Schools Facility Grant Program to include eligibility for non-classroom based charter schools, as these schools still have facility needs for instructional support.

- Extending for five additional years the 2012-13 requirement that school districts with identified surplus property and facilities first offer to sell those resources to charter schools before selling them to other entities or disposing of those assets.

Special Education. The Governor proposes to retain the Special Education programs outside of the new Local Control Funding Formula. However, the Budget includes the following proposals intended to simplify and consolidate special education funding in order to address funding inequities and inefficiencies in these programs. As such, the Budget includes the following:

- Eliminating the integration of federal funds in the state's AB 602 calculation and treating both funding streams separately to remove unnecessary complications in the formula and help equalize funding among special education local plan areas.
- Consolidating funding for several special education program add-ons into the base AB 602 formula calculation, while collapsing another 15 special education add-on programs into 10 based on similar activities.

The Governor's proposal does not affect funding for realignment of mental health services for special education. These funds will continue to be set aside for this purpose.

School Facility Funding Flexibility. The Governor proposes to make permanent provisions of current law that provide temporary funding flexibility to K-12 schools. Without extension, these statutory provisions are set to expire over the next two years. The Governor proposes the following changes:

- **Routine Maintenance Contributions**. Eliminate the minimum contribution requirement for routine maintenance.

- **Deferred Maintenance Program Matching Requirement.** Eliminate the required local district set-aside for deferred maintenance contributions.

- **Surplus Property.** Allow districts to use the proceeds from the sale of any real and personal surplus property for any one-time general fund purposes.

Technology Based Instruction. The Budget proposes statutory changes that will enable school districts to offer "asynchronous" online courses through a streamlined and outcome-focused independent study agreement. Asynchronous instruction does not involve the simultaneous participation of all students and instructors. The Governor intends to provide more flexibility to online instruction which currently requires immediate supervision of a teacher.

Other K-12 Proposition 98 Adjustments

Revenue Limit Growth. The Budget assumes continued state-level growth in K-12 enrollments statewide for purposes of funding revenue limits. More specifically, the Budget provides an increase of $304.4 million in 2012-13 for school district and county office of education revenue limits as a result of an increase in projected average daily attendance (ADA) compared to the 2012-13 budget act. The Budget provides an increase of $2.8 million in 2013-14 for school districts and county offices of education as a result of projected growth in ADA for 2013-14.

Categorical Program Growth. The Budget provides additional growth funding for two categorical programs -- $48.5 million for Charter Schools and $3.6 million for Special Education programs.

Cost-of-Living Adjustment Increases. The Budget provides $62.8 million to support a 1.65 percent cost-of-living-adjustment (COLA) for a specific group of categorical programs not included in the Governor's proposed Local Control Funding Formula. These specific programs include: Special Education, Child Nutrition, American Indian Education Centers, and the American Indian Early Childhood Education Program.

Emergency Repair Program. The Budget provides $9.7 million in one-time Proposition 98 funds for the Emergency Repair Program in 2013-14.

K-12 Federal Fund Adjustments

Child Nutrition Program. The Budget provides an increase of $77 million for 2013-14 in federal local assistance funds to reflect growth of nutrition programs at schools and other participating agencies.

Child Care and Development

Over the last several years, Child Care and Development programs have sustained major budget reductions, including provider payment reductions, as well as administrative changes and service reductions. The Governor proposes essentially a flat budget for child care and preschool programs in 2013-14, with some adjustments compared to 2012-13 including the following:

- Stage 2 – A decrease of $21 million non-Proposition 98 General Fund in 2013-14, primarily to reflect a decline in the number of eligible CalWORKs Stage 2 beneficiaries. In 2010-11, approximately 6,000 children were determined eligible for diversion services in Stage 2. Currently, these children and their eligible families are re-entering Stage 3 in 2012-13, and this population trend will persist into 2013-14. Total base cost for Stage 2 is $398.3 million.

- Stage 3 – An increase of $24.2 million non-Proposition 98 General Fund in 2013-14 primarily to reflect the transfer of approximately 6,000 children from Stage 2 to Stage 3. Total base cost for Stage 3 is $172.6 million.

- Child Care and Development Funds – A net decrease of $9.8 million federal funds in 2013-14 to reflect removal of one-time carryover funds available in 2012-13 ($20.7 million), an increase of $16.8 million in one-time carryover funds, and a decrease of $5.9 million in available base grant funds.

The Governor is not proposing any major administrative restructuring of the subsidized child care program, as proposed last year. Instead, the Governor proposes to have the Department of Social Services convene a stakeholder group to assess the current structure of the child care system and to identify opportunities for streamlining and other improvements to programs in the system.

Higher Education

Multi-Year Stable Funding Plan

- Across all higher education segments, proposes a multi-year funding plan. UC, CSU, and Hastings budgets will increase by five percent per year in 2013-14 and 2014-15, and by four percent in each of the subsequent two years. CCC funding will also increase by five percent in 2013-14, and then grow significantly over the subsequent years.

- The segments are expected to maintain current tuition and fee levels for the life of the plan. No tuition and fee increases are proposed because the year-over-year GF increases, when coupled with savings from expected reforms such as the use of technology to deliver quality education to greater numbers of students in high demand courses, improved course management and planning, and increased use of summer sessions, and savings from current segmental efforts to increase efficiencies, provide sufficient funding to each segment to negate the need for any such increases.

- Each segment is directed to use the increased funding to achieve the following priorities: (1) improvements in time-to-completion; (2) improvements in graduation and completion rates; and (3) increases in transfer students enrolled at CSU and UC and successful credit and basic skills course completion at CCC. *The Budget does not contain any concrete goals in this regard nor any established process to monitor each segments' progress towards the priorities. The Budget also does not include any enrollment targets.*

- To shorten students' time-to-degree, reduce costs for students and the state, and increase access to more courses for other students, the number of units students can take while receiving a GF subsidy at any of the segments during the life of the plan will be capped:

  - For UC and CSU in the first two years, the limit would be 150 percent of degree requirements (for example, 180 units for a standard bachelor's degree and 90 units for an associate degree). The limit would eventually be reduced to the equivalent of about one extra year of full-time attendance (for example, 150 units for a bachelor's and 90 for an associate).

  - For CCC, students will be allowed to take no more than 90 semester credit units (150 percent of the standard 60 semester credit units required to earn an associate's degree or credits for transfer) starting in 2013-14.

