Highlights and Analysis of the Governor's 2013-14 Budget

January 14, 2013
SENATE REPUBLICAN FISCAL OFFICE

Table of Contents

EXECUTIVE SUMMARY 2

EXPENDITURES 7

REVENUES 9

ENTERPRISE ZONES 11

EMPLOYEE COMPENSATION 12

EDUCATION 14

HEALTH & HUMAN SERVICES 17

TRANSPORTATION 23

RESOURCES & ENVIRONMENTAL PROTECTION 24

JUDICIARY 26

REALIGNMENT 27

RDA SAVINGS FALL SHORT 29

APPENDIX A – WALL OF DEBT REPAYMENTS DELAYED 30

APPENDIX B – STATE OF CALIFORNIA TAX RANKINGS 31

SENATE REPUBLICAN FISCAL STAFF ASSIGNMENTS 36

Budget Briefs

SENATE REPUBLICAN FISCAL OFFICE

CALIFORNIA Senate Republican Caucus

Highlights & Analysis of the Governor's 2013-14 Budget

January 14, 2013

Executive Summary

In November 2012, the Legislative Analyst's Office (LAO) projected that the Governor and Legislature would need to address a $1.9 billion state budget deficit ($943 million for fiscal year 2012-13 and $936 million for 2013-14) in order to pass a balanced budget by June 2013. The Governor now claims that the budget is in fact balanced without the need for any changes, but he proposes to build a $1 billion reserve primarily though the imposition of two tax increases (the hospital quality assurance fee provides $310 million and the managed care organization tax provides $364 million of revenue) and by suspending four state mandates ($104 million). No new spending reductions are proposed to build the reserve.

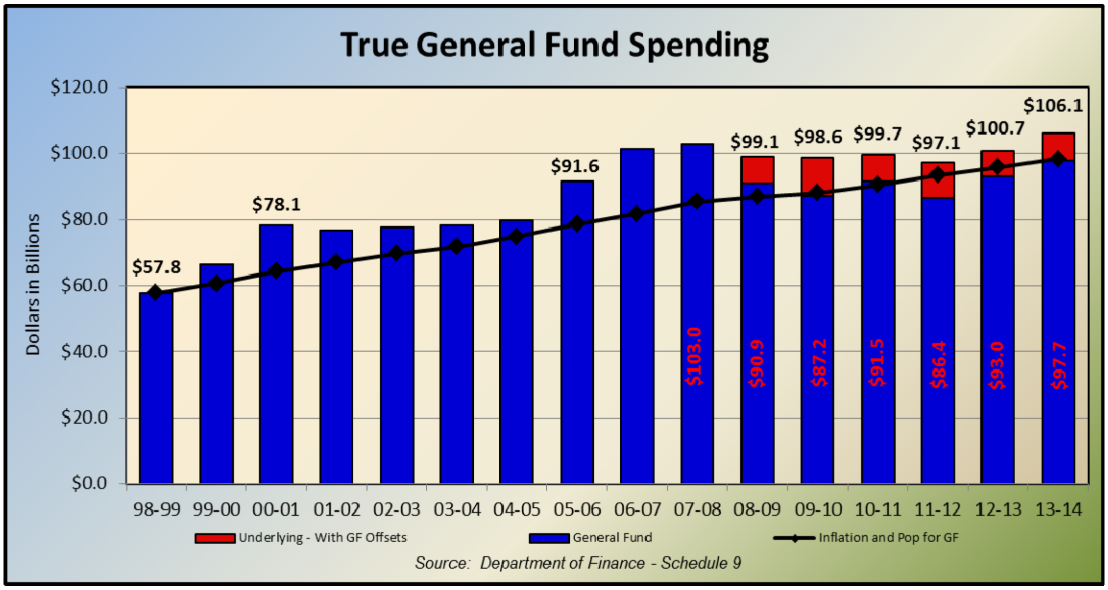
The Governor's claim that there is no budget deficit ignores the LAO forecast indicating that state savings from the dissolution of Redevelopment Agencies would fall far short of expectations (the budget proposal assumes about $700 million more than LAO believes achievable), and that General Fund savings from Cap and Trade could only reach $100 million annually (the budget proposal assumes $300 million more than the LAO believes achievable). In addition to disregarding the LAO forecast, the Governor changes his own schedule for special fund loan repayments, which are now $1 billion lower than they were in his June 2012 "Wall of Debt" repayment schedule *(See Wall of Debt Repayments Delayed in Appendix A- Page 30).* **Absent the Governor's accounting changes and optimistic assumptions the budget deficit would be about $2 billion**.

Both the Governor and LAO generally credit an improved economic outlook (sustained modest growth) and the Proposition 30 tax increases for stabilizing the state budget, but they also warn that there is considerable uncertainty surrounding the economic recovery and that fiscal discipline and spending restraint are critically important if California is to avoid repeating the mistakes of the past wherein overspending during the "boom" years led to dramatic deficits as revenue growth leveled off or dropped. The main economic concerns involve potential recession as a result of federal fiscal policies, economic growth in Europe, and improvement in China and other emerging market economies.

The Governor has introduced his 2013-14 state budget and highlighted the elements he wants people to know about, but it is important to look behind the scenes at some of the budget features he failed to fully disclose:

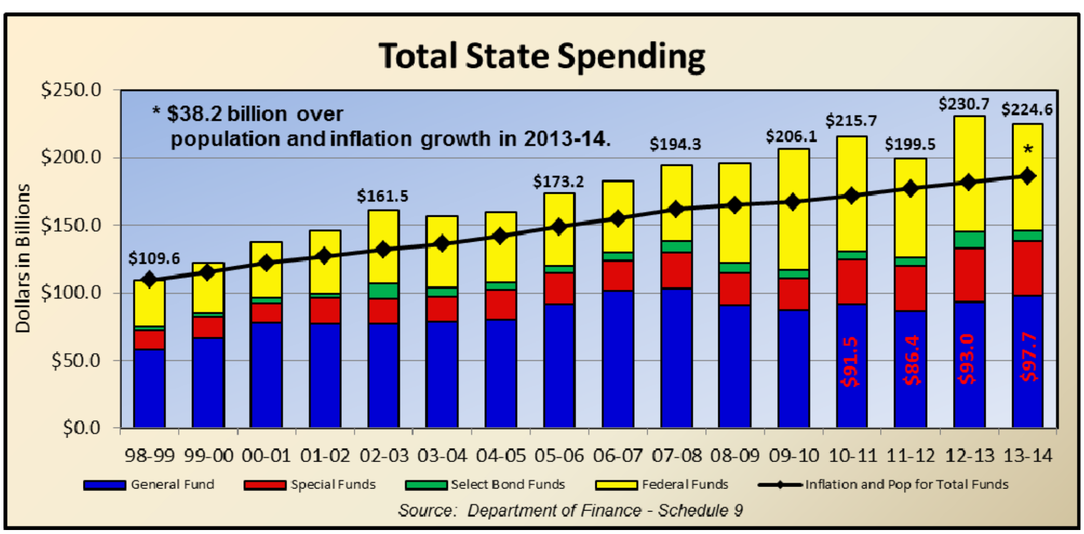
Key Points

True General Fund Program Spending. Legislative Democrats frequently claim that state spending has been slashed by $40 billion or more, and the Governor claims general fund spending is down since its peak of $103 billion in 2007-08. In fact, General Fund program spending, which includes fund shifts, transfers, and various General Fund offsets **totals $106.1 billion in 2013-14, which is $3 billion higher than the previous peak General Fund spending level.**

