California State Budget *2013-14*

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Introduction

The 2013 Budget Act reflects California's most stable fiscal footing in well over a decade. With the tough spending cuts enacted over the past two years and new temporary revenues provided by the passage of Proposition 30, the state's budget is projected to remain balanced for the foreseeable future. However, substantial risks, uncertainties, and liabilities remain.

The Budget overhauls the state's system of K-12 education finance—creating a more just allocation of resources and providing expanded flexibility. It also reinvests in the state's universities and increases their affordability. The Budget implements an affordable and sustainable path for the expansion of coverage under federal health care reform. The Budget also makes targeted investments—dental care, mental health, and middle class scholarships—while maintaining structural balance into the future. Overall, it also preserves the state's safety net, encourages job growth, and pays down debt.

Reinvesting in Education

With the passage of Proposition 30, the Budget reinvests in, rather than cuts, education funding. From 2011-12 through 2016-17, the Proposition 98 minimum funding guarantee will increase from $47.2 billion to $67.1 billion, an increase of about $20 billion.

For K-12 schools, funding levels will increase by $1,045 per student through 2013-14 and by $2,835 per student through 2016-17.

The Budget begins to correct historical inequities in school district funding by adopting a new allocation formula and dedicating $2.1 billion in new funding beginning in 2013-14. By committing new funding to districts serving English language learners, students from low-income families, and foster youth, the formula ensures that the students most in need of help have an equal opportunity for a quality education.

This new funding will be coupled with strong accountability. It will allow communities to govern their schools locally—but provide authority to county offices of education and the state to assist if districts fail to improve. Districts will be required to improve outcomes for all students, and specifically for English learners, students from low-income families, and foster youth. Independent audits and county and state oversight will make sure this occurs.

As shown in Figure INT-01, the 2013 Budget increases funding for higher education by between $1,649 and $2,491 per student through 2016-17. In addition, a new financial aid program for middle class families will begin next year.

Figure INT-01
Budget Increases Funding Per Student

	2011-12	2016-17	Funding Increase
K-12 Education	$7,175	$10,010	$2,835
Community Colleges	$4,893	$6,542	$1,649
California State University	$5,860	$7,803	$1,943
University of California	$10,630	$13,121	$2,491

Expanding Health Care

Medi-Cal currently serves more than one out of every five Californians. Federal health care reform will significantly expand this coverage. The Budget moves forward with a state-based approach to the optional expansion of care allowed under federal law. This expansion will significantly increase health care coverage, improve access to mental health services, expand substance use disorder treatment, and bring in new federal dollars. The law, however, also comes with costs, risks, and uncertainties.

The state currently dedicates about $1.5 billion annually to counties for health care, primarily for services for indigent adults—many of the same people who will move to Medi-Cal under the new law. Over time, as the state takes on more responsibility for health care, funding previously provided to counties for indigent health will be shifted to fund human services programs. To ensure adequate funding remains at the county level for safety net services, dollars will be redirected based on a county-by-county formula.

A Balanced Budget Plan, But Risks Remain

The Budget represents a multiyear plan that is balanced, maintains a $1.1 billion reserve, and pays down budgetary debt. The state's recent budget challenges have been exacerbated by the Wall of Debt—an unprecedented level of debts, deferrals, and budgetary obligations accumulated over the prior decade. The Budget dedicates billions to repay this budgetary borrowing. Moving forward, continuing to pay down the Wall of Debt is key to increasing the state's fiscal capacity. In 2011, the level of outstanding budgetary borrowing totaled $35 billion. As shown in Figure INT-02, the debt will be reduced to less than $27 billion this year. Under the Budget's projections, it will be reduced to below $5 billion by the end of 2016-17.

Figure INT-02
Budget Plan Would Reduce Wall of Debt to Less than $5 Billion
(Dollars in Billions)

	End of 2010-11 [1/]	End of 2012-13 [2/]	End of 2016-17 [2/]
Deferred payments to schools and community colleges	$10.4	$6.4	$0.0
Economic Recovery Bonds	7.1	5.2	0.0
Loans from Special Funds	5.1	4.6	0.5
Unpaid costs to local governments, schools and community colleges for state mandates	4.3	4.9	3.1
Underfunding of Proposition 98	3.0	2.4	0.0
Borrowing from local government (Proposition 1A)	1.9	0.0	0.0
Deferred Medi-Cal Costs	1.2	2.0	1.1
Deferral of state payroll costs from June to July	0.8	0.7	0.0
Deferred payments to CalPERS	0.5	0.4	0.0
Borrowing from transportation funds (Proposition 42)	0.4	0.3	0.0
Total	**$34.7**	**$26.9**	**$4.7**

[1/] As of 2011-12 May Revision

[2/] As of 2013 Budget Act

The budget remains balanced only by a narrow margin. The pace of the economic and revenue recovery is still uncertain, and California needs to address other liabilities that have been created over many decades. Eliminating the liabilities will take many years and constrain the state's capacity to make other investments.

Only by continuing to exercise fiscal discipline can the state avoid repeating the boom and bust cycles of the last decade.

Summary Charts

This section provides various statewide budget charts and tables.

Figure SUM-01

General Fund Budget Summary

(Dollars in Millions)

	2012-13	2013-14
Prior Year Balance	-$1,658	$872
Revenues and Transfers	$98,195	$97,098
Total Resources Available	**$96,537**	**$97,970**
Non-Proposition 98 Expenditures	$55,211	$57,226
Proposition 98 Expenditures	$40,454	$39,055
Total Expenditures	**$95,665**	**$96,281**
Fund Balance	**$872**	**$1,689**
Reserve for Liquidation of Encumbrances	$618	$618
Special Fund for Economic Uncertainties	$254	$1,071

Figure SUM-02

2013-14 Total Expenditures by Agency

(Dollars in Millions)

	General Fund	Special Funds	Bond Funds	Totals
Legislative, Judicial, Executive	$2,778	$2,718	$275	$5,771
Business, Consumer Services & Housing	646	746	92	1,484
Transportation	206	8,179	5,109	13,494
Natural Resources	2,124	1,227	823	4,174
Environmental Protection	46	2,454	127	2,627
Health and Human Services	28,084	17,795	119	45,998
Corrections and Rehabilitation	8,911	2,254	3	11,168
K-12 Education	39,661	119	5	39,785
Higher Education	10,923	45	427	11,395
Labor and Workforce Development	299	564	-	863
Government Operations	742	225	14	981
General Government:				
Non-Agency Departments	523	1,586	3	2,112
Tax Relief/Local Government	421	1,876	-	2,297
Statewide Expenditures	917	2,234	-	3,151
Total	**$96,281**	**$42,022**	**$6,997**	**$145,300**

Note: Numbers may not add due to rounding.

Figure SUM-03

General Fund Expenditures by Agency

(Dollars in Millions)

	2012-13	2013-14	Change	%
Legislative, Judicial, Executive	$2,002	$2,778	$776	38.8%
Business, Consumer Services & Housing	217	646	429	197.7%
Transportation	-54	206	260	481.5%
Natural Resources	2,030	2,124	94	4.6%
Environmental Protection	47	46	-1	-2.1%
Health and Human Services	27,000	28,084	1,084	4.0%
Corrections and Rehabilitation	8,743	8,911	168	1.9%
K-12 Education	41,074	39,661	-1,413	-3.4%
Higher Education	9,910	10,923	1,013	10.2%
Labor and Workforce Development	345	299	-46	-13.3%
Government Operations	661	742	81	12.3%
General Government:				
Non-Agency Departments	469	523	54	11.5%
Tax Relief/Local Government	2,511	421	-2,090	-83.2%
Statewide Expenditures	710	917	207	29.2%
Total	**$95,665**	**$96,281**	**$616**	**0.6%**

Note: Numbers may not add due to rounding.

Figure SUM-04

General Fund Revenue Sources

(Dollars in Millions)

	2012-13	2013-14	Change from 2012-13 Dollar Change	Change from 2012-13 Percent Change
Personal Income Tax	$63,901	$60,827	-$3,074	-4.8%
Sales and Use Tax	20,240	22,983	2,743	13.6%
Corporation Tax	7,509	8,508	999	13.3%
Insurance Tax	2,156	2,200	44	2.0%
Liquor Tax	325	332	7	2.2%
Tobacco Taxes	91	89	-2	-2.2%
Motor Vehicle Fees	29	23	-6	-20.7%
Other	3,944	2,136	-1,808	-45.8%
Total	**$98,195**	**$97,098**	**-$1,097**	**-1.1%**

Note: Numbers may not add due to rounding.

Figure SUM-05

2013-14 Revenue Sources

(Dollars in Millions)

	General Fund	Special Funds	Total	Change From 2012-13
Personal Income Tax	$60,827	$1,131	$61,958	-$3,370
Sales and Use Tax	22,983	10,961	33,944	3,438
Corporation Tax	8,508	-	8,508	999
Highway Users Taxes	-	6,157	6,157	564
Insurance Tax	2,200	832	3,032	533
Liquor Tax	332	-	332	7
Tobacco Taxes	89	749	838	-25
Motor Vehicle Fees	23	5,887	5,910	115
Other	2,136	14,146	16,282	-2,287
Total	**$97,098**	**$39,863**	**$136,961**	**-$26**

Note: Numbers may not add due to rounding.