- For the community colleges, includes two policy changes to improve performance:

  - Change census accounting practices by adding a second census date at the end of each academic term. Over a five-year-period, the earlier census date (which is currently in the third or fourth week of the each semester) would gradually be phased-out. Any enrollment monies that districts "lose" due to this policy change would be transferred to district categorical programs that fund student support services (such as counseling). This proposal will apportion funding by focusing on completion at the end of the term, thereby incentivizing districts to focus on outcomes.

  - Require all students seeking financial aid, including Board of Governor's (BOG) Fee Waivers, to fill out a Free Application for Federal Student Aid (FAFSA) form. This change is proposed to ensure that only financially needy students are determined eligible for the BOG fee waiver program and to ensure program integrity. Any savings will be reinvested to further increase course offerings and student services.

University of California – Specific Adjustments

- Augmentation of $125.1 million GF for core instructional costs. Included in that amount is $10 million to increase the number of courses available through the use of technology. This augmentation is in addition to the $125 million GF that UC will receive in 2013-14 for not increasing tuition and fees in 2012-13, as required by the Budget Act of 2012.

- Shifts debt service costs for UC capital improvement projects into UC's budget to require UC to factor these costs into its overall fiscal outlook and decision making. This will result in a $201.7 million GF increase for general obligation debt service payments and a $9.4 million GF increase to adjust for increased lease-revenue debt service payments. No further augmentations will be provided for either form of debt service payment. Any new capital expenditures will be subject to approval by the Administration and there will be limits on the amount of the budget that can be spent on capital expenditures.

- $6.414 million GF increase to cover increased costs for retired annuitant dental benefits.

Hastings College of the Law – Specific Adjustments

- Augmentation of $392,000 GF for core instructional costs.

- Increase of $1.2 million GF to reflect the shift of general obligation bond debt service costs into Hastings' budget to require Hastings to factor these costs into its overall fiscal outlook and decision making process. No further augmentations will be provided for this purpose.

- $56,000 GF increase to cover increased costs for retired annuitant dental benefits.

California State University – Specific Adjustments

- Augmentation of $125.1 million GF for core instructional costs. Included in that amount is $10 million to increase the number of courses available through the use of technology. This augmentation is in addition to the $125 million GF that CSU will receive in 2013-14 for not increasing tuition and fees in 2012−13, as required by the Budget Act of 2012.

- Proposes to shift debt service costs for CSU capital improvement projects into CSU's budget to require CSU to factor these costs into its overall fiscal outlook and decision making. This will result in a $198.1 million GF increase for general obligation debt service payments and a $19.5 million GF increase to adjust for increased lease-revenue debt service payments. No further augmentations will be provided for either form of debt service payment. Any new capital expenditures will be subject to approval by the Administration and there will be limits on the amount of the budget that can be spent on capital expenditures.

- $51.4 million GF increase to fund the annual increase in costs for CSU's required employer pension contribution to CalPERS. CSU's base budget includes roughly $460 million for this purpose. In future years, CSU will continue to receive annual GF adjustments based on current payroll; however, if CSU chooses to add employees or increase wages beyond 2012- 13 levels, CSU would be responsible for the associated pension costs. This change is proposed to require CSU to factor these costs into its overall fiscal outlook and decision-making process.

- Proposes budget trailer bill language to provide CSU with the same statutory authority to negotiate or set employee health care benefit rates that is provided to the California Department of Human Resources for other state employees. Currently, CSU pays 100 percent of the health care premiums for its employees and 90 percent for employees' family members. However, for most other state employees, the state pays either 80 or 85 percent of employees' health care premiums and 80 percent for family members. This proposal is intended to provide CSU with a tool to better manage and negotiate the entirety of its personnel costs.

- Decrease of $473,000 GF to reflect decreased costs for retired annuitant dental benefits.

- Item 6645 was added to the annual budget act in 2012 to display CSU's employer costs for health benefits for its retired annuitants (previously these costs were budgeted within Item 9650, which contains the state's costs for health benefits for retired annuitants). The Budget Act of 2012 included $247.3

million ($240.3 million GF) for these CSU costs. The Governor's Budget proposes an increase of $37.9 million GF to adjust for increased costs and properly account for non-GF costs (overall non-GF costs are $792,000 in 2013-14, a decrease of $6.3 million over what was provided in 2012-13).

- $2.5 million GF augmentation to provide funding per Chapter 575, Statutes of 2012 (SB 1028), to establish the California Open Education Resources Council and the California Digital Open Source Library.

California Community Colleges – Specific Adjustments

Please see the K-12 section of this report for additional information on the overall K-14 Proposition 98 budget, including Proposition 39 revenues and expenditures included in Proposition 98.

- Augmentation of $196.9 million Proposition 98 GF in base apportionment funding, representing a 3.6 percent increase to general purpose community college funding.

- Augmentation of $16.9 million to expand the number of courses available through the use of technology.

- Increase of $179 million Proposition 98 GF to reduce the deferral debt owed to the community colleges to $622 million. The 2012-13 budget reduced the debt to $801 million (from an accumulated total of $961 million). This level of deferral "buy down" is consistent with, and proportional to, the payment of deferred funding in K-12 education. The reduction of the overall deferral will reduce the borrowing costs borne by districts as a result of the funding deferrals.

- Increase of $49.5 million Proposition 98 GF to undertake clean energy efficiency projects consistent with Proposition 39, the California Clean Energy Jobs Act. Community colleges can also use the funds to expand career technical educational training and on-the-job work experience training in partnership with the California Conservation Corps and participating community conservations corps programs.

- Increase of $315.7 million Proposition 98 GF to realign adult education from K-12 education to within the community college system. Of that total, $300 million is to reconstitute the adult education program within, and $15.7 million is to shift the Apprenticeship Program to, the community colleges. The funding will be allocated from a new categorical block grant based on the number of students served and only for core instructional areas such as vocational education, English as a Second Language, elementary and secondary education, and citizenship.

- Increase of $133.2 million Proposition 98 GF to reflect reduced property tax estimates. The Budget also includes an increase of $47.8 million Proposition 98 GF in 2012-13 to offset lower-than-anticipated property tax revenues from the elimination of redevelopment agencies.

Student Financial Aid

- Proposes no <u>new</u> policy changes to the Cal Grant Program.