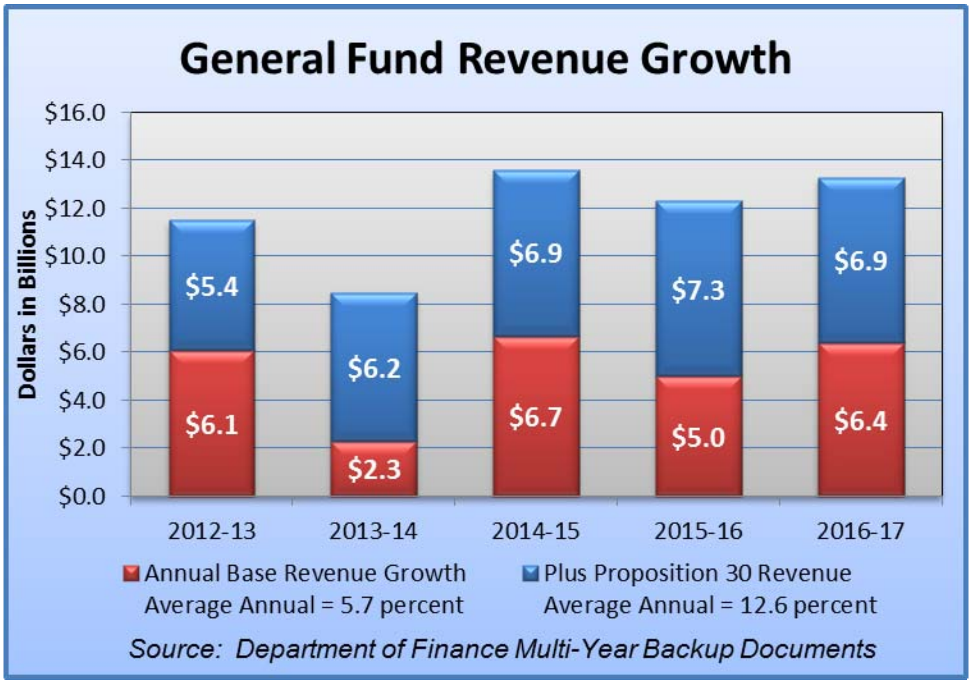


The 2013-14 Governor's Budget proposes $8.4 billion in spending from other sources for General Fund programs, with the $6.4 billion "Realignment" and $1.1 billion from Redevelopment Agency funds accounting for most of General Fund program backfill.

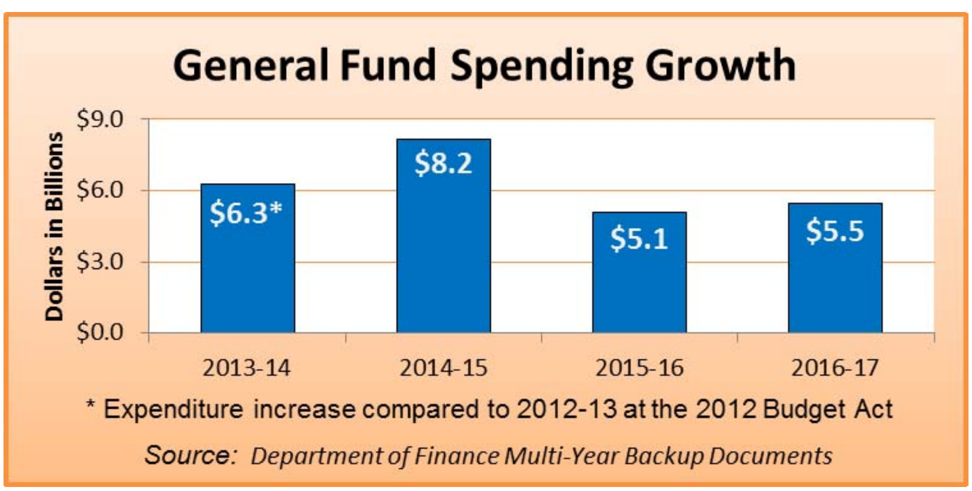
Total State Spending Still at Record Levels. General Fund spending is only a part of total state spending. Special funds, bond funds, and federal funds brings total state spending for 2013-14 to about $224.6 billion. Despite the great recession and Democrats' claims of "cutting to the bone," **total state spending remains at record high levels**. The Governor claims that General Fund spending as a share of the economy is at its lowest level since 1972-73, but he fails to reveal that total expenditures per $100 of personal income ($8.09) is right in line with historic averages ($8.13 over 20 years/$8.07 over 30 years).



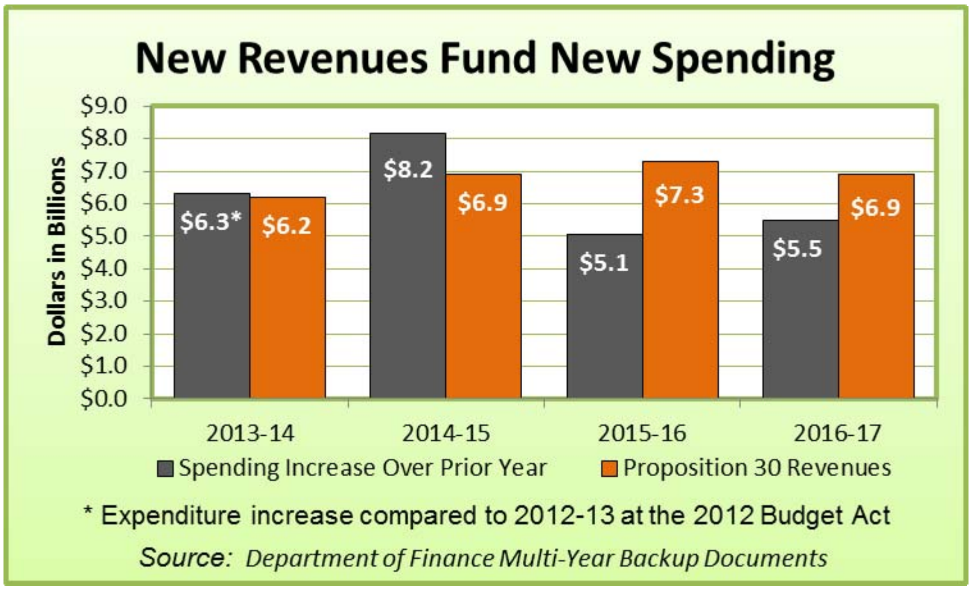
State Tax Revenues Surge. Based on Department of Finance estimates, absent passage of the Governor's Proposition 30 tax increases, state revenues would grow by $26.5 billion by 2016-17 (an average annual growth rate of 5.7 percent). Adding the new tax increases on top of the strong baseline revenue growth provides an additional $35.9 billion, bringing total state revenue growth to $62.4 billion (an average annual growth rate of 12.6 percent). For comparison purposes, the average revenue growth rate for the previous 30 years is only about 5.1 percent, which suggests that **the Proposition 30 tax increases far exceed the amount needed to restore the budget to balance**. Clearly, the Governor recognizes this problem because his long-term budget plan attempts to mitigate another spending boom-and-bust cycle by dedicating those excess revenues to pay down the "wall of debt."



State Spending – Put the Pedal to the Metal. Under the Governor's proposed plan, state General Fund spending in 2013-14 grows by $6.3 billion (seven percent) over the 2012 Budget Act level and by nearly $25 billion (27 percent) over the next four fiscal years. With regard to state spending, Governor Brown has said we need to "keep one foot on the brake and the other foot modestly on the accelerator…." The Governor is preaching fiscal restraint, but a **$25 billion spending increase suggests he's got the pedal to the metal in a brand new Ferrari.**



A New State Fiscal Cliff Emerges. The chart below contrasts the Governor's proposed state spending increases with the new tax increase revenue estimates. It shows that the $27.3 billion of new revenue is not merely being utilized to maintain existing spending levels in order to balance the budget, but in fact is funding *$25 billion of new spending*. The revenue that fuels this spending increase is temporary, and the Governor has stated that "the state must begin to plan now to ensure the budget will remain balanced after the revenue expires." The threat of a renewed budget crisis, a "state fiscal cliff" in 2018-19, is very real. It doesn't appear that the Governor has a plan to prevent it, and it's very clear that legislative Democrats plan to test the Governor's resolve by adding their own spending increases and pet projects. If Democrats retain a supermajority in the legislature, it is highly likely that the temporary tax increases will become permanent. *(See State of California Tax Rankings in Appendix B, Page 31).*



Proposition 30 Promises to Students Not Kept. The state's highest budgetary priorities should be education, public safety, and jobs. California voters signaled their willingness to prioritize education when they agreed via Proposition 30 to pay higher taxes to benefit education. K-14 Proposition 98 funding rises by about $2.7 billion, but that is only about 40 percent of the $6.25 billion in new tax revenue generated by Proposition 30 -- *education will not get the full benefit of those tax hikes, as voters were led to believe.* If Proposition 30 revenues were dedicated solely to education, funding for the state's schools and community colleges would be about $2.3 billion higher in 2012-13 and $3 billion higher in 2013-14 than the Governor is proposing.