K thru 12 Education

California provides compulsory instruction and support services to more than six million students in grades kindergarten through twelve in more than 10,000 schools throughout the state. Through a system of 58 county offices of education and more than 1,000 local school districts and charter schools, students are provided with instruction in English, mathematics, history, science, and other core competencies to provide them with the skills they will need upon graduation for either entry into the workforce or higher education.

The Budget includes total funding of $70 billion ($39.6 billion General Fund and $30.4 billion other funds) for all K-12 Education programs.

Proposition 98

A voter-approved constitutional amendment, Proposition 98, guarantees minimum funding levels for K-12 schools and community colleges. The guarantee, which went into effect in the 1988-89 fiscal year, determines funding levels according to multiple factors including the level of funding in 1986-87, General Fund revenues, per capita personal income, and school attendance growth or decline.

Proposition 98 funding increases to a total of $56.5 billion in 2012-13, an increase of $2.9 billion over the 2012 Budget Act. In 2013-14, the Proposition 98 guarantee is $55.3 billion, an increase of more than $8 billion over the 2011-12 level. Proposition 98 funding for K-12 education is projected to grow by almost $20 billion from the

2011-12 fiscal year to the 2016-17 fiscal year, representing an increase of more than $2,800 per student.

Local Control Funding Formula

The Budget contains a new Local Control Funding Formula to replace today's overly complex, administratively costly, and inequitable school finance system. The new formula recognizes that the current system is largely state-driven, and limits the ability of local school officials to decide how best to meet the needs of their students. The formula is responsive to research and practical experience indicating that students from low-income families and English language learners come to school with unique challenges that often require supplemental services and support to be successful in school.

The Local Control Funding Formula includes the following components:

- A base grant for each local education agency equivalent to $7,643 per unit of average daily attendance (ADA). This amount includes an adjustment of 10.4 percent to the base grant to support lowering class sizes in grades K-3, and an adjustment of 2.6 percent to reflect the cost of operating career technical education programs in high schools.
- A 20-percent supplemental grant for English learners, students from low-income families, and foster youth to reflect increased costs associated with educating those students.
- An additional concentration grant of up to 22.5 percent of a local education agency's base grant, based on the number of English learners, students from low-income families, and foster youth served by the local agency that comprise more than 55 percent of enrollment.
- An Economic Recovery Target to ensure that almost every local education agency receives at least their pre-recession funding level, adjusted for inflation, at full implementation of the Local Control Funding Formula.

Of the more than $25 billion in new funding to be invested through the formula over the next eight years, the vast majority of new funding will be provided for base grants. Specifically, of every dollar invested through this formula, 84 cents will go to base grants, 10 cents will go to supplemental grants, and 6 cents will go to concentration grants.

Under the Budget, the average base grant is $7,643, which is $2,375 more than today's average revenue limit.

Accountability

The Local Control Funding Formula moves from a state-controlled system that emphasizes inputs to a locally-controlled system focused on improved outcomes. Local agencies will decide the best way to target funds. However, districts will be required to increase or improve services for English learner, low income, and foster youth students in proportion to supplemental and concentration grant funding. Additionally, the new system better aligns the state's accountability structure with the existing local budget process. All school districts, county offices of education, and charter schools will be required to develop and adopt local control and accountability plans, which will identify local goals in areas that are priorities for the state, including pupil achievement, parent engagement, and school climate.

County superintendents will review and provide support to the districts under their jurisdiction. The Superintendent of Public Instruction will perform a corresponding role for county offices of education. In addition, the Budget creates the California Collaborative for Education Excellence to advise and assist school districts, county offices of education, and charter schools in achieving the goals identified in their plans. The Superintendent of Public Instruction may direct the Collaborative to provide additional assistance to any district, county office, or charter school. For those entities that continue to struggle in meeting their goals, and when the Collaborative indicates that additional intervention is needed, the Superintendent of Public Instruction would have authority to make changes to the district or county office's local plan. For charter schools, the charter authorizer will be required to consider revocation of a charter if the Collaborative finds that the inadequate performance is so persistent and acute as to warrant revocation.

This system recognizes that the state retains an important role in supporting school districts that struggle to meet state and local expectations. The state will continue to measure student achievement through statewide assessments, produce an Academic Performance Index for schools and subgroups of students, determine the contents of the school accountability report card, and establish policies to implement the federal accountability system.

K-12 Budget Adjustments

Significant Adjustments:

- *Local Control Funding Formula*—An increase of $2.1 billion Proposition 98 General Fund for school districts and charter schools, and $32 million Proposition 98 General Fund for county offices of education, to support first-year funding provided through the Local Control Funding Formula.
- *Common Core Implementation*—An increase of $1.25 billion in one-time Proposition 98 General Fund to support the implementation of the Common Core—new standards for evaluating student achievement in English-language arts and math. Funding will be distributed to local education agencies on the basis of enrollment to support necessary investments in professional development, instructional materials, and technology. Local education agencies will be required to develop a plan to spend this money over the next two years and hold a public hearing on the plan.
- *Career Technical Education Pathways Grant Program*—An increase of $250 million Proposition 98 General Fund for one-time competitive capacity-building grants for K-12 school districts and community colleges to support programs focused on work-based learning. K-12 schools and community colleges must obtain funding commitments from program partners to support ongoing program costs.
- *K-12 Mandates Block Grant*—An increase of $50 million Proposition 98 General Fund to reflect the inclusion of the Graduation Requirements mandate within the block grant program. This increase will be distributed to school districts, county offices of education and charter schools with enrollment in grades 9-12.
- *K-12 Deferrals*—An increase of $1.6 billion Proposition 98 General Fund in 2012-13 and an increase of $242.3 million Proposition 98 General Fund in 2013-14 for the repayment of inter-year budgetary deferrals. When combined, total funding over the two-year period will reduce K-12 inter-year deferrals to $5.6 billion by the end of the 2013-14 fiscal year. This will reduce total outstanding deferrals by more than 40 percent of their peak value, when more than $9.5 billion was deferred.
- *Proposition 39 Implementation*—The Budget allocates $381 million Proposition 98 General Fund to K-12 local education agencies to support energy efficiency projects approved by the California Energy Commission. Of this amount, 85 percent will be distributed based on ADA and 15 percent will be distributed based on free and reduced-price meal eligibility. The Budget establishes minimum grant levels of

$15,000 and $50,000 for small and exceptionally small local education agencies and allows these agencies to receive an advance on a future grant allocation. The Budget will provide other local education agencies the greater of $100,000 or their weighted distribution amount. The Budget provides $28 million for interest-free revolving loans to assist eligible energy projects at schools and community colleges. Additionally, the Budget appropriates $3 million to the California Workforce Investment Board to develop and implement a competitive grant program for eligible workforce training organizations that prepare disadvantaged youth or veterans for employment in energy related fields.

- *Special Education Funding Reform*—The Budget includes several consolidations for various special education programs in an effort to simplify special education finance and provide Special Education Local Plan Areas with additional funding flexibility.

Child Care and State Preschool

Subsidized Child Care includes a variety of programs designed to support low-income families so they may remain gainfully employed. These programs are primarily administered by the State Department of Education (SDE). Additionally, the State Preschool program is designed as an educational program to help ensure children develop the skills needed for success in school. SDE and the Department of Social Services jointly administer the three-stage CalWORKs child care system to meet the needs for child care of recipients of aid while they participate in work activities and as they transition off of cash aid. Families can access services through centers that contract directly with SDE, or by receiving vouchers from county welfare departments or alternative payment program providers.

Significant Adjustments:

- *Backfill for Federal Sequestration*—The Budget backfills an estimated $15.9 million of federal sequestration reductions with a like amount of General Fund as follows: $11.1 million for General Child Development programs, $4.2 million for Alternative Payment programs, and $0.6 million for Migrant Day Care programs.
- *Shift of Funds from CalWORKs Stage 2 to Stage 3*—In the event that CalWORKs Stage 3 child care funding is insufficient to support the estimated caseload, the Budget authorizes the transfer of any unused funds from CalWORKs Stage 2 to Stage 3 to ensure that eligible Stage 3 families continue to receive child care services.

- *Reappropriation of Unspent Child Care Funds*—The Budget reappropriates $10 million of child care program funds from 2012-13 to 2013-14. The unspent funds will be used to establish new slots in the following programs: $7 million for General Child Development programs, $2.6 million for Alternative Payment programs, and $0.4 million for Migrant Day Care programs.

Higher Education

Higher Education includes the University of California (UC), the California State University (CSU), the California Community Colleges, the California Student Aid Commission, and several other entities.