- <u>Maintains</u> proposals contained in the Budget Act of 2012 that will result in the following changes to the Cal Grant Program in 2013-14:

    - Maximum new tuition awards will be reduced from $9,223 to $9,084 at private nonprofit (independent) institutions. This award level also applies to private for-profit institutions that were accredited by the Western Association of Schools and Colleges (WASC) as of July 1, 2012. *Beginning in 2014-15*, maximum new tuition awards at nonprofit institutions and WASC-accredited for-profit institutions will be reduced further, to $8,056.

    - Maximum new tuition awards at all other private for-profit institutions will be reduced to $4,000 beginning in 2013-14.

    - Cal Grant eligible students attending an ineligible institution will not be able to renew their Cal Grant for the 2013-14 academic year if they choose to remain at that ineligible institution.

- Maintains the phase-out of Student Loan Assumption Programs for Teachers and Nurses for savings of roughly $6.6 million GF. Eligible renewal awards will continue to be funded through 2015-16.

- Adjusts the 2012-13 budget to increase Cal Grant Program funding by $61 million GF and by $161.1 million GF in 2013-14 to reflect increased participation in the Cal Grant program. Of the 2013-14 amount, $19.5 million is attributable to the first of implementation of the California Dream Act.

- Proposes an offset of $60 million GF in Cal Grant Program costs due to the availability of surplus funds from the Student Loan Operating Fund (SLOF), which receives proceeds from the federal guaranteed student loan program. *The Budget Act of 2012 included an offset of $84.7 million GF from this same fund source.*

- Offsets a total of $942.9 million in Cal Grant Program GF costs to reflect increased Temporary Assistance to Needy Families (TANF) Program funds available through an interagency agreement with the Department of Social Services. *This level is an increase of $139.2 million over the level of offset of Cal Grant Program GF costs included in the Budget Act of 2012.*

Resources and the Environment

- **Cap and Trade Revenues** – Proposes expenditure authority of $400 million and adjusts current year expenditures to $200 million, a reduction of $300 million from previous year estimates. This reflects recognition of an initial over-estimation of revenues from the auction of cap and trade allowances. The first allowance auction resulted in $55.8 million in proceeds to the state and $233 million directly to investor-owned utilities. Two more auctions are proposed in February and May of this year.

- **Timber Harvest Plan Assessment Implementation** – Proposes increases of $6.6 million and 49 positions for Timber Harvest Plan review. This implements Chapter 289, Statutes of 2012 (AB 1492) which established a one percent assessment on lumber and other building products sold in California primarily for the purpose of funding in-state timber harvest plan reviews. Funding will be distributed to the five state agencies responsible for timber harvest plan review. Fees will be reduced by about $1 million in the Department of Fish and Wildlife and State Water Resources Control Board to reflect the assessment.

- **Electric Program Investment Charge Funding Proposed** – Proposes an increase of $193 million and 58 positions to implement the Electric Program

Investment Charge (EPIC) mainly in the Energy Commission. The EPIC program was created by the California Public Utilities Commission as a successor to the Public Goods Charge. The Legislature approved $1 million in 2012 to allow the Energy Commission to provide the Legislature with an investment plan for review prior to program funding approval.

- **Department of Parks Fiscal Overhaul and Reorganization Implementation** – Proposes a savings of $1.1 million and seven positions from the previously approved merger of the Department of Boating and Waterways into the Parks Department. There are no major proposed budget changes at the department and one adjustment to the Off-Highway Vehicle (OHV) program. The multiple recent financial and program investigations conducted by the Administration and Controller were released. While the investigations confirmed concerns raised in 2012, no discrepancy was found in the OHV Trust Fund balance. The budget proposes a $5 million increase to OHV local assistance grants to pre-budget reduction levels in 2012.

- **Major Changes to Environmental Protection Programs Wait Until Spring** – Announces that multiple major proposals to overhaul and adjust fee programs in environmental protection programs will not be released until sometime in spring. These include proposals to provide a funding plan for water quality issues in disadvantaged communities, overhaul hazardous waste fees and reform beverage container recycling funding.

- **Salton Sea Funding Proposed** – Proposes to allocate $12 million (Proposition 84 bond funds) to the Department of Fish and Wildlife to implement a pilot restoration project at the Salton Sea. This is a portion of a total allocation of about $28 million in the Resources Agency (mainly Department of Water Resources) for Salton Sea Capital Outlay and administration. The Legislature approved $2 million in 2012 to fund a report detailing a cost-effective implementation plan for the Sea that was vetoed by the Governor.

- **Proposition 39 Funding Proposed in Proposition 98 Education Budget** – Proposes to allocate $450 million, the Proposition 39 energy efficiency funding, for distribution by the Department of Education and the Chancellor's Office for California Community Colleges. Suggests that schools may consult with the state's energy agencies in order to prioritize the use of funding and are encouraged to consider partnering with the California Conservation Corps existing Energy Corps program. (See page 10 – Overall Proposition 98 – k-14 Education.)

Transportation

Department of Transportation Funding – Provides for total expenditures of $12.8 billion for the department, including $11.5 billion for highway transportation. The primary sources of funding for the department is federal funds plus state taxes on gasoline and diesel fuel and vehicle weight fees (about $8.1 billion), with additional funds from Propositions 1B bonds (about $2.2 billion) and reimbursements from local governments (about $1.8 billion).

Transit Funding – Provides about $390 million for transit operations from the sales tax on diesel fuel. This revenue is associated with the "fuel tax swap" legislation, which was adopted three years ago and restored state funding for transit operators. Additionally, Proposition 1B expenditures for transit capital are anticipated at $480 million in 2013-14.

Weight Fee Transfer for General Fund Relief – Proposes to transfer $907 million in truck weight fees to pay transportation-related debt service. Additionally, proposes to transfer $38 million in truck weight fee revenue to the GF. Under the modified "fuel tax swap" enacted two years ago, truck weight fee revenue is generally directed to transportation-related bond debt, but in 2013-14 weight fee revenue exceeds debt. This proposal is similar to action over the past two years and would transfer "excess" weight fee to the GF, wherein it will be repaid in out years to cover bond debt when that debt exceeds annual weight fee revenue.