Proposition 98 funding – Less Than Promised

$ in billions		
	2012-13	**2013-14**
Minimum guarantee with no Prop 30 revenue	$50.5	$52.9
Minimum guarantee plus all Prop 30 revenue	***$55.8***	***$59.2***
Prop 98 funding proposed by Governor	$53.5	$56.2
Shortfall	**$2.3**	**$3.0**
Source: Legislative Analyst's Office		

Instead of targeting all of the Proposition 30 revenue toward education, the Governor's budget plan uses some of it for his own priorities (e.g., over $1.2 billion for health and welfare programs, $400 million to end state worker furloughs, $250 million to fund increased state worker salaries and benefit costs, etc.). (*The promise of Proposition 30 has already been broken.)*

Conclusion

It should come as no great surprise that the budget is generally balanced or close to it. The **$16 billion of new tax increase revenue, strong baseline revenue growth of $6.1 billion,** and an improving economy make the job of balancing the budget fairly easy. The additional $2.7 billion for K-12 and community colleges is welcome news, and it appears that there may not be any new tuition or fee increases for California's college students.

However, it is quite clear that a new budget crisis is lurking in fiscal 2018-19 when the $7 billion of annual revenue from the new "temporary" taxes expire. The LAO has cautioned against new state spending in light of the economic uncertainties surrounding the federal fiscal cliff and European economic challenges, and the Governor has raised appropriate concerns over $28 billion in budgetary debt and another **$181 billion of unfunded retirement liabilities.** However, the Governor plans to increase state General Fund spending by $25 billion over the next four years, and legislative Democrats have already indicated their intention to add significantly to that new spending figure.

Californians should be very concerned because history has demonstrated that fiscal restraint is not one of the Legislature's great virtues, and once the new state programs are in place and the state employee pay raises and benefit increases have been granted, it is virtually impossible to take them back. **If Democrats maintain their supermajority status in both legislative houses, it is practically guaranteed that the new temporary taxes will become permanent.**

Another concern is that **all the Proposition 30 revenues were not dedicated to help students as voters were led to believe**. It appears that K-12 and community colleges received about $5 billion less than they should have, which raises questions about the future use of those funds for students' benefit. Republicans believe that schools should get their full share of those new monies because education is one of the state's highest budgetary priorities along with public safety and job creation. Accordingly, Assembly and Senate Republicans have proposed to freeze tuition and fee increases for students in the state's public university system via AB 67 (Gorell) and SB 58 (Cannella). **Students deserve an ironclad guarantee that tuition and fees won't rise while the Proposition 30 tax hikes are in effect**

Lastly, the Governor has not proposed any new help for local governments struggling to implement his Local Public Safety Realignment scheme that released over 40,000 felons out of the state prisons into our communities. **Local jurisdictions are reporting significant increases in property crimes and gang activity – even violent crimes appear to be on the rise.** It seems increasingly likely that the result of this major policy change will be an increase in the state's overall crime rates for the first time in more than two decades.

Even the Governor appears to be softening on his position that realigned offenders poses no threat to public safety when he told reporters, "There's no doubt that if you let people out of prison you increase the potential of crime." It's clear that local governments are not receiving fair or even adequate resources to handle the responsibility that was dumped on them.

The Administration indicates that the Realignment shift will have saved the state $3.1 billion General Fund by the end of 2013-14. Yet, it appears the state will have allocated only about $850 million of that General Fund savings to local law enforcement agencies for the supervision of realigned offenders. Over the past three fiscal years the state pocketed about $2.2 billion in General Fund savings (over $700 million per year) that should be reinvested in local criminal justice programs to improve Realignment's chances for success. **Republicans believe that local communities should get all the savings accruing to the state, to better keep our families safe.**

Expenditures

The 2013-14 Governor's Budget includes total General Fund expenditures of $93 billion in 2012-13 and $97.7 billion in 2013-14. As you can see in the table below, since the 2012-13 Budget Act was signed, spending in the current year has increased by nearly $1.7 billion. In addition to this $1.7 billion increase, the Governor is spending an additional $4.7 billion in 2013-14, bringing the total year-over-year spending increase to $6.3 billion (a 6.9 percent increase year-over-year).

Expenditure levels in both years include new revenues provided with the passage of Proposition 30 this past November, as discussed in the Revenue section on Page 9.

General Fund Expenditures by Agency

(Dollars in Billions)

Agency	Budget Act 2012-13	Revised 2012-13	Projected 2013-14	Change Since Budget Act
Legislative, Judicial, Executive	$2,056	$2,044	$2,546	$490
Business, Consumer Services, Housing	$219	$214	$645	$426
Transportation	$183	$183	$207	$24
Natural Resources	$1,900	$2,022	$2,062	$162
Environmental Protection	$46	$47	$46	$0
Health and Human Services	$26,695	$27,121	$28,370	$1,675
Corrections and Rehabilitation	$8,887	$8,753	$8,805	-$82
K-12 Education	$37,848	$38,323	$41,068	$3,220
Higher Education	$9,432	$9,776	$11,109	$1,677
Labor and Workforce Development	$342	$345	$329	-$13
Government Operations	$668	$661	$742	$74
General Government/Other	$3,062	$3,502	$1,721	-$1,341
Total, General Fund Expenditures	**$91,338**	**$92,994**	**$97,650**	**$6,312**
Difference since the Budget Act		$1,656	$4,656	
- As a Percentage		1.8%	5.0%	6.9%

Source: Department of Finance Schedule 9

The "General Government/Other" category includes a variety of statewide proposals that have not yet been allocated to specific departments or programs, including employee compensation reductions, health and dental benefits for annuitants, the PERS deferral, and assumptions for federal fund offsets related to education and health and human services programs.

As you can see in the table, most major programs grew from 2012-13 to 2013-14, with the exception of "General Government/Other." A variety of factors contribute to this $1.3 billion decrease, but the primary reason is that 2012-13 included about $2 billion (one-time) to repay local governments for property taxes borrowed in 2009-10.

General Fund spending is only a part of total state spending. As shown on page 3 of the Executive Summary, including special funds, bond funds, and federal funds, brings total state spending for 2013-14 to about $224.6 billion. This level of total state expenditures is $6.1 billion lower than total expenditures in 2012-13 ($230.7 billion), but continues to exceed population and inflation growth by more than $38 billion. Despite the great recession and Democrats' claims of "cutting to the bone," total state spending remains at record high levels. And, total expenditures per $100 of personal income ($8.09) approximately equal to historic averages ($8.13 over 20 years/$8.07 over 30 years).

True state General Fund program spending, which accounts for fund shifts, transfers, and General Fund offsets – allowing General Fund programs to continue growing – now totals $106.1 billion in 2013-14, which is three percent higher than peak General Fund spending in 2007-08.

Underlying General Fund Program Spending							
(dollars in billions)							
	07-08	**08-09**	**09-10**	**10-11**	**11-12**	**12-13**	**13-14**
Schedule 9 Expenditures	$103.0	$90.9	$86.6	$91.5	$86.4	$93.0	97.7
"Offsets" to Maintain General Fund Program Levels*	--	$8.5	$11.5	$8.2	$10.7	$7.7	$8.4
Total, General Fund Program Expenditures	**$103.0**	**$99.4**	**$98.1**	**$99.7**	**$97.1**	**$100.7**	**$106.1**
% Change from Peak 07-08 General Fund Spending		**-3.5%**	**-4.7%**	**-3.2%**	**-5.7%**	**-2.2%**	**3.0%**

Department of Finance – Schedule 9

Though direct General Fund spending is down (compared to 2007-08), true “underlying” General Fund spending, which recognizes federal fund offsets, fund shifts, and deferrals employed to support General Fund programs, exceeds $100 billion in 2012-13 and reaches $106.1 billion in 2013-14. In addition to $97.7 billion General Fund, the 2013-14 Governor's Budget relies on (1) nearly $1.1 billion of property taxes from redevelopment agencies to fund education, (2) realigning $6.4 billion of public safety programs to the local level, (3) $200 million of trial court reserves to fund court costs, (4) $974 million of weight fees to pay general obligation bond debt, and (5) a variety of smaller transactions to offset General Fund reductions and maintain General Fund programs. In prior years, the Legislature has relied on additional federal funds, redevelopment agencies, inter-year Proposition 98 deferrals, employee compensation deferrals, and local property tax borrowing to maintain General Fund programs in the absence of General Fund revenues.

Revenues

The 2013-14 Governor's Budget projects total General Fund revenues of $95.4 billion in 2012-13 and $98.5 billion in 2013-14. The table below reflects point in time changes in the Administration's revenue estimates, including a $2.1 billion increase over Budget Act forecasts for the three-year fiscal window.

Upon further review, this table gives us a number of other key insights.

1) Total General Fund revenues and transfers increase by $8.3 billion from 2011-12 to 2012-13. This large increase is primarily due to the passage of Proposition 30 this past November.

2) Personal Income Tax revenues seem to be strengthening over time. In addition to Proposition 30 revenues, the Governor's Budget projects that the PIT will contribute an additional $2.8 billion over the three year period.