The Budget includes total funding of $25.4 billion ($13.1 billion General Fund and $12.3 billion other funds) for all programs included in these agencies.

Multiyear Stable Funding Plan — University of California and California State University

The Budget establishes the first-year investment in a multiyear stable funding plan for higher education. It provides new funds to reinvest in the public universities, with the expectation that the universities will improve the quality, performance, and cost effectiveness of their educational systems. The plan is rooted in the belief that higher education should be affordable and student success can be improved.

- *Funding Stability*—The Budget increases the General Fund contribution to each institution's prior year funding base. Each segment will receive a 5-percent increase in General Fund appropriations ($125.1 million each). This represents the first year of a four-year plan in which each segment will receive up to a 20-percent increase in General Fund appropriations ($511 million each), representing about a 10-percent increase in total operating funds including tuition and fee revenues.
- *Affordability*—A key goal of the Budget is for universities to stay affordable for students and their families and to avoid high student debt and tuition levels. To this

end, the Budget reflects the expectation of a freeze on UC and CSU resident tuition for 2013-14. This represents the first year of a four-year freeze in tuition from 2013-14 to 2016-17. The Budget also establishes the Middle Class Scholarship program to provide scholarships of up to 40 percent of tuition for UC and CSU students with annual family incomes of up to $150,000.

- *Student Success*—The Budget includes new UC and CSU reporting requirements on the following priorities: graduation rates, the number of transfer students from community colleges, and the number of degrees completed. These measures of student success will be reported by first-time freshmen students, low-income students, and graduate students.

The Administration will continue working with the Legislature, the segments, and other stakeholders to strengthen accountability and for the universities to become more affordable and to maintain quality and access over the long term.

University of California

Drawing from the top 12.5 percent of the state's high school graduates, the University of California (UC) educates approximately 239,500 undergraduate and graduate students at its ten campuses and is the primary institution authorized to independently award doctoral degrees and professional degrees in law, medicine, business, dentistry, veterinary medicine, and other programs. UC manages one U.S. Department of Energy national laboratory, partners with private industry to manage two others, and operates five medical centers that support the clinical teaching programs of UC's medical and health sciences schools that handle more than 3.9 million patient visits each year.

Significant Adjustments:

- *General Fund Increase*—The Budget includes an ongoing increase of $125.1 million General Fund for core instructional costs. This funding should obviate the need for UC to increase student tuition and fees and can be used by the university to meet its most pressing needs. This funding is in addition to the $125 million General Fund that UC will receive in 2013-14 for not increasing tuition and fees in 2012-13, as required by the 2012 Budget Act.

- *Debt Service Costs*—Currently, the state separately funds general obligation and lease revenue debt service for UC capital improvement projects. The Budget includes a shift of these appropriations into UC's budget to require UC to factor these

costs into the university's overall fiscal outlook. Any new UC capital expenditures will be subject to approval by the Administration and the Legislature. Further, there are limits on the amount of UC's budget that can be spent on capital expenditures. Any savings from the restructuring of debt will be dedicated to paying down the existing unfunded liability of the University's retirement plan.

California State University

Drawing students from the top one-third of the state's high school graduates, the California State University (CSU) provides undergraduate and graduate instruction through master's degrees and independently awards doctoral degrees in education, nursing practice, and physical therapy, or jointly with UC or private institutions in other fields of study. With 23 campuses and approximately 422,500 students, CSU is the largest and most diverse university system in the country. CSU plays a critical role in preparing the workforce of California; it grants more than one-half of the state's bachelor's degrees and one-third of the state's master's degrees. CSU prepares more graduates in business, engineering, agriculture, communications, health, and public administration than any other California institution of higher education. It also produces over 50 percent of California's teachers.

Significant Adjustments:

- *General Fund Increase*—The Budget includes an ongoing increase of $125.1 million General Fund for core instructional costs. This funding should prevent the need for CSU to increase student tuition and fees and can be used by the university to meet its most pressing needs. This increase is in addition to the $125 million General Fund that CSU will receive in 2013-14 for not increasing tuition and fees in 2012-13, as required by the 2012 Budget Act.
- *Retirement Contribution Costs*—Currently, the state annually adjusts funding for CSU's retirement obligations. The Budget continues to fund retirement contributions for CSU employees, based on the payroll for 2013-14, but if CSU chooses to add employees or increase wages beyond 2013-14 levels, CSU will be responsible for the associated costs. This change will require CSU to factor these costs into the university's overall fiscal outlook and decision-making process.

California Community Colleges

The California Community Colleges are publicly supported local educational agencies that provide educational, vocational, and transfer programs to approximately 2.4 million students. The Community College system is the largest system of higher education in the world, with 72 districts, 112 campuses, and 71 educational centers. By providing education, training, and services, the Community Colleges contribute to continuous workforce improvement. The Community Colleges also provide remedial instruction for hundreds of thousands of adults across the state through basic skills courses and adult non-credit instruction.

Significant Adjustments:

- *Deferral Buydown*—At the beginning of 2011-12, the state had accumulated $961 million of deferral debt owed to Community Colleges. The Budget includes $178.6 million Proposition 98 General Fund in 2012-13 and $30 million Proposition 98 General Fund in 2013-14 to retire apportionment deferrals. This will reduce borrowing costs at Community Colleges and reduce the outstanding Community Colleges deferral debt to $592.5 million.
- *Expand the Delivery of Courses through Technology*—The Budget includes $16.9 million Proposition 98 General Fund to increase the number of courses available to matriculated students through the use of technology.
- *Apportionments*—The Budget includes increases of $89.4 million Proposition 98 General Fund for apportionment growth to increase course offerings and $87.5 million Proposition 98 General Fund for a cost-of-living adjustment.
- *Adult Education*—The Budget includes $25 million Proposition 98 General Fund for planning and implementation grants to support local coordination efforts of adult education providers. These funds will help local providers form partnerships with other providers to articulate their curriculum, recognize regional needs, and develop new ways to serve adult learners in their communities.
- *Apprenticeship Programs*—The Budget includes $15.7 million Proposition 98 General Fund to transfer the state's apprenticeship programs operated by school districts to the Community Colleges Chancellor's Office. While the Chancellor's Office will provide oversight to all apprenticeship programs in the state, programs may continue operating with their existing provider.

- *Energy Efficiency*—The Budget includes $47 million for energy efficiency projects at Community Colleges pursuant to recently enacted Proposition 39, which will reduce utility costs at the colleges and promote energy efficiency workforce training.
- *Categorical Programs*—The Budget includes an increase of $118 million Proposition 98 General Fund for categorical programs, as follows:
  - $50 million for the Student Success and Support Program to improve outcomes for all students.
  - $15 million for Extended Opportunities Programs and Services to provide support services to disadvantaged students.
  - $15 million for the Disabled Students Program and Services to provide support services to disabled students.
  - $7.9 million for the Community Colleges' CalWORKs program to further assist parents living in poverty to reach their educational goals.
  - $30 million in one-time funding for deferred maintenance projects at Community College facilities.
  - $150,000 for Academic Senate participation in state-level activities.

Hastings College of the Law

Affiliated with the University of California, the Hastings College of the Law is the oldest and one of the largest public law schools in the West, providing instruction annually to approximately 1,100 students.

Significant Adjustment:

- *General Fund Increase*—The Budget includes an ongoing increase of $455,000 General Fund for core instructional costs. This funding should mitigate the need for Hastings to increase student tuition and fees and can be used by the college to meet its most pressing needs.

California Student Aid Commission

The California Student Aid Commission administers state financial aid to students attending all institutions of public and private postsecondary education through a variety

of programs including the Cal Grant High School and Community College Transfer Entitlement programs, the Competitive Cal Grant program, and the Assumption Program of Loans for Education. Over 99,000 students received new Cal Grant awards, and over 150,000 students received renewal awards in 2011-12.

The Budget prioritizes financial aid for students attending the state's public higher education institutions and other institutions that are able to minimize student debt loads and produce successful graduates, students demonstrating a high likelihood of completing their degrees or programs, and students demonstrating the greatest financial need.

Significant Adjustments:

- *Middle Class Scholarship Program*—The Budget includes statutory appropriations of $107 million General Fund in 2014-15 growing to $305 million General Fund in 2017-18, and every year thereafter, to provide scholarships of up to 40 percent of tuition for UC and CSU students with annual family incomes of up to $150,000. Scholarship awards will be phased in over four years beginning in 2014-15 and eligibility will be limited to students that meet minimum Cal Grant program requirements and have a minimum of a 2.0 grade point average.
- *Cal Grant Program Growth*—The Budget includes an increase of $37.4 million General Fund in 2012-13 and $119.1 million General Fund in 2013-14 to reflect revised participation estimates in the Cal Grant program.
- *Offset Cal Grant Costs with Federal Temporary Assistance for Needy Families (TANF) Reimbursements*—The Budget offsets $541.7 million of Cal Grant General Fund costs with TANF, which are available through an interagency agreement with the Department of Social Services.
- *Offset Cal Grant Costs with Student Loan Operating Fund (SLOF)*—The Budget offsets $98.1 million of Cal Grant General Fund costs with SLOF, which is available to support the Cal Grant program due to excess proceeds in the federal guaranteed student loan program from the state's student loan guarantor, Educational Credit Management Corporation.