Federal funding: MAP-21 – Maintains existing federal funding split between state and local transportation agencies. Federal transportation revenues are designated in the Moving Ahead for Progress in the 21st Century Act, known as "MAP-21," which President Obama signed into law on July 6, 2012. MAP-21 provides $105 billion to maintain FY 2012 funding levels (adjusted for inflation) for federal transportation programs through FFY 2013-14. California will receive essentially the same amount of total funding per year under MAP-21 as it did under the prior act, although funding per program differs. Federal funds make up a significant portion (about 13 percent) of California's transportation budget. MAP-21 consolidates and eliminates many programs, Caltrans and CTC have established a funding scheme for the current fiscal year that preserves existing funding and the Governor's Budget reflects that scheme.

Department of Motor Vehicles – Provides $980,000 to DMV for start-up costs related to implementing SB 1298 (Padilla), Chapter 570, Statutes of 2012, which requires DMV to adopt regulations to permit autonomous vehicles (*i.e.*, driverless cars) on California's streets and highways. The Governor's budget proposes two additional positions at DMV for this purpose, but also proposes $750,000 for a contract with UC Berkeley to assist DMV with development of the regulations.

High-Speed Rail – Proposes $3.12 billion ($2.16 billion from Proposition 1A of 2008 and $958 million in federal funds) in capital outlay funding to acquire property and right-of-way access to begin construction of the initial operating segment in the Central Valley. Also, proposes state operations funding of $121 million (almost all from Proposition 1A of 2008 bond funds) to fund "blended system" local and high-speed rail projects in the Bay Area and Southern California; and to continue oversight and communications contracts while augmenting state staff by 15.5 positions – to bring total funded positions to 86.

Statewide Infrastructure Needs – Proposes no new revenue source for transportation infrastructure to meet identified funding needs but notes that the Transportation Agency will convene beginning this spring a workgroup to refine the 2011 needs assessment, explore long term pay-as-you-go funding options, and evaluate the most appropriate level of government to deliver high priority investments. The California Transportation Commission (CTC) issued its 2011 Statewide Transportation System Needs Assessment, which identified over $500 billion in transportation infrastructure needs over the next ten years.

Cap and Trade Revenues – Anticipates expenditure of $200 million in Cap and Trade auction permit revenues in the budget year and notes that, because transportation is the single largest contributor of greenhouse gas emissions, reducing transportation emissions should be a top priority in the three-year investment plan for expenditure of these revenues. The top identified priority is high-speed rail. AB 1532 (Perez), Chapter 807, Statutes of 2012, requires the Department of Finance to develop this three-year plan in time for the May Revise.

Health and Human Services

The Governor's budget includes a total of $105.1 billion ($28.4 billion General Fund and $76.7 billion other funds) for health and human services that serve low-income, vulnerable individuals and families.

Health

Health Care Reform

The federal Affordable Care Act (ACA) increases access to private and public health care coverage through various mechanisms including:

- *California's Health Benefit Exchange (Covered California).* Covered California is a new insurance marketplace that will offer an opportunity to purchase affordable health insurance using federally funded tax subsidies for millions of Californians with incomes up to 400 percent of the federal poverty level (FPL). The open enrollment period will begin October 1, 2013 and coverage begins January 1, 2014. Covered California has many program elements focused on ensuring its premiums are as affordable as possible.

- *Streamlining Eligibility and Retention.* The streamlining of eligibility, enrollment, and retention rules for persons currently eligible for Medicaid.

- *Expanding Coverage to Low-Income Adults.* The expansion of Medicaid coverage to adults with incomes up to 138 percent of FPL.

Currently Eligible Individuals. The budget includes $350 million General Fund for 2013-14 (for six months) and projects $700 million General Fund annually thereafter as placeholder for the costs of providing coverage to individuals who are currently eligible for Medi-Cal (but not presently enrolled). It is expected that these currently eligible individuals will enroll in Medi-Cal because of streamlining in income eligibility (based on the Modified Gross Income—MAGI) and redeterminations that it would make it easier for individuals to enroll and remain on Medi-Cal; the individual mandate (under the ACA) that requires most individuals to obtain health coverage; and the extensive marketing by Covered California (California's health benefit exchange) about health care coverage options.

Expansion to Adults with Incomes Up to 138 Percent of FPL. The budget presents two options for expanding Medi-Cal coverage to adults with incomes up to 138 percent of FPL and does not include any fiscal estimates for these costs. Under both of these options, the benefit package offered would be comparable to what is available today in Medi-Cal, but would exclude long-term care coverage.

These two options are:

- *State-Based Option.* The first option is a state-based Medi-Cal expansion that would build upon the existing state-administered Medi-Cal program.
- *County-Based Option.* The second option is a county-based Medi-Cal expansion that would build upon the Low Income Health Program (LIHP). The LIHP is a voluntary, county-run program to provide a Medicaid-like coverage to individuals with incomes up to 138 percent of the FPL. There are 17 LIHPs in operation and each county can have different income eligibility requirements. The LIHP is authorized under a federal waiver and the county-based option would also require waiver of specified federal requirements.

The Administration has presented these options as a framework to begin discussions with counties and stakeholders, including the Legislature, on how the state and local governments should share the risks and costs associated with expanding public health coverage to this population. Currently, counties pay for care for adults who are not currently eligible for Medi-Cal through their local indigent health care service programs. The state provides funding from the 1991 health realignment to partially fund these costs.

There are several key aspects of ACA implementation for which federal guidance has not yet been issued including the methodology for claiming enhanced federal funding for the expansion of Medi-Cal coverage for low-income adults. Under the ACA, the federal government will pay for 100 percent of the costs for this population with funding gradually decreasing to 90 percent in 2020.

Department of Health Care Services (DHCS)

The budget proposes $63 billion ($15.9 billion General Fund) for DHCS.

Medi-Cal Program. The budget proposes total expenditures of $60.9 billion ($15.6 billion General Fund) for 2013-14 to serve about 8.7 million Medi-Cal eligible individuals, an increase in caseload of about 5.9 percent primarily due to the transition of children from the Healthy Families Program to Medi-Cal. This is a 3.9 percent increase in General Fund spending from the prior year.

Hospital Quality Assurance Fee Extension. Administration proposes extending the hospital quality assurance fee, which will sunset on December 31, 2013. This fee provides funds for supplemental payments to hospitals and offsets the costs of health care coverage for children. A reduction of $310 million General Fund is assumed as a result of extending this fee.

Gross Premium Tax Reauthorization. Administration proposes to reauthorize the Gross Premium Tax on Medi-Cal managed care plans on a permanent basis. Reauthorizing this tax will generate General Fund savings of $85.9 million in 2012-13 (in the Managed Risk Medical Insurance Board budget for the Healthy Families Program) and $217.3 million in 2013-14 (in the Medi-Cal program).