3) The "Forecast Change" column shows us that after weakening in 2011-12, sales and use tax revenues in 2012-13 and 2013-14 appear to make a modest comeback.

4) The Corporate tax revenue estimates have weakened since passage of the Budget Act. According to the Administration, this weakening would have been greater if not for the passage of Proposition 39, which mandated multi-state corporations to apportion income to California using the *Single Sales Factor methodology*.

General Fund Revenue Projections

(dollars in millions)

2011-12 Revenue Source	**Budget Act**	**Governor's Budget**	**Forecast Change**	**%△**
Personal Income Tax	$52,958	$53,836	$878	1.7%
Sales & Use Tax	$18,921	$18,652	-$269	-1.4%
Corporation Tax	$8,208	$7,949	-$259	-3.2%
Other Revenues	$4,959	$5,125	$166	3.3%
Transfers	$1,784	$1,509	-$275	-15.4%
Total Revenue	**$86,830**	**$87,071**	**$241**	**0.3%**
2012-13 Revenue Source	**Budget Act**	**Governor's Budget**	**Forecast Change**	**%△**
Personal Income Tax	$60,268	$60,647	$379	0.6%
Sales & Use Tax	$20,605	$20,714	$109	0.5%
Corporation Tax	$8,488	$7,580	-$908	-10.7%
Other Revenues	$4,938	$4,653	-$285	-5.8%
Transfers	$1,588	$1,800	$212	13.4%
Total Revenue	**$95,887**	**$95,394**	**-$493**	**-0.5%**
2013-14 Revenue Source	**Budget Act**	**Governor's Budget**	**Forecast Change**	**%△**
Personal Income Tax	$60,234	$61,747	$1,513	2.5%
Sales & Use Tax	$23,006	$23,264	$258	1.1%
Corporation Tax	$8,931	$9,130	$199	2.2%
Other Revenues	$5,249	$4,383	-$866	-16.5%
Transfers	-$1,303	-$23	$1,280	-98.2%
Total Revenue	**$96,117**	**$98,501**	**$2,384**	**2.5%**
Three-Year Total			**$2,132**	

Source: Department of Finance Schedule 9

New Revenue from November Ballot Initiatives

Proposition 30 was approved by the voters on November 6, 2012 (55.4 percent to 44.6 percent) and was estimated to generate $47 billion of new tax revenue spread over eight fiscal years. With the Governor's Budget, the Administration has revised its estimates, which now total about $45 billion over that same eight years. The following table reflects the most recent Department of Finance estimate of revenues related to Proposition 30.

Proposition 30 Revenue Estimates
Dollars in Millions

	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Personal Income	$3,152	$4,761	$4,921	$5,471	$5,820	$6,126	$6,436	$2,626
Sales Tax		$611	$1,329	$1,437	$1,496	$818	$0	$0
Total	**$3,152**	**$5,372**	**$6,250**	**$6,908**	**$7,316**	**$6,944**	**$6,436**	**$2,626**

Source: Department of Finance Multi-year Backup Documents

Proposition 39 was also approved by the voters on November 6, 2012 (61.1 percent to 38.9 percent), and was projected to generate annual General Fund revenues of $1.1 billion. Proposition 39 required that at least half of this revenue ($550 million) be used to fund projects that create energy efficiency and clean energy jobs in California. The Governor's Budget estimates that Proposition 39 will generate $440 million in 2012-13 and $900 million 2013-14 (all counted toward the Proposition 98 formula). In addition to Proposition 39's requirement to fund energy efficiency and clean energy jobs, the Governor proposes that the Proposition 98 share of new revenues be used to fund energy efficiency projects at schools and community colleges.

Enterprise Zones

Enterprise Zone (EZ) Regulatory Reform. The Governor's Budget includes additional General Fund revenue of $10 million in the current year and $50 million in 2013-14 generated by regulatory modifications for the EZ program that result in decreased tax credits to businesses.

The regulatory changes would: (1) require all voucher applications be submitted within one year of an employee's hire date to prevent retroactive hiring credits; (2) require third party verification of employee residence within a Targeted Employment Area; (3) streamline the vouchering process for hiring veterans and recipients of public assistance; and (4) create stricter zone audit procedures and audit failure procedures.

The EZ program targets economically distressed areas throughout California and provides special incentives designed to encourage business investment and promote the creation of new jobs. The purpose of the EZ program is to stimulate economic development by providing tax incentives to businesses enabling private sector market forces to revive the local economy.

There are concerns surrounding whether a regulatory agency can modify the availability of a tax benefit or if this type of change requires a two-thirds vote of the Legislature. Furthermore, with billions of dollars of additional tax revenue generated by Propositions 30 and 39, restricting the tax incentive for employers to invest and hire in these targeted areas seems unnecessary and could reverse progress in EZs.

Opponents of the EZ program argue that the program does not increase jobs. For instance, the Public Policy Institute of California (PPIC) released a report entitled, "Do California's Enterprise Zones Create Jobs?" This report concluded that, on average, the EZ program has no effect on business creation or job growth. The PPIC suggests that the EZ program shifts hiring toward disadvantaged workers without an overall net increase in employment. However, a study conducted by the University of Southern California (USC) entitled, "Government Programs Can Improve Local Labor Markets: Evidence from State Enterprise Zones, Federal Empowerment Zones and Federal Enterprise Zones," found that the PPIC study is flawed because the employment data used is reported in ranges, (for instance, 50 to 100 employees), making it impossible to track all changes in the number of employees.

Additionally, the USC study found that there is a positive impact created by EZs on the local unemployment rate, the poverty rate, the share of households in the area that receive income, and total employment. If this is the case and incentives for businesses are reduced, businesses in EZs could downsize or close altogether, increasing unemployment and potentially driving increased spending in social services programs.

These mixed results indicate it would be prudent to consider reforms to the program that can address concerns surrounding the EZ program without negatively impacting small businesses and those operating in impoverished areas of the state of California.

Employee Compensation

Time for State Employee Pay Raises. The Governor's January 2013-14 Budget proposes 348,046 state employees, which is about 10,000 less than the number of actual positions filled in 2011-12. Although the state has reduced the workforce by 4.5 percent since 2011-12, the costs of state employees are on the rise. Not only have the furloughs ended (furloughs generated savings of more than $800 million total funds, including $400 million General Fund in 2012-13), but the 2013-14 Budget includes an additional $502.1 million ($247 million General Fund) for employee raises and additional increases in health and dental benefits, bringing the **total cost to $15.7 billion**. With 19 bargaining units currently at the table (19 contracts will be expired by July 1, 2013) and new agreements likely in the next couple of months, the Budget Act of 2013 could end with even higher employee compensation costs.

Cost per State Employee Grows. As a result of the increases included in the 2013-14 budget, the cost to state tax payers grows from about $70,000 to $73,000 annually per state employee. California public employees currently earn the most of the 12 most populous states (as of 2011 data). According to the data compiled by Bloomberg News, the state's highest-paid employees make far more than comparable workers elsewhere in almost all job categories. Psychiatrists are among the highest-paid employees, with one prison psychiatrist collecting more than $822,000 in 2011. Last year, 16 psychiatrists on the state's payroll made more than $400,000. In addition to the generous salaries, employees are accumulating and cashing out record amounts of vacation and sick time, including $608,821 paid to a retired psychiatrist from Napa state mental hospital. California's labor secretary, Marty Morgenstern, states "Those payouts are payouts of accumulated salary that it's against the rules to allow people to accumulate…" and yet last year Governor Brown waived a cap on accrued leave for some state employees.

Permanent New Costs. Additionally, the new spending increases for state employees are in addition to merit salary adjustments (MSA's) that have increased baseline spending on employee wages by more than $800 million, cumulatively costing the state $3.5 billion, since 2005-06. Merit salary adjustments are automatic salary increases, and are not affected by furloughs or personal leave programs. These wage increases will continue, along with the annual raises included in the 2013-14 budget. The state can no longer afford to do business this way. Annual pay increases must not be considered an entitlement for public employees.

Do the People Know…

Republicans are concerned that voters who supported Proposition 30 did not contemplate the new tax increase being used to reward public employee unions.