Health Care Reform

Federal health care reform (the Affordable Care Act) increases access to both private and public health care coverage. The Budget builds on the early establishment of the California Health Benefit Exchange (Covered California) and the early coverage expansion through the "Bridge to Reform" waiver. It implements health care reform in a way that is sustainable and affordable, and maintains a strong public safety net.

Expanded Eligibility and Enhanced Benefits

The Budget adopts federally required simplified rules for Medi-Cal eligibility, enrollment, and retention; and exercises the federal option to expand the program to include a new coverage group: adults and parent/caretaker relatives with incomes up to 138 percent of the federal poverty level. Newly eligible individuals will receive the comprehensive benefits currently provided by Medi-Cal. Long-term care services will be covered, provided the federal government approves the retention of an asset test for these services. Additionally, newly and currently eligible individuals will have access to expanded mental health and substance use disorder services. Mid-level mental health services will be provided through Medi-Cal managed care plans. Substance use disorder services will be administered by counties.

Further, due to the optional Medi-Cal coverage expansion, the state will now pay for emergency Medi-Cal services for low-income adults and parent/caretaker relatives with incomes up to 138 percent of the federal poverty level who are undocumented. The Budget also makes changes to programs that serve newly qualified immigrants who do not have children enrolled in Medi-Cal. They will enroll in Covered California,

but Medi-Cal will pay for all cost-sharing not covered by federal advance premium tax credits and provide benefits not available through Covered California that would have been available in Medi-Cal.

The Budget provides county welfare departments up to $120 million in additional General Fund to accommodate new workload associated with implementing the Affordable Care Act. In 2015-16, the state will implement a new budgeting methodology, developed in consultation with counties, and based on a zero-base review of all Medi-Cal related county administrative activities.

Two Approaches to Determine County Savings

Under health care reform, county costs and responsibilities for indigent health care are expected to decrease as uninsured individuals obtain health care coverage. The state, in turn, will bear increased responsibility for providing care to these newly eligible individuals through the Medi-Cal expansion. The Budget sets forth two mechanisms for determining county health care savings that, once determined, will be redirected to fund local human services programs.

The 12 public hospital counties and the 12 non-public health/non-County Medical Service Program counties will have the option to select one of two mechanisms by December 2013:

- *Option 1*—The formula measures actual county health care costs and revenues for Medi-Cal beneficiaries and the uninsured. It reflects historic growth rates and includes appropriate limits on cost growth. The difference between total revenues and total costs will determine the savings. It includes incentives for cost containment and maximizing enrollment in coverage, and also accounts for the remaining uninsured served by the county, consistent with today's level of service.
    - The state would receive 80 percent of any calculated savings, with the county keeping the remaining 20 percent of savings to invest in the local health care delivery system or spend on public health activities. The formula includes a cap on the amount of savings that will be redirected based on the proportion of health realignment funds historically used for indigent care. The cap ensures that public health funding is preserved because the state will only redirect savings related to indigent health care.
    - The cap provides counties with funding above and beyond what is needed to cover the cost of serving the remaining uninsured—these costs will be funded

before any savings are collected. If federal reimbursement for providing services to the uninsured or Medi-Cal beneficiaries declines, those county costs will also be funded prior to any savings being redirected. Additionally, the Budget includes elements that help ensure that county public hospital systems maintain an adequate patient base and receive sufficient reimbursement for the newly eligible population.

- *Option 2*—60 percent of a county's health realignment allocation plus maintenance-of-effort will be redirected to local human services programs, and the county will retain 40 percent of this funding for providing public health services and to serve the remaining uninsured.

For counties participating in the County Medical Service Program (CMSP), the Budget provides an alternative akin to Option 2. For these counties, the $89 million that counties currently contribute to the CMSP Governing Board will be redirected as savings. The Governing Board will be responsible for redirecting the remainder of the amount equal to 60 percent of the program and member county total realignment and maintenance-of-effort funding.

Implementation of Two Approaches

Savings are estimated to be $300 million in 2013-14. Beginning January 1, 2014, and through June 30, 2014, counties, in the aggregate, will redirect a portion of their realignment funds up to $300 million. Actual savings will depend on the level of realignment revenues for those counties operating under the 60/40 formula and on the various factors used to determine costs and revenues for those counties using the mechanism described in Option 1. Out year savings for all counties will be estimated in January and May, prior to the start of the year and based on the most recent data available. A true-up process will be used to adjust funding to the extent actual county savings differ from initial estimates. Currently, savings are estimated to be $900 million in 2014-15, and $1.3 billion in 2015-16 and 2016-17.

If circumstances arise that affect a county's health care finances and are outside of a county's control, the county may request to change the mechanism by which savings are determined. This request would be heard by the County Health Care Funding Resolution Committee, which consists of the Director of Finance, the Director of Health Care Services, and a representative from the California State Association of Counties.

Changes to 1991 Realignment

Under current law, after meeting base allocations, remaining 1991 realignment sales tax funds are allocated for growth. Social services program caseload increases are funded first and the County Medical Service Program receives funding next. Any remaining funds are considered General Growth and are distributed to the counties to support mental health, health, and social services programs.

The Budget provides greater certainty and transparency for the General Growth distribution. A set percentage equal to its historic level of growth (18.4545 percent) will be dedicated to the Health Subaccount. The Mental Health Subaccount will continue to receive growth according to the current statutory formula.

The Budget establishes two new accounts within the Local Revenue Fund.

- The Family Support Subaccount will receive county savings determined by the mechanisms described above. These savings will offset state General Fund costs in CalWORKs.
- The Child Poverty and Family Supplemental Support Subaccount will receive a share of General Growth funds. These funds will be used to fund CalWORKs grant increases.

Health and Human Services

The Health and Human Services Agency oversees 13 departments and other state entities such as boards, commissions, councils, and offices that provide health and social services to California's vulnerable and at-risk residents.

The Budget includes total funding of $113.5 billion ($28.1 billion General Fund and $85.4 billion other funds) for all programs overseen by this Agency.

Agency Reorganization

The Budget transfers all substance use disorder programs from the Department of Alcohol and Drug Programs (DADP) to the Department of Health Care Services (DHCS) to better coordinate the licensing, certification, and program management of substance use disorders services statewide. Among other benefits, this reorganization maintains programmatic expertise, enhances oversight, and promotes opportunities for health care delivery improvement. DADP's Office of Problem Gambling is transferred to the Department of Public Health. The Budget also transfers mental health licensing and quality improvement functions from the Department of Social Services to DHCS to further consolidate and streamline licensing and certification functions for these programs within a single department.

Mental Health Capacity

The Budget includes $206.2 million ($142.5 million one-time General Fund) to strengthen local capacity to stabilize and treat individuals with mental illness.

- The California Health Facilities Financing Authority will provide grants to local entities based on criteria developed in concert with stakeholders that would add 25 Mobile Crisis Support Teams, at least 2,000 beds in Crisis Residential Treatment Programs, and additional Crisis Stabilization Units over the next two years. These resources will provide a comprehensive continuum of services to address short-term crisis, acute needs, and the longer-term ongoing treatment and rehabilitation opportunities of adults with mental health disorders.
- The Mental Health Oversight and Accountability Commission will provide grants to local entities to add at least 600 triage personnel over the next two years. These personnel will enable several thousand high-need individuals to access medical, specialty mental health care, substance use disorder treatment, social, educational and other services. The Commission will implement an allocation process based upon requests for application of need and description of deployment of personnel to assist individuals in gaining access to needed services.

Department of Health Care Services

The Department of Health Care Services (DHCS) preserves and improves the health status of Californians. To fulfill its mission, DHCS finances and administers a number of individual health care service delivery programs, including Medi-Cal, California Children's Services, Primary and Rural Health, Family Planning, Access, Care, and Treatment, Every Woman Counts, and Drug Medi-Cal programs. DHCS also oversees county-operated community mental health programs.

Medi-Cal, California's Medicaid program, is a public health insurance program that provides comprehensive health care services at no or low cost for low-income individuals including families with children, seniors, persons with disabilities, children in foster care, and pregnant women.

Significant Adjustments:

- *Medi-Cal Benefits*—The Budget includes new funding for several Medi-Cal optional benefits:
    - *Adult Dental*—The Budget includes $33.8 million ($16.9 million General Fund) to provide preventative adult dental benefits beginning May 1, 2014. Annual costs are estimated to be $211.3 million ($85.6 million General Fund).

- *Enteral Nutrition*—The Budget funds the Medi-Cal enteral nutrition feeding benefit beginning May 1, 2014. Annual costs are estimated to be $28.6 million ($14.3 million General Fund).
- *Seven Physician Visit Cap*—The Budget repeals the seven visit cap per Medi-Cal enrollee per year as this proposal did not receive federal approval.