Coordinated Care Initiative/Duals Demonstration Project. Administration includes $170.7 million General Fund savings in 2013-14 and future annual savings of $523.3 million General Fund as a result of this initiative. The 2012 budget authorized the Coordinated Care Initiative (CCI) by which persons eligible for both Medicare and Medi-Cal (dual eligibles) would receive medical, behavioral, long-term supports and services, and home- and community-based services coordinated through a single health plan in eight demonstration counties. Budget year savings have been revised compared to previous estimates as the population estimated to be included in CCI has decreased, the scheduled phasing for the enrollment in CCI has been delayed until September 2013, and the state has not yet developed a Memorandum of Understanding with the federal CMS to implement CCI. Trailer bill legislation would be needed to reflect these changes and to implement the agreement with the federal CMS.

Medi-Cal Managed Care Efficiencies. DHCS is seeking new ways to implement additional efficiencies in Medi-Cal managed care. The framework of this proposal is unclear at this time since trailer bill legislation has not yet been received. Further, the proposal is unclear on the role of the Legislature in the continued operation of the Medi-Cal Program. A decrease of $135 million General Fund is budgeted for this proposal.

Limit Annual Open Enrollment for Medi-Cal Enrollees. A reduction of $1 million General Fund is assumed by limiting Medi-Cal enrollees to an annual open enrollment, in lieu of being able to change plans more frequently throughout the year. This proposal requires trailer bill legislation.

Provider Rate Reductions. AB 97 (Chapter 3, Statutes of 2011) enacted provider rate reductions. DHCS was prevented from implementing many of the reductions due to court injunctions. The budget assumes positive resolution of the court injunctions in March 2013 instead of summer 2012, resulting in General Fund costs of $261 million in 2012-13 and savings of $431 million in 2013-14.

Managed Risk Medical Insurance Board (MRMIB)

The budget proposes $611 million ($21.7 million General Fund) for MRMIB. This is a decrease of $143.9 million General Fund compared to the Budget Act of 2012 as a result of the transition of Healthy Families Program enrollees to Medi-Cal.

Gross Premium Tax Reauthorization. As discussed above, Administration proposes to reauthorize the Gross Premiums Tax on Medi-Cal managed care plans and includes $85.9 million General Fund savings in MRMIB's budget for 2012-13 as a result of this tax being reauthorized.

Phase-Out of Managed Risk Medical Insurance Program (MRMIP) and Pre-Existing Condition Insurance Program (PCIP). MRMIP and PCIP will phase-out with the implementation of the federal Affordable Care Act in 2014, as individuals on MRMIP and PCIP would be eligible for coverage under California's Health Benefit Exchange (Covered California).

Access for Infants and Mothers Program (AIM) and County Health Initiative Matching (CHIM) Fund Program Remain at MRMIB. Administration proposes that AIM and the CHIM program continue to be administered by MRMIB.

Department of Public Health (DPH)

The budget proposes $3.4 billion ($114.5 million General Fund) for DPH. This is a decrease of about $17 million General Fund compared to the Budget Act of 2012.

AIDS Drug Assistance Program (ADAP). The budget reflects a net decrease in ADAP funding of $12.7 million in 2013-14. This is primarily a result of the transition of ADAP clients to the Low Income Health Program and the transition of ADAP clients to other payer sources due to the implementation of the federal Affordable Care Act.

Zero-Base Budget Review. DPH was one of four departments selected to pilot zero-base budgeting (ZBB). In traditional budgeting, a department incrementally builds upon its prior year budget by either adding or subtracting funds from existing programs, in ZBB, the department builds its budget from the ground up, reassessing how it currently spends and allocates resources within each program. Initial findings from this pilot will be provided in February 2013.

Department of State Hospitals (DSH)

The budget proposes $1.6 billion ($1.5 billion General Fund) for support of DSH. The patient population is projected to reach a total of 6,560 in 2013‑14.

Stockton Activation and Bed Migration — Proposes $100.9 million General Fund to activate 514 beds at the California Health Care Facility (CHCF). This includes $67.5 million for additional staff to complete the activation of CHCF and $33.4 million for the full-year costs of positions approved in the Budget Act of 2012.

Safety and Security — Proposes a reduction of $5.6 million General Fund to reflect an updated Personal Duress Alarm System (PDAS) project scheduled for Metropolitan and Patton State Hospitals. The Budget maintains funding to continue the PDAS upgrade at Atascadero and Coalinga State Hospitals. Upgrade of the PDAS at Napa State Hospital was successfully completed in November 2012

Emerging Population Trends — Proposes $20.1 million in Reimbursements for the estimated increase in civil commitments. No adjustment is included in the Budget for pending commitments. DSH maintains wait lists of patients awaiting admission to its five hospitals and two psychiatric programs. Since June 30, 2012, the DSH has seen a steady increase in its wait list numbers for Incompetent to Stand Trial and Mentally Disordered Offender commitments. DSH will continue to monitor the pending commitments and, if necessary, develop options to address these wait lists.

Department of Alcohol and Drug Programs

In order to eliminate the Department of Alcohol and Drug Programs (DADP) on July 1, 2013, as approved in the 2012-13 State Budget, all substance use disorder programs would be transferred to the Department of Health Care Services. The Office of Problem Gambling would transfer to the Department of Public Health.

The administrative functions of the Drug Medi-Cal Program were transferred to the Department of Health Care Services on July 1, 2012. The Drug Medi-Cal program functions were transferred to counties as part of the 2011 Realignment.

Human Services

Developmental Services

The Department of Developmental Services provides services and supports to around 260,000 consumers with developmental disabilities. Over the last several years, the system has sustained major budget reductions, including operations and provider payment reductions, as well as administrative changes, cost control measures and some service reductions. The Governor proposes an overall 2013-14 budget for developmental services of $4.9 billion ($2.8 billion GF). This includes a $177.5 million ($89.2 million GF) increase associated with a higher number of consumers anticipated to receive services from regional centers.

- **Operations & Provider Payments:** The Governor's budget recognizes the scheduled sunset of a 1.25 percent reduction in regional center operations and community-based provider payments. This reduction was in effect for 2012-13 and was preceded by reductions of three percent in 2008-09 and 2009-10 and 4.25 percent in 2010-11 and 2011-12. As a result of the sunset, the Department's budget increases by $46.7 million ($32 million GF) in 2013-14.