Personnel Years by Agency

Agency	2011-12	2012-13	2013-14	Change in Positions 13-14 to 11-12	Percentage Change 13-14 to 11-12
Government Operations	14943.7	14931.5	14783.7	-160.0	-1%
Business, Consumer Services, and Housing	6235.7	6396.1	5423.6	-812.1	-13%
Transportation	41758.4	39222	39144.3	-2,614.1	-6%
Resources	18041.7	18838.8	18078.3	36.6	0%
Environmental Protection	5157.3	4967.5	4921.6	-235.8	-5%
Health and Human Services	32891.1	30938	31850.6	-1,040.6	-3%
Corrections and Rehabilitations	62472	59577.3	59817	-2,655.0	-4%
K-12	2,950.9	2,854.1	2,855.1	-105.8	-4%
Community College/Other	329.7	317.2	315.2	-14.5	-4%
Higher Education	127,748.1	129,321	129,321.0	1,572.9	1%
Labor and Workforce Development	13540.3	12516.3	11844.6	-1,695.7	-13%
Other (Gen Govt. Legislative, Judicial, Executive)	29,728.8	28,570.8	28,681.0	-1,047.8	-4%
Total	355,807.7	348,276.7	349,045.8	-6,761.9	-2.39%
Higher Education	-127748.1	-129,321	-129,321		
Legislative, Judicial	-2,899.3	-2,752.2	-2,751.8		
Total Executive Branch	225,160.3	214,206.5	215,972.9	-10,177.4	-4.60%

[illegible]

[illegible]

* Department of Finance Schedule 4

Education

K-14 funding grows, but less than promised. The chart below displays proposed Proposition 98 funding for K-14 education:

Proposition 98 Funding
($ in millions)

	2011-12	2012-13	2013-14	change from 12-13 to 13-14
State preschool	$368	$481	$481	$0
K-12 education				
General Fund	$29,368	$33,406	$36,084	$2,679
Local property tax revenue	$11,963	$13,777	$13,160	-$618
K-12 subtotal	$41,331	$47,183	$49,244	$2,061
Community Colleges				
General Fund	$3,279	$3,543	$4,226	$683
Local property tax revenue	$1,974	$2,256	$2,171	-$85
CCC subtotal	$5,253	$5,799	$6,397	$597
Other agencies	$83	$78	$79	$1
Total Proposition 98	$47,035	$53,541	$56,200	$2,659
General Fund	$33,097	$37,507	$40,870	$3,362
Local property tax revenue	$13,937	$16,034	$15,331	-$703
Prop 98 per-pupil spending (K-12)	$6,989	$7,967	$8,304	$337

Source: Legislative Analyst's Office

As the chart above shows, Proposition 98 funding rises by about $2.7 billion from 2012-13 to 2013-14, most of which would support the new K-12 funding formula discussed below ($1.6 billion) and school and community college energy efficiency projects ($450 million)[1]. However, the $2.7 billion increase is only about 40 percent of the $6.25 billion in new tax revenue generated by Proposition 30 -- *education will not get the full benefit of those tax hikes, as voters were led to believe.* If the $6.25 billion generated by Proposition 30 was dedicated solely to education, funding for the state's schools and community colleges would be about $2.3 billion higher in 2012-13 and $3 billion higher in 2013-14 than the Governor is proposing.

Proposition 98 funding - 3 scenarios
$ in billions

	2012-13	2013-14
Minimum guarantee with no Prop 30 revenue	$50.5	$52.9
Minimum guarantee plus all Prop 30 revenue	$55.8	$59.2
Prop 98 funding proposed by Governor	$53.5	$56.2

Source: Legislative Analyst's Office

[1] The Governor's plan counts all General Fund revenue from Proposition 39 toward the Proposition 98 formula and directs all related funding for energy efficiency projects to schools and community colleges.

Instead of targeting all of the Proposition 30 revenue toward education, the Governor's Budget plan uses some of it for his own priorities (e.g., over $1.2 billion for health and welfare programs, $400 million to end state worker furloughs, $250 million to increase state worker salaries and benefits, etc.). *The promise of Proposition 30 has already been broken.*

The state's highest budgetary priorities should be education, public safety, and jobs. California voters signaled their willingness to prioritize education when they agreed via Proposition 30 to pay higher taxes to benefit education. The Governor and Legislature should honor the voters' intention by using *all* of the Proposition 30 tax revenues to improve California's schools, colleges, and universities, instead of redirecting them to other uses.

New K-12 funding formula. The Governor proposes a "local control funding formula" very similar to his proposal last year for a "weighted student formula". The new formula would phase in from 2013-14 thru 2019-20 and would provide an average base amount of $6,816 per student, with additional funding for every student who is poor[2], an English learner (for up to five years), or in the foster care system, and even more funding for school districts where more than 50 percent of students fall into these categories. The concept is worth discussing, and most in the school community appear ready to engage. However, the proposal has several potential problems, e.g., 1) 'winners and losers', with suburban districts the most likely losers relative to the current funding model, 2) lack of negative consequences for districts whose students fail academically – the Governor appears ready to defer to the federal government to intervene in those cases, and 3) allocation of funds to the district level rather than the school-site level, which could allow new funds to be spent on district-wide salary hikes rather than to benefit the individual students on whose behalf the funds are provided. To the extent that school boards across the state fail to use this newly-enhanced local control to benefit students rather than labor unions, student advocates will almost certainly litigate to force the state to step in and fulfill its constitutional responsibility to ensure that students are appropriately served. In that case, the courts could require the state to come up with billions of dollars more to fund student services that local districts failed to provide.[3] Accordingly, the Legislative Analyst has advised that the Legislature explore ways to ensure that districts use supplemental funds to directly benefit disadvantaged students.

[2] Defined as eligible for free or reduced-priced school meals.

[3] Butt v. State of California, 1992. The California Supreme Court ruled that the state Constitution makes public education "a fundamental concern of the State and prohibits maintenance and operation of the common public school system in a way which denies basic educational equality to the students of particular districts. The State itself bears the ultimate authority and responsibility to ensure that its district-based system of common schools provides basic equality of educational opportunity."

UC and CSU. The chart below displays proposed funding for UC and CSU:

As the chart shows, funding rises by $275 million for UC and $317 million for CSU. For each segment, $250 million of those totals are comprised of the $125 million per segment appropriated in last summer's budget trailer bill, AB 1502, plus another $125 million per segment now proposed by the Governor. In addition, the Governor's plan includes several smaller funding adjustments and some reforms intended to provide high-quality instruction at lower cost, decrease the time it takes to earn a degree, and increase graduation rates. However, while the Administration "expects" the universities to maintain current tuition and fee levels over the next four years, the Governor's budget plan does not impose a hard freeze on tuition, as Assembly and Senate Republicans have proposed via AB 67 (Gorell)[4] and SB 58 (Cannella)[5]. Students deserve an ironclad guarantee that tuition and fees won't rise while the Proposition 30 tax hikes are in effect.

UC & CSU Funding
(Core funds, in millions)

		2011-12	2012-13[4/]	2013-14	change from 12-13 to 13-14
UC	**General Fund** [1/]	$2,504	$2,567	$2,846	$279
	Tuition and fees [2/]	3,427	3,408	3,460	$52
	Other UC core funds [3/]	388	441	385	-$55
	Lottery	30	37	37	$0
	Total UC	$6,349	$6,453	$6,728	$275
CSU	**General Fund** [1/]	$2,228	$2,492	$2,809	317
	Tuition and fees [2/]	2,568	2,514	2,514	0
	Lottery	42	56	56	0
	Total CSU	$4,838	$5,062	$5,379	317
	Total	$11,186	$11,515	$12,107	$592

[1/] Beginning in 2011-12, includes general obligation bond debt service. Segment-specific amounts not available before 2011-12.

[2/] Includes systemwide fees before discounts and waivers, and nonresident tuition.

[3/] Includes application fees, interest, and a portion of grant overhead and patent royalty income.

[4/] Beginning in 2012-13, includes funding for CSU retired annuitant health care costs from a new budget item. Segment-specific amounts not available prior to 2012-13.

