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 revenue to 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, which are collectively known as "enforceable obligations." 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 enforceable under the law, and has the authority 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. These payments are referred to as "residual pass-through payments." Every dollar of residual pass-through payments that goes to counties, cities, and special districts is unrestricted general purpose revenue that can be used to protect core public services. Every dollar of residual pass-through payments that goes to K-14 schools results in an offset of state Proposition 98 General Fund expenditures.

As a result of the RDA dissolution process, the May Revision estimates that counties are receiving $1.4 billion in new general purpose revenues in 2012-13 and 2013-14 combined, while cities are receiving $1.1 billion and special districts $500 million. It is estimated that $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 May Revision estimates Proposition 98 General Fund savings resulting from the dissolution of RDAs to be $2.1 billion in 2012-13—the same amount that was estimated at the Governor's Budget. For 2013-14, Proposition 98 General Fund savings are estimated to be $1.5 billion—$400 million above the amount estimated at the Governor's Budget. Ongoing Proposition 98 General Fund savings are estimated to be $825 million—$265 million higher than at the Governor's Budget. The increase in savings in the budget year and ongoing is due to an increase in the Due Diligence Review remittances received by K-14 schools, an increase in the K-14 savings associated with the third and fourth ROPS cycle reviews, and an increase in property tax revenues.

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 May Revision provides 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.

Secretary of State

The Secretary of State is the chief elections officer of the state and is responsible for the administration and enforcement of election laws. The Office is also responsible for administering and enforcing laws pertaining to filing documents associated with business and non-profit entities. To support the Secretary of State, the May Revision includes $112 million ($26.6 million General Fund) and 559 positions.

Significant Adjustment:

- *Business Programs Division Backlog*—The Governor recently signed AB 113, which provides $1.6 million in the current year to eliminate backlogs and maintain an average five business day processing time for business filings until the implementation of an automated business filing system. The Budget includes an increase of $5.7 million Business Fees Fund and 56 positions to continue these activities into the budget year. The budget also includes language requiring the Secretary of State to report on its progress in achieving and maintaining the five business day processing time for these filings.

Department of Food and Agriculture

The Department of Food and Agriculture protects and promotes California's agricultural industry and food quality and safety. The May Revision includes $28.5 million for the citrus pest and disease prevention program.

Significant Adjustment:

- *Citrus Pest and Disease Prevention Program*—An increase of $2.5 million in 2013-14 and 2014-15 to help prevent the spread of the Asian Citrus Psyllid and Huanglongbing disease.

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. These homes provide residential and medical care services to honorably discharged California veterans who served on active duty and are over the age of 55 or disabled. The recently completed homes in Redding and Fresno will begin admitting residents in the fall of 2013. The May Revision includes $305.2 million General Fund to support the activities of the Department.

Significant Adjustment:

- *Conversion of Skilled Nursing Facility Units to Domiciliary Units at the West Los Angeles Veterans Home*—A decrease of $3.2 million General Fund and 35.6 positions in 2013-14 and a decrease of $5.1 million General Fund and 67 positions in 2014-15 and ongoing to reflect the conversion of 84 skilled nursing facility beds to less costly domiciliary beds. This conversion will allow the Department to better meet the needs of veterans in the greater Los Angeles region by providing domiciliary beds, which are currently not available in that area.

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, the exact funding implications on most individual programs at the state level are still unclear. 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 federal budget for federal fiscal year 2014 is in its early stage of negotiation. Given the uncertainty of the exact program reductions and the interaction between federal fiscal years and state fiscal years, a budget control section is being proposed to provide 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 Administration has evaluated the impact on specific programs related to federal sequestration and proposes a modest amount of backfill for these critical areas: Special Education Program, Title XX Program, and Early Start Part C Grant Reallocation Program. For further details on these proposals, please refer to the program chapters.

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 on the General Fund is less than $65 million in 2012-13 and 2013-14 combined.

Debt Service

Budget Year Debt Service—General Fund debt service expenditures will decrease by a net of $141.9 million as compared to the Governor's Budget, to a total of $5.7 billion. This adjustment reflects reduced General Obligation debt service costs ($4.9 billion total) and no change for lease revenue bonds ($766.1 million total). The net decrease in General Obligation debt service is primarily attributable to: (1) projected premium generated from future bond sales in the budget year, (2) a smaller spring 2013 bond sale than projected, (3) savings related to bond refinancings this spring, and (4) an increase of $30.7 million from reduced Build America Bonds subsidy payments because of the federal sequester. The decrease in the size of the spring 2013 bond sale was accomplished by using existing bond cash more efficiently. The Department of Finance continues to work with departments to manage bond cash and ensure bonds are issued only when necessary. The balance of unspent bond proceeds from previous sales has been reduced to approximately $4.4 billion, as of March 30, 2013, compared to $7.3 billion, as of April 30, 2012.

Current Year Debt Service—General Fund debt service expenditures will decrease by a net of $292.1 million as compared to the Governor's Budget, for a total of $4.7 billion. This reflects reduced General Obligation debt service costs ($4 billion total) and no change for lease revenue bonds ($673.4 million total). The net decrease in General Obligation debt service is primarily related to: (1) increased premium generated from the spring 2013 bond sales, (2) savings related to bond refinancings, and (3) an increase of $12.4 million from reduced Build America Bonds subsidy payments because of the federal sequester.

State Appropriations Limit Calculation

2013-14 State Appropriations Limit (SAL) Calculation—Pursuant to Article XIIIB of the California Constitution, the 2013-14 SAL is estimated to be $89.716 billion. The revised limit is the result of applying the growth factor of 5.8 percent. The revised 2013-14 limit is $16 million above the $89.7 billion estimated in January. This increase is due to changes in the following factors and shifts in financial responsibility.

- Per Capita Personal Income
  - January Percentage Growth: 5.66%
  - May Revision Percentage Growth: 5.12%
- State Civilian Population
  - January Percentage Growth: 0.73%
  - May Revision Percentage Growth: 0.80%
- K-14 Average Daily Attendance
  - January Percentage Growth: 0.08%
  - May Revision Percentage Growth: 0.43%

For SAL purposes, per capita personal income is defined as calendar fourth quarter California personal income, as estimated by the US Bureau of Economic Analysis (BEA), divided by California civilian population, estimated by the California Department of Finance. Since BEA does not release its personal income estimate until April, the Department of Finance uses its own estimate for the Governor's Budget in January. The May Revision reflects the BEA's estimate of California personal income.