- **Proposition 10 Funding:** The Governor's budget does not rely on $40 million that was provided from 2009-10 through 2012-13 by the California Children and Families Commission to support services for children from birth to five years old. As a result, the Department's budget increases by $40 million GF.

- **Sonoma Developmental Center:** Sonoma Developmental Center's Intermediate Care Facility is the subject of pending federal decertification and state license revocation actions due to instances of abuse and neglect, as well as concerns about staffing, practice, services, and governance. The Governor's budget assumes that the Department's appeals of these actions will succeed and that no federal funding will be lost.

- **Annual Family Program Fee:** The Governor's budget permanently continues the Annual Family Program Fee, which would otherwise sunset June 30, 2013. The fee is $150 or $200 per family with adjusted gross income of 400 percent or more of the federal poverty level. Its collection saves $7.2 million GF annually.

California Work Opportunity and Responsibility to Kids (CalWORKs)

The CalWORKs program provides temporary cash assistance and welfare-to-work services to low-income families with children. Over the last several years, the program has sustained very significant reductions, including a decrease from 60 to 48 months in the amount of time adults can receive assistance in a lifetime and additional restrictions that will result in some adults losing all assistance after 24 months. The changes have also included successive reductions to monthly cash assistance grants and temporary reductions in employment services funding, as well as a programmatic restructuring that created some additional flexibilities and other more restrictive policies. The Governor proposes an overall 2013-14 budget of $5.4 billion in federal, state and local funds for the program and estimates a caseload of 572,000 families (an increase of 0.7 percent).

- **Employment Services:** The Governor's budget proposes an increase of $142.8 million GF in 2013-14 to support the implementation of program changes enacted in 2012-13. The funds are for employment services for adults participating in the welfare-to-work program.

- **Child Care:** The Governor's budget proposes to have the Department of Social Services convene a stakeholder group to assess the current structure of child care and opportunities for streamlining and improvements.

In-Home Supportive Services (IHSS)

The IHSS program provides personal care and domestic services to approximately 420,000 low-income individuals who are aged, blind, or who have disabilities. Over the last several years, the enacted budgets have included major reductions and changes to the IHSS program, some of which have been implemented while others have been enjoined from implementation due to litigation.

- **Across-the-Board Reductions:** The Governor's budget recognizes the scheduled sunset on June 30, 2013 of a 3.6 percent reduction in authorized services for all IHSS recipients and correspondingly increases the program's budget by $59.1 million GF. However, the proposed budget also assumes $113.2 million GF savings from partial-year implementation of a 20 percent reduction in authorized services for all IHSS recipients, with specified exceptions. This reduction was triggered by lower than expected 2011-12 revenues, but has thus far been enjoined from taking effect by a federal court. The Governor's budget assumes success in that litigation such that the reduction can take effect in November 2013.

- The Governor's budget also assumes adjustments to previously enacted budget changes. This includes:

  - An increase of $92.1 million associated with more restrictive requirements to draw down enhanced federal matching funds under the Community First Choice Option. Beginning July 2013, the enhanced funding will be available only for recipients who meet nursing home level of care standards.

  - An increase of $47.1 million related to recently enacted county maintenance-of-effort requirements which base the counties' share of the non-federal portion of IHSS costs on 2011-12 expenditures, as well as an annual growth factor and 1991-92 realignment revenue levels.

  - $30.2 million GF savings associated with a requirement, enacted in 2011-12, for recipients to obtain a certification of need from a health care provider.

- The Governor's budget also makes changes to the anticipated schedule and fiscal estimates associated with implementing the Coordinated Care Initiative, which impacts the IHSS program. See the Health Section of this report.

Other

- **SSI/SSP:** The Supplemental Security Income/State Supplementary Payment (SSI/SSP) program provides monthly cash assistance to eligible individuals who are aged, blind, or who have disabilities. The estimated caseload for the SSI/SSP program includes a 1.3 percent increase to 1.3 million recipients. The

Governor's budget reflects an estimated cost-of-living increase of 1.7 percent in 2013 and 1.1 percent in 2014 for the SSI portion of the grants, which is federally funded. The budget also assumes a corresponding increase in state costs for benefits under the Cash Assistance for Immigrants (CAPI) program.

- **Child Welfare Automation:** The Governor's budget includes $1 million ($482,000 GF) and 9 positions in 2013-14 to oversee procurement of a Child Welfare Services-New System project to replace the existing Child Welfare Services/Case Management System.

Local Government

- **Redevelopment.** As part of the 2011-12 budget, local redevelopment agencies (RDAs) were dissolved. The adopted legislation (later upheld by the courts) allowed for continued payment of obligations secured by the property tax increment, but redirects "unobligated" property taxes to the local taxing entities—primarily to local school districts, cities, and counties. As obligations are paid off, the amount of property taxes going to local governments and schools will increase. Additional property tax revenue received by local school districts offsets the Proposition 98 General Fund obligation on a dollar-for-dollar basis and thus represents a General Fund savings. Given the difficulties involved in the RDA wind-down, accurately estimating the property tax revenue freed-up for local schools has been a challenge. The challenges apply to both the additional flow of property tax revenues as well as the one-time distribution of assets. As part of the 2012 Budget Act, the amount of additional property taxes going to schools (one-time and on-going) was estimated to be $3.2 billion in 2012-13 and $1.6 billion in 2013-14. As a result of the continuing flow of data and information from the RDA successor agencies and analysis by the Department of Finance, the proposed budget reduces these amounts to $2.1 billion in 2012-13 and $1.1 billion in 2013-14.

- **Local Mandates.** The Governor's Budget suspends non-education local mandates that were suspended in the current year to achieve General Fund savings. The proposed budget also proposes to defer the 2012-13 costs associated with mandates incurred prior to 2004-05 and continue this deferral through 2014-15. As a result, the proposed budget basically continues current year actions to suspend certain mandates and defer the pre-2004 mandate costs. In general, the only local government mandates funded and in effect would be those related to law enforcement and property tax. The amount budgeted for these active non-education mandates is $48 million GF. The administration also proposes exploring ways to improve the mandate process, consistent with the mandate reform efforts in K-12 education. Finally, the suspension of certain new mandates will generate savings that will assist in establishing a reserve, as described in the "Introduction."