Source: Legislative Analyst's Office

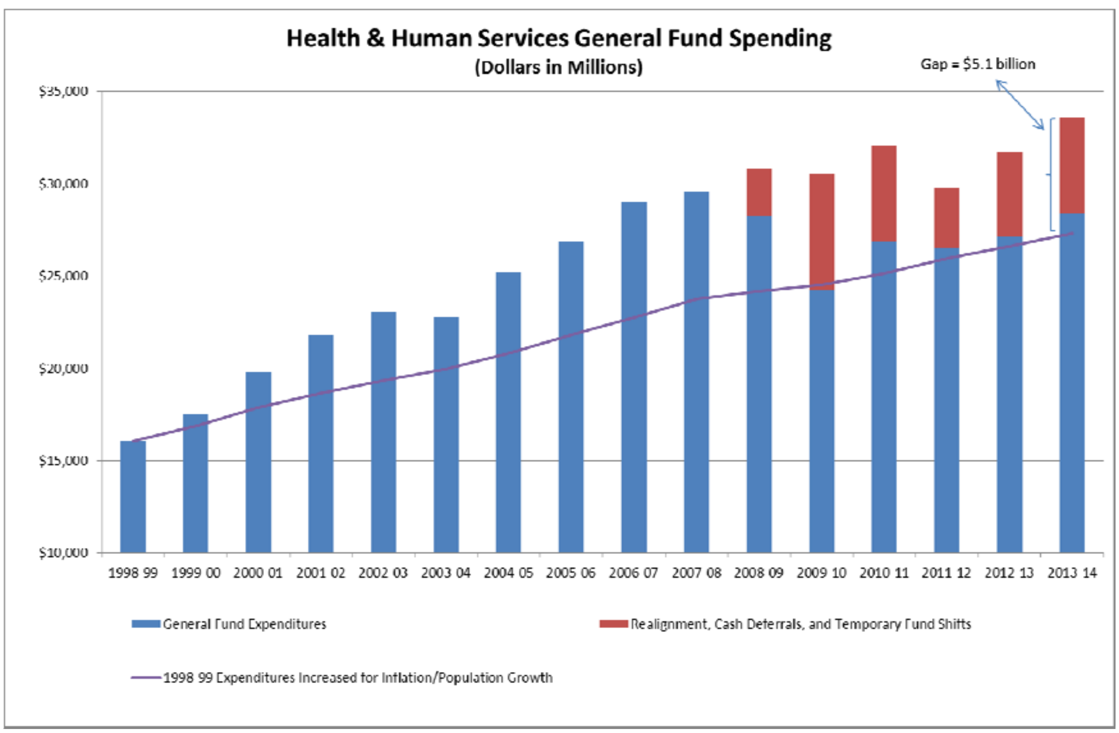
[4] http://www.leginfo.ca.gov/pub/13-14/bill/asm/ab_0051-0100/ab_67_bill_20130107_introduced.pdf
[5] http://www.leginfo.ca.gov/pub/13-14/bill/sen/sb_0051-0100/sb_58_bill_20130107_introduced.pdf

Health & Human Services

The proposed 2013-14 Governor's Budget includes total expenditures of $105 billion from all fund sources for all Health and Human Services (HHS) Agency budgets. General Fund expenditures for HHS are projected to be $28 billion, which represents an increase of $1.2 billion (4.7 percent) from the revised 2012-13 budget. Significant reasons for this net General Fund cost increase include:

- $471 million increase in Medi-Cal costs due to the expiration of a one-time cash gimmick used in the 2012-13 budget.
- $350 million in "placeholder" costs to expand Medi-Cal eligibility under federal health care reform.
- $359 million increase in CalWORKs employment services and child care funding, increasing county funding for administration of program.
- $140 million increase in In-Home Supportive Services (IHSS) program costs.

As the chart below demonstrates, General Fund expenditures had increased far faster than inflation and population until 2009-10, when temporary fund shifts (primarily federal stimulus funds) reduced General Fund spending below the trend line. The Governor's Budget for 2013-14 does not propose any significant new General Fund program reductions. However, absent funding shifts such as the 2011 Realignment, which do not reduce actual program activities, underlying program spending for HHS in 2013-14 would remain $5.1 billion above the trend line. General Fund spending is still $1.1 billion above the trend line even with those fund shifts. However, spending trends differ substantially by department. Spending for numerous health programs such as Medi-Cal and In-Home Supportive Services has grown rapidly, offset somewhat by flat overall spending for human services programs such as CalWORKs.



Health

Unlike recent budgets for health departments, the 2013-14 Governor's Budget proposes no major new General Fund reductions or cost containment measures. The most significant new health policy proposals are (1) the implementation of a Medi-Cal eligibility expansion resulting from the federal Affordable Care Act (ACA), and (2) proposed extensions of provider taxes for hospitals and managed care plans. These proposals are discussed in more detail below. Also, most reductions authorized in recent budgets would remain in effect or are still in the process of implementation, such as a Medi-Cal provider rate reduction. The following table summarizes proposed General Fund spending levels and significant cost factors for the largest health departments.

Summary of Department General Fund Spending

Dollars in Millions

				Change from 12-13 to 13-14		
Department	**2011-12**	**2012-13**	**2013-14**	**$**	**%**	**Key Reasons for Change**
Health Care Services--Medi-Cal	$ 15,097	$ 15,019	$ 15,601	$ 582	4%	Proposed expansion of Medi-Cal eligibility due to ACA; transition of Healthy Families kids to Medi-Cal; expiration of one-time cash shift in 2012-13
Public Health	125	131	114	-16	-12%	Shift of ADAP enrollees to local coverage or to ACA programs
MRMIB	273	166	22	-144	-87%	Healthy Families Program elimination
Developmental Services	2,569	2,620	2,759	139	5%	Enrollment growth, expiration of provider rate reductions
State Hospitals	1,333	1,351	1,459	109	8%	Facility expansion, caseload growth

ACA - Affordable Care Act (federal health care reform)

ADAP - AIDS Drug Assistance Program

MRMIB - Managed Risk Medical Insurance Board

Medi-Cal Eligibility Expansion

The ACA mandated a multifaceted expansion of Medi-Cal eligibility set to begin January 1, 2014. However, the U.S. Supreme Court ruling in June 2012 effectively made a portion of that expansion optional for states. The Governor's Budget treats the mandatory and the optional portions of the expansion differently.

Mandatory Expansion Alters Financial Rules. The mandatory part of the expansion changes the method of evaluating income and assets when determining Medi-Cal eligibility. The Governor's Budget includes a "placeholder" cost of $350 million General Fund related to this expansion for six months in 2013-14 and **projects costs of $700 million General Fund annually**. Specifically, this expansion involves key changes in two areas:

- *Standard Income Level.* The ACA standardizes the maximum income level at which children and adults can be eligible for Medi-Cal at 138 percent of the federal poverty level (FPL), which would equal $31,809 for a family of four. Currently, the maximum income level generally does not exceed 133 percent of FPL for children and 100 percent for parents, although pregnant women and infants are eligible up to 200 percent of FPL.

  States must also use Modified Aggregate Gross Income (MAGI), which is a measure of income used on federal tax returns, for most applicants younger than 65 years old. (MAGI will also be used to determine health care premium tax credits under the ACA.) These changes mean that states may no longer use various income “disregards” to ignore some income that applicants receive (except for a mandatory disregard equal to 5 percent of income). However, use of MAGI will also begin to exclude some types of income that are now included in determining Medi-Cal eligibility, and the net fiscal effects are not clear.

- *Asset Test.* The ACA also will no longer permit states to use an “asset test” in determining eligibility when the MAGI standard is used. Currently, many Medi-Cal applicants are not eligible for the program if they have assets worth more than $2,000 for a single parent or $3,000 for a couple. Eliminating the asset test will result in some people enrolling in Medi-Cal who would not previously have been eligible.

Optional Expansion Adds New Category. Currently, non-elderly adults need to either be parents or have a qualifying disability to enroll in Medi-Cal, but the optional expansion would provide Medi-Cal coverage to non-disabled, childless adults younger than 65 years of age. The Governor’s Budget does not include a specific proposal for this expansion, but instead offers two conceptual alternatives: a state-based approach or a county-based approach. Under the state-based version, the state would use the existing Medi-Cal program structure and offer one standardized, statewide set of benefits to the newly eligible adults. Under the county-based approach, counties would use a statewide eligibility standard but could vary the benefit package somewhat. The Governor proposes to exclude long-term care from the benefit package under either approach.

Costs Still Unclear. The ACA provides that the federal government will pay 100 percent of Medi-Cal coverage costs for newly eligible enrollees for the first three years. The federal share would then ratchet gradually down to 90 percent of costs by 2020. However, many people who are now eligible for Medi-Cal but who have not enrolled for various reasons are likely to sign up once the ACA’s individual mandate takes effect in 2014. Determining who is newly eligible and who would have been eligible under the old rules is administratively difficult. Federal guidance is expected within the next few months to clarify how to divide the Medi-Cal population between new and previously eligible groups, which will give the state a better understanding of its likely costs.

The state-local division of responsibility adds more fiscal complexity. Counties are currently responsible for providing coverage to indigent adults, and are estimated to spend between $3 billion and $4 billion on health programs. Thus, counties stand to save substantial funds as indigent adults shift to Medi-Cal coverage, regardless of how the optional piece is implemented. The Governor’s budget envisions a still-undetermined arrangement for the state to recover county funds once federal funds begin to pay for enrollment in Medi-Cal. Some other state health programs, such as the AIDS Drug Assistance Program and the Managed Risk Medical Insurance Program, would also see enrollment shift to Medi-Cal under the optional expansion.