- *Managed Care Organization Tax*—The Budget includes a tax on Medi-Cal managed care plans for 2012-13 through 2015-16. Medi-Cal managed care plans are assessed the tax and proceeds are matched with federal funds to provide supplemental payments to plans. Remaining proceeds are used for the provision of health services to children and seniors and persons with disabilities in the Medi-Cal program. In 2012-13, the tax rate will be equal to the gross premiums tax. In 2013-14 through 2015-16, the tax rate will equal the state sales tax rate. This proposal generates General Fund savings of $166.4 million in 2012-13 in the Managed Risk Medical Insurance Board budget and $340.3 million in the DHCS budget in 2013-14.
- *Coordinated Care Initiative (CCI)*—Persons eligible for both Medicare and Medi-Cal (dual eligibles) will receive medical, behavioral health, long-term services and supports, and home and community-based services through a single health plan. The CCI will also enroll all dual eligibles in managed care plans for their Medi-Cal benefits. Dual eligibles will enroll in the CCI in specified counties participating in the demonstration. The Budget includes the following significant changes:
  - The size and scope of the demonstration has been revised as agreed to in a Memorandum of Understanding with the federal government. The Budget reflects the population participating in the demonstration and accounts for a cap on the number of beneficiaries from Los Angeles County.
  - The Budget changes the scheduled phasing for beneficiaries enrolling in the CCI. Beneficiaries in the eight participating counties will enroll in the demonstration no sooner than January 2014. Los Angeles County will phase-in beneficiaries over 12 months, subject to further discussions with the federal government. San Mateo County will enroll all beneficiaries in January 2014. Orange, San Diego, San Bernardino, Riverside, Alameda, and Santa Clara counties will phase-in beneficiaries over 12 months.
  - The Budget projects revised General Fund savings for CCI of $119.6 million in 2013-14. This amount includes the net benefit of moving to a higher tax rate

on Medi-Cal managed care plans. The Budget also enacts statutory changes to reflect the changes in the implementation schedule and to authorize the integration of Medi-Cal long-term services and supports as a managed care benefit even in the event Medicare benefits are not incorporated.

- The Budget includes $518,000 ($259,000 General Fund) and 4 positions in the Department of Social Services to staff the Statewide Authority, which is responsible for collective bargaining with unions representing individual providers in counties that have transitioned to the CCI. The Administration expects to convene the Statewide Authority before the first county completes its transition into managed care.

Managed Risk Medical Insurance Board

The Managed Risk Medical Insurance Board currently administers programs that provide health coverage through commercial health plans, local initiatives, and county organized health systems to eligible individuals who do not have health insurance.

Significant Adjustments:

- *Managed Risk Medical Insurance Program*—The Governor's Budget assumed this program would phase-out with the implementation of the federal Affordable Care Act. The Budget defers the elimination of this and other state-only programs affected by the Affordable Care Act.
- *Transfer Infants to the Department of Health Care Services*—The Access for Infants and Mothers (AIM) Program provides comprehensive health care to pregnant women and infants. The Budget transitions to DHCS infants born to mothers enrolled in the AIM Program whose income is between 250 and 300 percent of the federal poverty level.

Department of Social Services

The Department of Social Services administers programs that provide services and assistance payments to needy and vulnerable children and adults in ways that strengthen and preserve families, encourage personal responsibility, and foster independence.

Significant Adjustments:

- *CalWORKs Grant Increase*—The Budget increases CalWORKs grant levels by 5 percent beginning March 1, 2014. This increase will be funded with 1991 Realignment revenue growth funds. The Budget provides a methodology, based on enacted revenue and caseload estimates, to determine future CalWORKs grant increases. This grant increase is expected to cost approximately $51 million in 2013-14 with annual costs of about $150 million.
- *CalWORKs Reform*—The CalWORKs reform measures enacted as part of the 2012 Budget established a prospective 24-month time limit on cash assistance and employment services for adults. The Budget includes necessary resources to implement these reforms.
    - *Employment Services*—An increase of $142.8 million General Fund in 2013-14 to improve employment services. Counties will enhance and expand their array of employment services and job development activities for program participants, and intensify case management efforts for individuals not currently participating in activities that will eventually lead to self-sufficiency.
    - *Early Engagement*—Partial year funding of $47.7 million General Fund in 2013-14 to implement additional proven appraisal protocols, promote family stabilization and barrier removal, and provide enhanced subsidized employment opportunities. The Budget establishes a standardized assessment tool and process for new welfare-to-work participants. Barriers to employment such as mental health, substance abuse, domestic violence, and housing issues will be identified early on and addressed so clients can successfully pursue employment. Counties with mature subsidized employment programs can expand those efforts as resources become available. Counties new to such programs will receive technical assistance.
- *Vehicle Asset Test*—The Budget raises the vehicle asset limit to an equity value of $9,500 and annually adjusts that value for inflation. These changes are estimated to be cost neutral to the state. Increased annual grant costs of approximately $2.5 million are anticipated to be fully offset by county administrative savings.
- *IHSS Settlement*—In March 2013, the Administration reached an agreement with plaintiffs with respect to the *Oster* and *Dominguez* class-action lawsuits. Chapter 4, Statutes of 2013 (SB 67), repealed IHSS provider wage and service reductions enacted in prior years, including the 20-percent across-the-board reduction. SB 67

instituted an 8-percent across-the-board reduction effective July 1, 2013, decreasing to 7-percent after 12 months. The Budget reflects savings of $176.4 million General Fund in 2013-14.

- *Child Welfare Services–New System Project*—The Budget includes $9.8 million ($4.4 million General Fund) for planning activities at the outset of the Child Welfare Services–New System Project to support eight positions at the Office of Systems Integration and nine positions at the Department of Social Services.

Department of Developmental Services

The Department of Developmental Services serves approximately 256,000 individuals with developmental disabilities in the community and 1,569 individuals in state-operated facilities.

Significant Adjustments:

- *Sunset Operations and Provider Payment Reduction*—The Budget includes an increase of $47.2 million ($32.2 million General Fund) in 2013-14 to reflect the sunset of the 1.25-percent regional center operations and provider payment reduction.
- *Annual Family Program Fee*—The Budget permanently continues the Annual Family Program Fee, scheduled to sunset June 30, 2013, which assesses a fee of $150 or $200 per family. The fee is based on family size and additional criteria and assessed to families whose adjusted gross family income is at, or above, 400 percent of the federal poverty level. This fee offsets General Fund costs by $3.9 million.
- *Sonoma Program Improvement Plan*—The Budget includes an increase of $344,000 ($241,000 General Fund) in 2012-13 and $2.5 million ($1.7 million General Fund) in 2013-14 to reflect anticipated costs related to the Sonoma Developmental Center Program Improvement Plan requirement to contract with Independent Consultative Review Experts to develop an action plan to bring the facility into compliance with federal requirements. The Budget also assumes increases of $7.4 million in 2012-13 and $15.7 million in 2013-14 to backfill the loss of federal funding resulting from the withdrawal of four residential units at Sonoma from the Medicaid Provider Agreement. Withdrawing these units ensures continued federal funding for Sonoma's remaining six Intermediate Care units.
- *Federal Sequester Backfills*—The Budget includes an increase of $5.7 million General Fund in 2012-13 and $11.9 million General Fund in 2013-14 to backfill the

sequester reduction to the Social Services Block Grant (Title XX), which is used to partially fund regional center purchase of services. The Budget also includes an increase of $613,000 General Fund in 2013-14 to backfill the sequester reduction to the Early Start IDEA Part C grant for regional center purchase of services.

Department of State Hospitals

The Department of State Hospitals (DSH) administers the state mental health hospital system, the Forensic Conditional Release Program, the Sex Offender Commitment Program, and the evaluation and treatment of judicially and civilly committed and voluntary patients.

Significant Adjustments:

- *Stockton Activation*—The Budget includes an increase of $100.9 million General Fund to activate 514 beds at the California Health Care Facility (CHCF). This includes $67.5 million General Fund for additional staff to complete the activation of CHCF and $33.4 million General Fund for the full-year costs of positions approved in the Budget Act of 2012.
- *Establish Additional Intermediate Care and Acute Units*—The Budget contains $22.1 million ($16 million General Fund) and 173 positions (primarily Level-of-Care staff) to establish four new units and convert one existing unit at three state hospitals. This funding will increase the number of beds by 155 and better accommodate patient population for Lanterman-Petris-Short, Incompetent to Stand Trial, Mentally Disordered Offender, and Sexually Violent Predator commitments.
- *Bed Migration at Psychiatric Inpatient Hospital Programs co-located with the California Department of Corrections and Rehabilitation (CDCR)*—The Budget includes a reduction of $22.6 million General Fund and 164.2 positions to reflect half-year savings resulting from the transition of beds from DSH-Salinas and DSH-Vacaville to the California Health Care Facility in Stockton (DSH-Stockton). This adjustment is consistent with the approved Mental Health Bed Plan which includes the Psychiatric Programs co-located with CDCR facilities. Activation of DSH-Stockton results in the transition of 450 inpatient beds from DSH-Salinas and DSH-Vacaville.