General Government

- **California Department of Veterans Affairs (CDVA)** – Includes $406 million in total funding ($316 million in General Fund and $90 million various funds) for the department. Funding included for the admittance of patients in 2013 in both the Fresno and Redding Veterans Homes.

- **Department of General Services (DGS)** – Reflects a $5.6 million reduction achieved through operational efficiencies, decreases state bond expenditures by $1.6 million and 20 positions within the Office of Public School Construction, and increases the Special Repairs program budget by $11 million to fund several deferred maintenance projects in state-owned buildings to allow DGS to further consolidate agencies and departments into state owned facilities.

- **Department of Housing and Community Development (HCD)** – Reflects a slight increase in funding within the Housing Policy Division. The Housing Policy Division is responsible for review of housing elements submitted by local entities. The increase in staff will ensure there is a continued emphasis on adequate housing stock, and will work to align housing plans with transportation and land use plans.

- **Gambling Control Commission** – Proposes a reduction of $5.4 million ($2.3 million Indian Gaming Special Distribution Fund and $3.1 million Gambling Control Fund) to reflect the transfer of the Compliance and Licensing Divisions to the Department of Justice.

- **Department of Consumer Affairs** – Displays additional enforcement performance data designed to track the amount of time it takes between a complaint being received by one of the 26 boards, 9 bureaus or 2 committees and its resolution.

- **Unemployment Insurance Fund Deficit** – Utilizes $291.1 million GF to pay the third interest payment due to the federal government for the quarterly loans the Employment Development Department (EDD) has been obtaining from the federal government since January 2009 to cover the Unemployment Insurance (UI) Fund deficit and make payment to UI claimants without interruption. The UI Fund deficit was $9.9 billion at the end of 2012 and is projected to be $10.2 billion at the end of 2013. Interest will continue to accrue, and be payable annually, until the principal on the UI loan is repaid. Federal law requires that the interest payment come from state funds.

  In both 2011-12 and 2012-13 the state borrowed from the Unemployment Compensation Disability Fund (DI Fund) to make the required interest payments to the federal government. These loans against the DI Fund total $611.7 million. The Budget does not include a proposal to repay these loans.

  The Budget is also silent on how to fund future interest payments for funds borrowed from the federal government to pay UI benefits and a proposed solution to the insolvency of the UI Fund. The Administration indicates that proposals will be developed to address all three of these problems during a series of stakeholder meetings convened by the Secretary of the Labor and Workforce Development Agency that will begin by February 1, 2013.

- **Unemployment Insurance (UI) Benefit Payments –** Increases total benefit payments to $12.9 billion in 2012-13 and $9.5 billion in 2013-14, to reflect the recent extension of federal extended benefits through December 2013 and a reduction in the unemployment rate.

- **Enhanced Data Sharing –** Reflects increased revenues totaling $2 million in various payroll taxes, including increased penalty assessments and interest of $649,000, as a result of a review of revenue collection functions of the Franchise Tax Board and the Employment Development Department which identified additional data sharing opportunities.

- **Workers' Compensation Reform Implementation –** Increases by $152.9 million (Workers' Compensation Administration Revolving Fund) and 82 positions to implement the reforms prescribed in Chapter 363, Statutes of 2012 (SB 863). Included is a $120 million increase for permanent disability payments as part of the Special Earnings Loss Supplement program, also known as the return−to−work program. Overall, these resources will support

Chapter 363 reforms to medical provider networks, workers' compensation liens, fee schedules, medical care administrative procedures, permanent disability benefits, the Special Earnings Loss Supplement program, and independent medical and bill review processes.

- **Workers' Safety and Labor Standards Enforcement –** Proposes to permanently eliminate the July 1, 2013 sunset date for the employer surcharge for the Occupational Safety and Health Fund and the Labor Enforcement and Compliance Fund, thereby providing an ongoing funding source to support enforcement programs. These programs, which include investigations, inspections, and audits, protect lawful employers from unfair competition while ensuring employees are not required or permitted to work under unlawful conditions.

- **Elimination of the Targeted High Hazard Assessment –** Replaces $9.1 million in revenues from this assessment with a $9.1 million increase in the Occupational Safety and Health Fund assessment. This will result in all safety, workplace injury prevention, and enforcement efforts being funded through this single assessment.

- **Compliance Monitoring Unit –** The unit was created in 2009 to ensure prevailing wages are paid by contractors on public works projects. The monitoring costs were to be paid from specified bond funds that support projects. These revenues have not been sufficient to meet program requirements. The Budget includes various strategies to stabilize the unit, including: (1) a redirection of $2.5 million GF to the unit from worker's safety and labor standards enforcement activities, with a corresponding backfill to those programs from the employer surcharge; (2) a $5 million loan from the Targeted Inspection and Consultation Fund; and (3) cost recovery from other sources that support these public works projects.

- **Employee Compensation –** Increases by $247 million GF ($255.1 million other funds) for previously negotiated top step adjustments and health care benefit contribution increases for active employees. For most employees, the adjustments offset previously implemented and ongoing higher employee retirement contributions.

- **Pension Contributions –** Increases by $48.7 million GF ($46.5 million other funds) for the state's employer pension contribution. Included in the total is

$42.2 million GF ($21 million other funds) directed at the state's unfunded pension liability to reflect the savings resulting from increased employee contributions under Chapter 296, Statutes of 2012 (Assembly Bill 340), Public Employees' Pension Reform Act of 2012. Prior to the adoption of Chapter 296, generally any increased employee pension contributions offset the employer's contribution. Chapter 296 requires any savings in employer contributions from increased employee contributions be directed to the state's unfunded pension liability, subject to appropriation in the annual budget act.

- **Bond Debt Service –** General Fund debt service expenditures, after various other funding offsets, will increase by $872.4 million (17.6 percent), to a total of $5.8 billion, over the current year expenditures. This increase is comprised of $779.7 million for General Obligation (GO) debt service ($5.1 billion total) and $92.7 million for lease-revenue bonds ($766.2 million total). The greater than normal increase in GO debt service is the result of lower than normal current year debt service because the State Treasurer's Office was able to structure prior bond sales to accommodate the $1.9 billion Proposition 1A financing obligation that is due June 2013.