Local Control Preferable. Some states may forego implementing the optional Medicaid expansion altogether because of concerns about future state costs once states need to pay up to 10 percent of the care costs. The Legislative Analyst’s Office recently estimated that California’s share could range from $60 million to $257 million General Fund in 2016-17, and could exceed $1 billion by 2019-20. However, since legislative Democrats will undoubtedly enact some version of this expansion, Republicans may want to consider supporting the county-based option, presuming that more control would be kept at the local level. Fifty-one counties already operate or participate in a Low-Income Health Plan, which are locally operated public coverage programs that are now authorized under a federal Medi-Cal waiver. These health plans provide care delivery systems that counties could build upon for the Medi-Cal expansion. Also, Republicans are concerned that counties be treated fairly in the reallocation of county funds that remains to be worked out before the Medi-Cal expansion is implemented.

Health Care Taxes

The Governor's Budget proposes to extend two health care provider taxes: the hospital quality assurance fee (QAF) and the Medi-Cal managed care organization (MCO) tax. The Governor maintains that no new budget-balancing solutions are necessary for 2013-14 but has proposed these two taxes as "reserve builders."

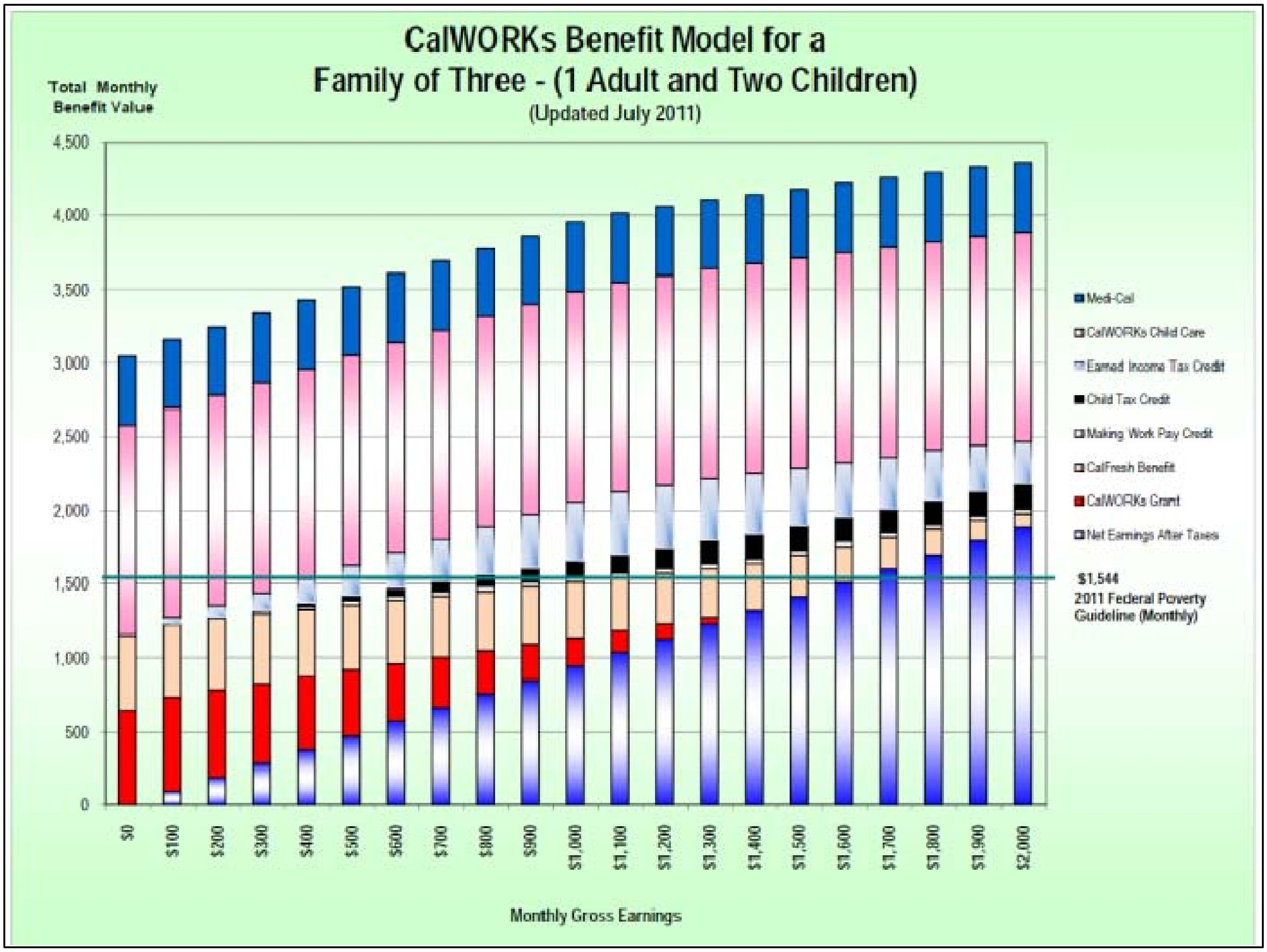
Hospital QAF. The current hospital QAF is set to expire December 31, 2013. The Governor's proposed three-year extension would generate $310 million in General Fund cost offsets during 2013-14 (over six months) and nearly $1.5 billion in total over three years. Hospitals largely supported the current QAF as a means of generating additional federal revenues for hospitals, and the state benefitted by shifting over $340 million annually to offset General Fund costs for state children's coverage programs. The legislation authorizing the current QAF, SB 335 (Hernandez, 2011), passed the Senate floor on a 35-2 vote. However, the Administration has shown its willingness to reverse previous commitments to hospitals, as demonstrated by the current budget's sweep of nearly $300 million from funds previously promised to hospitals. Thus, while the QAF extension may be supportable in concept, the details of the extension should be evaluated carefully once the Administration fleshes out its proposal through statutory language. In addition, some discussions at the federal level indicate that provider taxes in general may be targeted for federal spending reductions as part of the delayed "fiscal cliff" savings actions.

MCO Tax Breaks Faith. The MCO tax expired June 30, 2012, but Governor's Budget proposes a permanent extension retroactive to that date with projected General Fund savings of $131 million in 2012-13 and $234 million in 2013-14. The MCO tax was originally enacted in 2009 with Republican and industry support, and was always intended to maintain the Healthy Families Program (HFP) as a partnership of publicly funded health coverage delivered through managed care plans. Republicans and managed care plans only agreed to support the tax, both initially and through two previous extensions, based on the understanding that it would support HFP as an intact program. The 2012-13 budget broke faith with the previous commitments by authorizing the elimination of HFP, and as a result, Republicans did not support the extension in that budget. Republicans should continue to withhold support since the impetus for the tax is no longer in place. The Administration began transferring the first group of HFP children to Medi-Cal as of January 1, 2013. **As Republicans warned last year, the $13 million General Fund savings the Administration projected for 2012-13 from the HFP elimination are now expected to be virtually eliminated by higher county administration costs.**

Human Services

The Governor's proposed 2013-14 budget acknowledges that, compared to other states, California continues to provide broader health care coverage to a greater percentage of the population, including in-home care, guarantees access to services for persons with developmental disabilities, makes available higher cash assistance to families and continues that assistance to children after their parents lose eligibility, and provides very generous financial aid to those seeking higher education.

As the chart below shows, a family of three with $0 in annual earnings receives the equivalent of $36,000 annually in government-provided assistance and services from the state (additional county services not reflected on chart). A family earning $1,000 a month can receive nearly $4,000 a month in cash assistance and services from programs such as Medi-Cal, CalWORKs, Cal Fresh, child care and other programs. With such generous programs, the state may dis-incentivize work by punishing recipients for working and rewarding them for maintaining their dependence upon the state. The problem is that it can be more lucrative, in the form of actual disposable income, to collect various government entitlements rather than to work.