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Transportation

The programs within the Transportation Agency promote the state's transportation infrastructure. The Agency includes the Department of Transportation, the Department of Motor Vehicles, the California Highway Patrol, the Board of Pilot Commissioners, the Office of Traffic Safety, the High Speed Rail Authority, and the California Transportation Commission.

The Budget includes total funding of $20 billion ($83.4 million in General Fund and $19.9 billion in Other Funds) for all programs overseen by this Agency.

Department of Transportation

The Department of Transportation (Caltrans) has over 19,500 employees and a budget of $12.8 billion. Caltrans designs and oversees the construction of state highways, operates and maintains the highway system, funds three intercity passenger rail routes, and oversees funding for local mass transit projects. Approximately 50,000 road and highway lane miles and 12,910 state bridges are maintained, and 812 public-use and special-use airports and heliports are inspected. The largest sources of funding for transportation projects are excise taxes paid on fuel consumption, federal funds also derived from fuel taxes, and weight fees on trucks. Approximately 13 percent of the state transportation revenues are used to offset debt service costs, which are expected to be nearly $1 billion in 2013-14.

Significant Adjustment:

- *Continue Use of Miscellaneous Transportation Revenue for Transportation Debt Service*—A transfer of $67 million in special fund revenues to partially offset General Fund transportation debt service costs. The State Highway Account generates a portion of its revenue from rental income and the sale of surplus property. The Budget continues the partial offset of transportation debt service costs with this revenue source on a permanent basis.

California Highway Patrol

The California Highway Patrol (CHP) has a budget of approximately $1.9 billion, all from non-General Fund sources, and more than 11,000 positions to ensure the safe, convenient, and efficient transportation of people and goods across the state highway system.

Significant Adjustment:

- *Air Fleet Replacement*—An increase of $17 million from the Motor Vehicle Account to replace three helicopters and one airplane. CHP has an air fleet of 15 helicopters and 15 airplanes, which are responsible for speed enforcement, patrolling rural roadways, emergency response, and homeland security missions. The Budget provides one-time funding to replace the four aircraft with the most flight hours, each over 14,000 hours.

Natural Resources

The Natural Resources Agency consists of 26 departments, boards, commissions, and conservancies responsible for administering programs to conserve, protect, restore, and enhance the natural, historical, and cultural resources of California.

The Budget includes total funding of $7.4 billion ($2.1 billion General Fund and $5.3 billion other funds) for all programs included in the Agency.

Salton Sea Restoration

Wildlife habitat at the Salton Sea is diminishing due to salinity increases and declining water levels that are expected to accelerate when flows from the Colorado River to the Sea are ended in 2017.

Significant adjustments:

- The Budget provides $2 million for a study of funding and restoration alternatives by the Salton Sea Authority, under the direction of the Secretary for Natural Resources. The study will update the analysis from previous restoration planning efforts and incorporate ongoing restoration projects. Through collaboration between state, federal, and local stakeholders, the study will develop feasible alternatives for inclusion in a comprehensive plan, as well as funding options to achieve restoration goals and mitigate poor air quality caused by the diminishing Sea.

- The Budget also includes $28.4 million for the Department of Water Resources to implement a pilot restoration project at the Sea. The design, environmental impact analysis, and permitting for the project has been completed. Between 800 and 1,200 acres of habitat will be restored through the construction of ponds at the south end of the Sea to support fish and the wildlife that depend upon them.

California Conservation Corps

The Budget expands the activities of the California Conservation Corps, providing more young men and women the life, work, and academic skills to become strong workers and citizens. The Budget provides funding to employ 200 additional corpsmembers, for a total of approximately 1,550.

Significant adjustments:

- $5 million Proposition 40 funds for the Corps to perform fuel control and fire suppression activities within sensitive watershed areas in the State Responsibility Area (SRA). These activities will be performed in accordance with the criteria and processes collaboratively developed with the Department of Forestry and Fire Protection. The work will decrease wildfire risk in the SRA while simultaneously protecting sensitive watersheds, preventing erosion, and providing training and employment for approximately 100 corpsmembers.
- $5 million from the Clean Energy Job Creation Fund (Proposition 39) for the Corps to perform energy surveys and other energy conservation-related activities for public schools. The energy audits, which will also employ approximately 100 corpsmembers, will help identify the highest priority energy conservation projects at public schools.

Environmental Protection

The California Environmental Protection Agency works to restore, protect and enhance environmental quality. The Agency coordinates state environmental regulatory programs and ensures fair and consistent enforcement of environmental law.

The Budget includes total funding of $2.9 billion ($42.2 million General Fund and $2.8 billion other funds) for all programs included in this Agency.

Cap and Trade Program

The Budget includes a General Fund loan of up to $500 million from the fund balance in the Greenhouse Gas Reduction Fund. The Fund receives proceeds from the auction or sale of allowances, pursuant to a market-based compliance mechanism established by the Air Resources Board pursuant to the Global Warming Solutions Act (AB 32).

The loan will provide additional time to develop programs to further the purposes of AB 32. This additional time will allow the Air Board to complete the statutorily required update of the AB 32 Scoping Plan due at the end of 2013. The updated Scoping Plan will provide information that will result in better investment decisions.

As the amount of future auction proceeds is unknown, the loan is fiscally prudent during the initial stage of program implementation. The 2012-13 auctions resulted in proceeds of $257.4 million. As more auctions are conducted, more data will become available to

better estimate annual proceeds and improve the ability to make decisions for short and long-term investments.

Loaning these proceeds will not interfere with achieving objectives for greenhouse gas reductions because the loan will be repaid with interest immediately when needed to meet the needs of the Fund.

Various Departments and Issues

This section provides budget information for various departments and statewide expenditures.

Redevelopment Agencies

ABx1 26 (Chapter 5, Statutes of 2011) eliminated the state's redevelopment agencies (RDAs) and replaced them with locally organized successor agencies that are tasked with retiring the former RDAs' outstanding debts and other legal obligations. The elimination of RDAs allows local governments to protect core public services by returning property tax money to the cities, counties, special districts, and K-14 schools.

In general, successor agencies are tasked with using the property tax revenue that the former RDAs would have received to retire the debts and other contractual obligations of the RDAs. These enforceable obligations include bonded debt issued by the RDAs, loans of money to third parties that the RDAs are legally required to repay, court judgments or settlements, and legally binding contracts or agreements between the RDAs and public agencies or private entities.

Every six months, successor agencies provide Recognized Obligation Payment Schedules (ROPS) to the Department of Finance which list all enforceable obligations of the former RDAs that are proposed to be paid with property taxes, bond revenues, and any other funding available to the former RDAs. Finance reviews these ROPS to determine whether the listed obligations are truly enforceable under the law, and to prohibit payments that

are not enforceable. This process is required to continue until all enforceable obligations of the former RDA have been retired.

Any property tax revenue remaining after payment of enforceable obligations is distributed to cities, counties, special districts, and K-14 schools located within the boundaries of the former RDAs pursuant to existing formulas.

As a result of the RDA dissolution process, the Budget anticipates that counties will receive $1.4 billion in new general purpose revenues in 2012-13 and 2013-14 combined, with cities receiving $1.1 billion and special districts $500 million. On an ongoing basis, it is estimated that over $675 million annually will be distributed to counties, cities, and special districts. This is a significant amount of unrestricted funding that can be used by local governments to fund police, fire, or other critical public services.

The Budget anticipates Proposition 98 General Fund savings resulting from the dissolution of RDAs will be $2.1 billion in 2012-13. For 2013-14, Proposition 98 General Fund savings are expected to be $1.5 billion. On an ongoing basis, Proposition 98 General Fund savings are estimated to be $825 million annually. When Test 1 of the Proposition 98 calculation is operative, funds above this amount will increase available resources for K-12 schools and community colleges.

Controlled Substance Utilization Review and Evaluation System

The Controlled Substance Utilization Review and Evaluation System (CURES) was established in 1997 as an electronic database to track the prescription and dispensing of controlled substances by licensed health care practitioners. This comprehensive database enables authorized users to prevent, investigate, and prosecute serious cases of abuse and misuse of specified controlled substances. In its current form, CURES is unable to handle the demand for information requests by medical professionals and law enforcement.

Significant Adjustment:

- *System Upgrade*—The Budget includes $3.3 million from special funds of various healing arts boards to reimburse the Department of Justice to upgrade CURES. These boards license professionals who can prescribe or dispense medications this system would be used to monitor. The upgrade will improve the state's ability to

detect and prevent prescription drug abuse by giving law enforcement entities and regulatory boards better tools.

Judicial Branch

The Judicial Branch consists of the Supreme Court, Courts of Appeal, trial courts, and the Judicial Council. The state-level judiciary receives most of its funding from the General Fund. The trial courts are funded with a combination of funding from the General Fund, county maintenance-of-effort requirements, fines, fees, and other charges.