- **California Five‑ Year Infrastructure Plan --** The Administration will release the 2013 Five‑Year Infrastructure Plan later this year. The Plan will outline the Administration's infrastructure priorities for the next five years for the major state infrastructure programs, including high‑speed rail and other transportation, resource programs, higher education, and K‑12 education. Given the state's increased debt burden and General Fund constraints, the Plan will examine agencies' reported needs assessments, the use of General Fund‑backed debt, and place less of a reliance on future voter-authorized GO bonds.

- **Cashflow Borrowing** – The budget includes $150 million GF for interest costs associated with cashflow borrowing. This includes $50 million for special fund borrowing and $100 million in external borrowing (or Revenue Anticipation Notes [RANs]). Cashflow borrowing is not a budget solution and funds borrowed in one year are fully repaid within the same fiscal year. Cashflow borrowing is also discussed in the "Introduction."

- **Budgetary Loans from Special Funds** – The budget includes $31.5 million for interest on budgetary loans. The Governor indicates that at the end of 2012-13, special fund budgetary loans will total $4.1 billion, which will drop to $3.5 billion by 2014-15.

- **Franchise Tax Board –** Franchise Tax Board (FTB) is charged with administering the personal income tax and the corporation tax. The budget calls for an increase of $152.2 million for the Enterprise Data to Revenue (EDR) Project to continue implementation. FTB estimates the project will generate additional General Fund revenues of $4.9 billion through 2017. Ongoing revenues are estimated to be in excess of $1 billion annually when the project is fully implemented. In addition, as part of a review of the revenue collection functions of FTB and the Employment Development Department (EDD), additional data‑ sharing opportunities have been identified in the near term that will increase revenues. The Budget includes an increase in Personal Income Tax collections of $3 million General Fund by FTB and $800,000 General Fund by EDD as a result of these efforts.

Corrections and Judiciary

- **California Department of Corrections and Rehabilitation (CDCR)** – Proposes total funding of $9 billion ($8.7 billion General Fund and $252 million other funds) for CDCR.

- **CDCR Population** – While the adult inmate population continues to decline as a result of Realignment, new admissions are currently trending higher than the 2012 Budget Act projections. The Budget Act projected an adult inmate average daily population of 129,961 in the current year. The current year adult inmate population is projected to exceed Budget Act projections by 2,262 inmates, a 1.7 percent increase, for a total population of 132,223. The budget year adult inmate population is projected to be 128,605, a 2.7 percent decrease of 3,618 inmates. The current projections also reflect a decrease in the parolee population of 4,052 in the current year compared to Budget Act projections, for a total average daily population of 57,640. The parolee population is projected to be 42,958 in 2013‑14, a decrease of 14,682.

  The budget year population decreases are primarily due to the shifting of lower-level inmates to counties pursuant to public safety realignment (Chapter 15, Statutes of 2011), reductions in the number of felony probationers entering state prison, and the passage of Prop 36, which revised the Three Strikes Law. The budget proposes a decrease of $1.7 million GF to reflect these changes.

- **CDCR Mental Health Population** – Proposes a decrease of $4.3 million in 2012-13 and $7.9 million in 2013-14 to reflect adjustments in the Mental Health Staffing Ratios based on changes in the number of inmates projected to require mental treatment.

- **DeWitt Nelson Correctional Annex (DeWitt)** – Proposes $16.2 million for pre-activation and activation staffing for DeWitt, which is an annex to the California Health Care Facility in Stockton. Construction is scheduled to be completed by February 2014, intake will begin in March 2014, and the facility will be fully operational by May 2014.

- **California Health Care Facility (CHCF)** – Proposes $2.3 million for the CHCF operation. Construction is due to be completed by May 2013, intake will begin July 2013, and the facility will be fully operational by December 2013.

- **Community Corrections Performance Incentive Grants** – Proposes $35.8 million for the California Community Corrections Performance Incentive Act of 2009 (SB 678, Leno). SB 678 established a system of performance-based funding that shares GF savings with county probation departments when they demonstrate success in reducing the number of adult felony probationers going to state prison.

- **CDCR, Division of Juvenile Justice (DJJ) Population** – The DJJ's average daily ward population is decreasing when compared to the 2012 Budget Act projections. Specifically, the ward population is projected to decrease by 120 in 2012−13, for a total population of 871 and slightly increase to 913 in 2013−14. The ward population has decreased significantly in recent years, due primarily to fewer parole violators being housed by DJJ as a result of Chapter 729, Statutes of 2010 (AB 1628), which shifted supervision responsibility for wards released from DJJ to the counties beginning in January 2011. The budget proposes decreases of $3.1 million GF ($1.1 million Proposition 98 GF) in 2012-13 and $2.2 million ($1.1 million Proposition 98 GF) in 2013-14 to reflect these changes.

  DJJ Parole - Pursuant to Chapter 41, Statutes of 2012 (SB 1021), juvenile parole ended on January 1, 2013 and all juveniles remaining on parole as of December 31, 2012 were discharged. Savings resulting from the elimination of juvenile parole will be realized in the Division of Adult Parole Operations, which assumed responsibility for juvenile parolees in 2011−12.

Board of State and Community Corrections (BSCC) – Proposes total funding of $129.2 million ($44.3 million GF) for the BSCC.

- **BSCC Position Augmentation** – Proposes 9 positions, funded from existing resources, for research activities, the administration of the local jail construction financing program authorized by Chapter 42, Statutes of 2012 (SB 1022), and other administrative functions necessary for the Board to operate as an independent entity.

- **City Law Enforcement Grants** – Proposes $4 million GF in 2012-13 and $7.5 million GF in 2012-14 to augment $20 million included in the 2012 Budget Act for city law enforcement grants.

- **Judicial Branch –** Proposes total funding of $3.1 billion ($1.2 billion GF) for the Judicial Branch.

- **Court Construction Transfer** – Proposes a $200 million transfer from the Immediate and Critical Needs Account to offset GF support of trial court operations as the courts adapt to a new reserve policy limiting trial court reserves to one percent. This transfer will delay additional courthouse construction projects up to one year, but will allow some of the most critical projects to continue, as determined by the Judicial Council.

- **Long Beach Courthouse** – Proposes $34.8 million from the Immediate and Critical Needs Account to fund the new Long Beach Courthouse service fee payment.

- **Trial Court Efficiencies** – Proposes a range of statutory changes that will reduce workload through administrative efficiencies, increase user fees to support ongoing workload at the trial courts, and assist the Judicial Branch in effectively managing monthly trial court cash flow issues.