Significant Adjustments:

- *State-Level Courts*—The Budget includes an augmentation of $3 million General Fund for the Supreme Court, Courts of Appeal, and the Habeas Corpus Resource Center.
- *Trial Court Operations*—The Budget includes an augmentation of $60 million General Fund to support trial courts to maintain or increase public access. The Budget includes statutory changes to promote efficiencies and reduce workload for the trial courts.

Community Corrections Performance Incentive Grants

The California Community Corrections Performance Incentive Act of 2009 (SB 678) established a system of performance-based funding that shares state General Fund savings with county probation departments when they demonstrate success in reducing the number of adult felony probationers going to state prison. The Budget includes changes to the SB 678 funding formula to account for county probation departments' success in reducing the number of adult felony probationers incarcerated in county jail. This provides total funding of $106.9 million in 2013-14 to continue support for probation efforts targeted at reducing recidivism and encouraging alternatives to incarceration.

Office of Emergency Services

The principal objective of the Office of Emergency Services (OES) is to reduce vulnerability to hazards and crimes through emergency management, homeland security, and criminal justice. The OES responds to and coordinates emergency activities to save

lives and reduce property loss during disasters and facilitates disaster recovery efforts. The OES provides leadership, assistance, training, and support to state and local agencies and coordinates with federal agencies to plan and prepare for the most effective use of resources in emergencies.

Significant Adjustment:

- *Public Safety Communications Office*—The Budget transfers $186.7 million and 374 positions from the Department of Technology to reflect the transition of the Public Safety Communications Office to the OES. The consolidation of the Public Safety Communications Office with the OES aligns public safety communications with the state's emergency operations management, improving operational efficiency and coordination between state and local emergency management functions.

State Controller

The State Controller, among other responsibilities, administers the statewide payroll system that issues pay to approximately 294,000 state employees.

Significant Adjustment:

- *21st Century Project: Legal, Suspension, and Reconciliation Costs*—Prior to the suspension of the project, the State Controller's Office estimated costs of $38 million to finish implementation in 2013-14. The Budget Act includes a total of $14.5 million ($11.9 million General Fund, $2.6 million other funds, and 40 positions) on a one-year basis to address workload associated with completing specific tasks for the 21st Century Project, including legal costs, payroll migration, payroll stabilization, and payroll reconciliation. A comprehensive assessment and evaluation of the strategy going forward will be addressed in future years.

California Department of Veterans Affairs

The California Department of Veterans Affairs promotes and delivers services for California veterans and their families. Specifically, the Department provides aid and assistance to veterans and their families for presenting claims for federal veterans' benefits, provides California veterans with direct low-cost loans to acquire farms and homes, and provides the state's aged and disabled veterans with rehabilitative,

residential, and medical care services in the California Veterans Homes. California owns and operates eight veterans homes located in Yountville, Chula Vista, Barstow, Lancaster, Ventura, West Los Angeles, Redding, and Fresno. The recently completed homes in Redding and Fresno will begin admitting residents in the fall of 2013. The Budget includes $312.7 million General Fund to support the activities of the Department.

Significant Adjustments:

- *Veterans Claims Strike Teams*—An increase of $3 million General Fund and 36 positions to form Strike Teams in each of the United States Department of Veterans Affairs (USDVA) Regional Offices. These resources will assist the USDVA in its efforts to eliminate the backlog of claims to ensure veterans receive the federal benefits for which they are eligible.
- *County Veterans Service Officers*—A one-time increase of $3 million General Fund for County Veterans Service Officers to better provide veterans free USDVA claims assistance and information and referral to local, state, and federal programs.
- *Central Coast State Veterans Cemetery at Fort Ord*—A loan of $1.5 million to start construction of the state veterans cemetery at Fort Ord.

Implementing Federal Sequestration

The federal sequester is a package of spending cuts that was part of the Federal Budget Control Act of 2011. While the sequester has started for federal fiscal year 2013, federal agencies have not issued all necessary guidelines and affected state departments are in the process of putting measures in place to minimize impacts.

Furthermore, the budget for federal fiscal year 2014 is being negotiated. Given the uncertainty of the exact program reductions and the interaction between federal fiscal years and state fiscal years, a new budget control section provides transparency and flexibility to decrease spending authority resulting from the sequester once final details are determined. Before any reductions go into effect, they will be subject to legislative review.

The Budget backfills the lost federal funds in a few instances: Title XX Program, Early Start Part C Grant Reallocation Program, and child care programs.

The sequester has also resulted in decreases in General Fund offsets related to Build America Bonds subsidy payments and State Criminal Alien Assistance Program.
The overall impact of federal sequestration on the General Fund is less than $65 million in 2012-13 and 2013-14 combined.

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Edmund G. Brown Jr. June 27, 2013
Governor

State of California
Governor's Office

I object to the following appropriations contained in Assembly Bill 110.

Item 0250-101-0932—For local assistance, Judicial Branch. I revise this item by deleting Provision 15.

I am deleting Provision 15, eliminating the appropriation which would require the Judicial Council to spend local assistance funds to adopt rules of court for all groups that review issues for the Judicial Council. This spending provision would create cost pressures on trial courts. I urge the Judicial Council to continue efforts to provide greater public access to Judicial Branch committee activities.

Item 1110-001-0777—For support of Veterinary Medical Board. I reduce this item from $3,530,000 to $3,171,000 by reducing:

(1) 90-Veterinary Medical Board from $3,556,000 to $3,197,000.

I am reducing this item by $359,000 and 5 positions from the Board's enforcement program because this augmentation is premature. In the coming year, my Administration will review the Department of Consumer Affairs' enforcement workload for the healing arts boards, including the Veterinary Medical Board, to determine appropriate resource levels.

Item 2660-001-0042—For support of Department of Transportation. I revise this item by reducing:

(9) 40-Transportation Planning from $134,280,000 to $133,800,000, and

(16) Amount payable from the Public Transportation Account, State Transportation Fund (Item 2660-001-0046) from -$176,596,000 to -$176,116,000.

Consistent with my May Revision proposal, I am deleting $480,000 and 5 positions for the Complete Streets program. The program began in 2008 and the Department of Transportation (Caltrans) delivered the Complete Streets Implementation Action Plan in 2010. A zero-base budget review of the Planning program found that these positions are no longer necessary because the work has been completed. Caltrans has incorporated Complete Streets design concepts into the Highway Design Manual and the Project Development Procedures Manual used in collaboration with local transportation agencies. One position remains to continue providing Complete Streets program updates and support.

Item 2660-001-0046—For support of Department of Transportation. I reduce this item from $176,596,000 to $176,116,000.

I am reducing this item by $480,000 to conform to the action I have taken in Item 2660-001-0042.

Item 3720-001-0001—For support of California Coastal Commission. I sustain this item.

I am sustaining the $3,000,000 augmentation for the California Coastal Commission on a one time basis. This augmentation is intended to address the current backlog of Local Coastal Plans awaiting review. I prefer to focus any additional resources on assisting local jurisdictions to complete and revise their plans in a timely manner. I am directing the Department of Finance to examine what level of resources, if any, the Coastal Commission requires for this purpose in 2014-15.

Item 3860-001-6029—For support of Department of Water Resources. I delete this item.

I am deleting $653,000 for the American River Water Information System. Although there may be a benefit to refining water flow measurements for the American River, previous Proposition 40 bond expenditures and high-priority activities funded in the Budget fully expend the allocation from which this augmentation would be drawn.

Item 3860-101-8018—For local assistance, Department of Water Resources. I delete this item.

I am deleting the $3,000,000 augmentation for extension of the Salton Sea Financial Assistance Program. While I am supportive of restoration efforts for the Sea, the Salton Sea Restoration Fund is limited. It is essential to reserve funds to implement recommendations based on the funding and feasibility study to be completed by the Secretary of Natural Resources Agency and the Salton Sea Authority.

Item 3930-001-0106—For support of Department of Pesticide Regulation. I reduce this item from $55,793,000 to $55,543,000 by reducing:

(1) 10-Pesticide Programs from $58,867,000 to $58,617,000.

I am reducing the augmentation to increase enforcement of state pesticide regulations by $250,000 and 2 positions. This reduction is necessary to help bring ongoing expenditures in line with ongoing revenues in the Department of Pesticide Regulation Fund. However, I am sustaining $383,000 and 3 positions to develop mitigation measures for toxic air contaminants. I will be working with the Legislature over the next few months to enact legislation that requires the development of control measures on pesticides.

Item 3940-001-0193—For support of State Water Resources Control Board. I reduce this item from $106,270,000 to $105,951,000 for the Irrigated Lands Regulatory Fee Program.

I am reducing the augmentation to increase enforcement under the Irrigated Lands Program by $319,000 and 2 positions. This reduction is necessary to prevent an excessive fee increase on farmers. However, I am sustaining $650,000 and 5 positions to develop greater expertise in agricultural production at the Central Coast Regional Water Quality Control Board and the Central Valley Regional Water Quality Control Board. The two largest agricultural regions of the state will benefit from the regional boards having greater internal expertise in agroecology, and agricultural soil and plant science.

Item 3940-001-0439—For support of State Water Resources Control Board. I revise this item by reducing:

(1) 10-Water Quality from $484,962,000 to $484,643,000, and

(9) Amount payable from the Waste Discharge Permit Fund (Item 3940-001-0193) from -$106,270,000 to -$105,951,000.

I am revising this item to conform to the action I have taken in Item 3940-001-0193.

Item 5225-001-0001—For support of Department of Corrections and Rehabilitation. I revise this item by deleting Provisions 5 and 6.

I am deleting Provision 5, eliminating the appropriation which would require the Department of Corrections and Rehabilitation (CDCR) to spend funds reporting to the Legislature on cost containment efforts and cost drivers for legal services provided by the Department of Justice. This language is unnecessary, as the Legislature adopted Supplemental Report Language for the Attorney General to report on the hours and costs associated with handling CDCR's legal cases.

I am deleting Provision 6, eliminating the appropriation which would require the expenditure of funds for parole agents to refer parolees to state-funded adult literacy programs at local libraries and require the California State Library to provide a list of those programs.

Item 5227-001-0001—For support of Board of State and Community Corrections. I revise this item by deleting Provision 2.

I am deleting Provision 2, eliminating the appropriation which would require the Board of State and Community Corrections to spend funds by dedicating 1 position to juvenile justice research.

This language is unnecessarily restrictive and interferes with the Board's ability to manage its programs and resources. This requirement would restrict the Board's ability to identify and prioritize overall research needs and advancements of best practices.

Item 6110-001-0001—For support of Department of Education. I revise this item by reducing:

(2) 20-Instructional Support from $148,334,000 to $148,109,000,

(9) Amount payable from the Federal Trust Fund (Item 6110-001-0890) from -$165,830,000 to -$165,605,000,

and by deleting Provision 21.

I am deleting Provision 21, eliminating the appropriation which would require the State Department of Education to expend funds developing a child care preschool plan based on a proposal at the federal level for a universal preschool program. The state does not have sufficient funds to support universal preschool, and the federal government has not adopted funding for implementation of a universal preschool program involving states.

I am revising this item to conform to the action I have taken in Item 6110-001-0890.

Item 6110-001-0890—For support of Department of Education. I reduce this item from $165,830,000 to $165,605,000 and delete Provision 30.

I am reducing this item by $225,000 in federal Title III funding to eliminate one-time funding for the translation of parent notifications and templates. These funds are unnecessary as high priority translations have already been completed, and the remaining workload is not critical and can be absorbed by the Department.

I am deleting Provision 30 to conform to this action.

Item 6110-106-0001—For local assistance, Department of Education (Proposition 98). I sustain this item.

I am sustaining funding for the California Collaborative for Educational Excellence. Although the Budget creates this entity to provide critical assistance to local education agencies, I believe additional work is necessary to properly define its governance composition and ongoing role within the accountability structure of the Local Control Funding Formula. As such, it is my expectation that subsequent legislation will be enacted this year to define the governance of and roles and responsibilities for the Collaborative for Educational Excellence, as well as, direct the expenditure of the monies appropriated in this item. Furthermore, it is my expectation that any expenditure of these monies will reflect this forthcoming legislation and an agreed upon plan by the Department of Education, the State Board of Education, and the Department of Finance.

Item 6110-122-0001—For local assistance, Department of Education (Proposition 98). I sustain this item.

I am sustaining funding for Special Secondary Programs for the 2013-14 fiscal year. This program was eliminated in my Local Control Funding Formula proposal consistent with my belief that local education agencies are in the best position to allocate their funding to meet local needs and priorities. Given the Legislature's support of this program, I will direct my Administration to examine whether this funding should continue as a separate categorical program into the future.

Item 6110-161-0001—For local assistance, Department of Education (Proposition 98). I reduce this item from $3,201,317,000 to $3,171,317,000 by reducing:

(1) 10.60.050.003-Special Education Instruction from $3,128,351,000 to $3,098,351,000,

and by deleting Provision 25.

I am reducing $30,000,000 from the special education program and deleting Provision 25 to conform to this action. The proposed equalization of special education funding, when phased in, would have ongoing costs in excess of $300 million. This would reduce available resources to pay off deferrals and to implement the flexible Local Control Funding Formula.

Item 6110-167-0001—For local assistance, Department of Education (Proposition 98). I sustain this item.

I am sustaining funding for the Agricultural Career Technical Education Incentive Program for the 2013-14 fiscal year. This program was eliminated in my Local Control Funding Formula proposal consistent with my belief that local education agencies are in the best position to allocate their funding to meet local needs and priorities. Given the Legislature's support of this program, I will direct my Administration to examine whether this funding should continue as a separate categorical program into the future.

Item 6110-196-0001—For local assistance, Department of Education (Proposition 98). I revise this item from $511,965,000 to $506,965,000 by reducing:

(1) 30.10.010-Special Program, Child Development, Preschool Education from $511,965,000 to $506,965,000.

I am reducing this item by $5,000,000. With this reduction, funding will be $25 million higher in the budget year, providing for increased pre-school slots consistent with the $25 million augmentation I sustained for increased child care slots. While I am sustaining this augmentation for the preschool program, I am doing so on a one-time basis. Providing this increase on an ongoing basis would reduce future resources available for K-14 programs.

Item 6440-001-0001—For support of University of California. I revise this item by deleting Provisions 6, 8, 10, 11, 12, 13, 14, 15, and 16.

I am deleting Provisions 6, 8, 10, 11, 12, 13, 14, and 15 because the requirements included in these provisions that the University of California expend funds for various purposes create cost pressures and unnecessary restrictions. Eliminating these earmarks will give the University greater flexibility to manage its resources to meet its obligations, operate its instructional programs more effectively, and avoid tuition and fee increases.

I am deleting Provision 16 as the appropriation establishes the expectation that the University will enroll 211,499 state-supported full-time equivalent students during the 2013-14 academic year. This provision would continue to make enrollment the primary driver of state budgeting for higher education. Instead, the investments made in the University should be used to ensure the timely graduation of students and make improvements on other performance measures established in this Budget.

Item 6440-301-0658—For capital outlay, University of California. I delete this item.

I am deleting the $375,000 from the 1996 Higher Education Capital Outlay Bond Fund for the equipment phase of the Merced, Science and Engineering Building 2 project. The funding for this item is appropriated in a separate bill.

Item 6610-001-0001—For support of California State University. I revise this item by deleting Provisions 5, 8, 9, 10, 11, and 12.

I am deleting Provisions 5, 8, 9, 10, and 12 because the requirements included in these appropriations that the California State University (CSU) expend funds for various programs create cost pressures and unnecessary restrictions. Eliminating these earmarks will give CSU

greater flexibility to manage its resources to meet its obligations, operate its instructional programs more effectively, and avoid tuition and fee increases.

I am deleting Provision 11 as the appropriation establishes the expectation that CSU will enroll 342,000 state-supported full-time equivalent students during the 2013-14 academic year. This provision would continue to make enrollment the primary driver of state budgeting for higher education. Instead, the investments made in CSU should be used to ensure the timely graduation of students and make improvements on other performance measures established in this Budget.

Item 6980-101-0890—For local assistance, Student Aid Commission. I revise this item by deleting Provision 4.

Provision 4 provides that if federal College Access Challenge Grant funds are not available by September 30, 2013, the Special Fund for Economic Uncertainties shall provide $7,332,000 to support existing outreach programs for state financial aid programs. This Provision constitutes an item of appropriation which I cannot support. I believe the Special Fund for Economic Uncertainties should be used only to meet critical needs, emergencies, and legal obligations. Because we have put substantial new resources into higher education this year, I anticipate that California will continue to receive federal grant funds for this program.

Item 7730-001-0001—For support of Franchise Tax Board. I reduce this item from $718,684,000 to $718,414,000 by reducing:

(1) 10-Tax Programs from $717,740,000 to $717,470,000.

To correct a technical error in the Budget Bill, I am reducing this item by $270,000. This technical veto is consistent with the legislative action taken to reduce the Franchise Tax Board's budget to reflect savings from its withdrawal from the Multi-State Tax Commission, which ends its obligation to pay annual dues. These funds were inadvertently left in the final version of the Budget Bill.

Item 8660-011-0462—For transfer by the Controller to the Public Utilities Commission Ratepayer Advocate Account. I reduce this item from ($24,375,000) to ($24,354,000).

I am reducing this item by $21,000 to conform to a legislative reduction in Item 8660-001-3089. This technical veto is necessary to reflect this reduction in the transfer item and does not affect the amount of funds available for the Division of Ratepayer Advocates.

With the above deletions, revisions, and reductions, I hereby approve Assembly Bill 110.

/s/ Edmund G. Brown Jr.

EDMUND G. BROWN JR.