Welfare Program Restorations and Cost Increases

The Governor's proposed 2013-14 budget does not change this culture of entitlement, and within the state's human services programs net expenditures will increase more than $620 million General Fund above the Budget Act of 2012 (from $7 billion General Fund in the Budget Act of 2012 to $7.6 billion General Fund proposed for 2013-14). The budget includes a number of program restorations, as well as increased General Fund expenditures in 2013-14, including the following:

- $359 million increase in CalWORKs employment services and child care funding, increasing county funding for administration of the program. The increase in the counties' "single allocation" (funding for counties to provide administration of the CalWORKs program) effectively restores the $375 million reduction included in the Budget Act of 2012.
- $140 million net increase in In-Home Supportive Services (IHSS) program costs including:
    - $59.1 million General Fund increase from full restoration of the 3.6 percent hours reduction, offset by a proposed 20 percent reduction in service hours, effective November 1, 2013, even though a court injunction has prevented the state from implementing this reduction, originally required to become effective January 2012.
    - $92.1 million increase in General Fund costs due to the federal government denying a portion of the Community First Choice Option waiver, which erodes the assumed savings. The new waiver would require determination of eligibility for nursing home care, shedding light on the actual number of frail and needy recipients within IHSS. The

2012-13 budget indicated savings of $199.1 million in 2013-14, but projections have dropped to $107 million in 2013-14.

- $47.1 million in new General Fund spending in 2013-14 as a result of a new county maintenance of effort (MOE) spending level within the IHSS program (program now has a share of cost percentage). A new MOE structure was set up as part of the Coordinated Care Initiative (CCI), a demonstration project implementing in eight counties over the next two years. There are two immediate concerns with this proposal; 1) the base year of 2011 for county expenditures is at a low point due to expired service hour reductions; and 2) the MOE proposal includes counties that are not involved in the demonstration project, thus holding them harmless for any new program expenditures which could result in additional state General Fund to backfill any increase.

Transportation

High Speed Rail (HSR) Forges Ahead. Last year's budget approved $8 billion in funding over six years ($4.72 billion from the Safe, Reliable High-Speed Passenger Train Bond Act of the 21st Century (Prop 1A) and $3.2 billion from federal trust funds) to begin construction of the HSR project in the Central Valley. These funds will also be used for intercity and commuter rail lines, urban rail lines, high-profile projects on the "Bookends" in San Francisco and Los Angeles, environmental review and design activities, and administration and operational costs. The Governor's Budget reflects planned capital outlay expenditures of $2.4 billion in the current year and proposes $3.1 billion in 2013-14.

The HSRA's latest business plan issued in April 2012 estimates the cost of Phase 1 of the project at $68.4 billion, yet the HSRA has only identified $12 billion in available funding for the entire project. The project continues to lack private sector interest and additional federal funding commitments appear less likely as the federal government copes with its own fiscal challenges. Additionally, the Governor continues to propose to use AB 32 Cap and Trade revenues as a backstop if federal, local, or private funding does not materialize, despite legal concerns. In a report entitled, "Funding Requests for High-Speed Rail," the Legislative Analyst's Office raised legal concerns surrounding the use of Cap and Trade revenues based on an independent study which determined the HSR project would initially be a net emitter of greenhouse gas (GHG) emissions and it would take approximately 30 years before the project would reduce GHG emissions.

The HSRA has spent approximately $600 million but has yet to lay any track or purchase any property. Additionally, the federal Government Accountability Office recently issued a report in which it indicated the HSRA's risk analysis and cost documentation of the project is insufficient. It remains difficult to understand why the Governor continues to prioritize such a poorly managed and unsound HSR scheme burdened with fiscal uncertainty.

Resources & Environmental Protection

Expanded use of State Responsibility Area (SRA) Fire Prevention Fees. The Governor's Budget proposes a $13.4 million increase from the State Responsibility Area Fire Protection Fund to implement SB 1241 (Kehoe) of 2012, Civil Cost-Recovery Program, and other fire prevention activities. Of the $13.4 million, $4.5 million will be used by CalFire to assist local entities in the review and updating of safety elements pertaining to fire hazards in local general plans. SB 1241 requires local entities to update these safety elements. In order to fund this activity, the Governor's Budget proposes trailer bill language that would expand the use of SRA fees (established in AB 29x1 of 2011) for use in "areas that would immediately threaten state responsibility areas". These areas are typically referred to as very high fire hazard severity zones. **This is the second attempt by the Administration to expand the use of the SRA fee to backfill General Fund or expand programs with no benefit to the fee payer.** It should be noted that SB 1241 does not require CalFire to provide any enhanced assistance to local entities for safety element updates. The budget would also fund fuel treatment activities at $2.1 million through the Vegetation Management Program and spend $5.2 million to hire seasonal defensible space inspectors to educate homeowners on the prevention of fires. Lastly, $1.7 million of SRA fees would be used to fund the Civil Cost-Recovery Program which pursues civil actions against parties for negligently causing fires in order to recover General Fund related fire suppression costs. This is not an appropriate use of the SRA fee and provides no direct benefit to the fee payer for fire prevention activities. The Howard Jarvis Taxpayers Association has filed a lawsuit challenging the constitutionality of this fee on the grounds that it is a tax which required a two-thirds vote in the Legislature but received only a simple majority.

Currently, the SRA fee generates approximately $90 million annually with expenditures of approximately $50 million per fiscal year over the past two budgets. The 2013-14 budget increases expenditures to $72.6 million leaving a fund balance of $89 million.

Cap and Trade Auction Proceeds Fall Short of Projections. The Governor's Budget proposes $400 million (2013-14) and $200 million (2012-13) in expenditure authority to support AB 32 activities from revenues that are estimated to result from the auctioning of greenhouse gas emission allowances. These amounts are significantly lower than the Administration's expectations last year. The 2012-13 budget estimated $1 billion in Cap and Trade revenues with at least $500 million being used to backfill existing unspecified General Fund programs that support AB 32 activities. To date, there has been one Cap and Trade auction which generated only $55.8 million for the state and $233.3 million for investor owned utilities which will be used as credits to customers. This Cap and Trade program will cover approximately 600 of the state's largest greenhouse gas emitting stationary sources, including: public universities, local government facilities, and municipal utilities. These proceeds were expected to grow significantly in future years, to as much as $10 billion annually, as more Californians are impacted. For example, an LAO analysis indicates that **costs for the University of California system would likely range from $7 million to $28 million annually** starting in 2013 to purchase allowances in order to meet AB 32 goals. This will direct resources away from student education which should be the top priority.

There will be two more auctions scheduled to occur in February and May of 2013 which will provide greater insight into potential program revenues. At this time, the Administration has not provided a detailed investment or expenditure plan to review.

$5 Million More for Off-Highway Vehicle (OHV) Program. The Governor's Budget provides the Off-Highway Vehicle (OHV) program with an additional $5 million in funding to its local assistance grant program which will return the program to its past funding level of $26 million. This is a positive step given the reductions to the program over the past two years that included a $10 million ongoing transfer of Off-Highway Vehicle Trust Fund (OHVTF) monies to the General Fund in 2011-12 and a one-time $11 million decrease in 2012-13. Recent Attorney General and Department of Finance audit investigations determined that the reported $33.4 million discrepancy in OHVTF monies was due to the timing of fund balance reporting, with no intentional concealment of existing funding, unlike the State Parks and Recreation Fund which had $20.5 million in hidden funds. The OHVTF is still owed $133 million from loans taken to benefit the General Fund. The Administration intends to repay these loans by 2015-16. The current balance in the OHVTF is $44.7 million.

New Electric Program Investment Charge (EPIC) Program Violates Proposition 26. The budget proposes an increase of $192.2 million in EPIC funds for the California Energy Commission to implement a new program and **new tax** on ratepayers. This program was initially authorized by the California Public Utilities Commission (CPUC) after the public goods charge (PGC) failed to get an extension in the Legislature. In September 2011, the Governor sent a letter to the CPUC requesting that they take action under their authority to ensure that PGC programs would continue. SB 1018 (Committee on Budget) of 2012 then authorized the program with a simple majority vote. The new program will fund the development and deployment of clean technologies for electricity through 2020 with no direct benefit to ratepayers. It should be noted that the PGC was a tax and approved by a two-thirds vote of the Legislature, therefore, this new **tax** should have received the same vote threshold. It did not, therefore, it violates Proposition 26.

Increased Timber Harvest Plans Reviews. AB 1492 (Committee on Budget) of 2012 established a one percent tax on all consumers of wood-based products sold in California with the revenues being used for specific timber harvest plan (THP) activities, including the funding of existing and additional THP reviews. The budget includes an increase of $6.6 million in tax revenues to fund approximately 50 new positions across five departments to increase review of THPs. According to the Administration, these new positions will increase the state’s ability to process THPs in a more coordinated and timely manner while closely enforcing and following all applicable environmental regulations. While most Republicans did not support this increased tax on consumers, directing these funds to process THPs in a more expedited manner is a prudent use of the funding.

Currently, the one percent tax is estimated to generate revenues of $27 million annually with expenditures of $26.7 million. These funds are split among the following departments for THP review activities and administration:

- $13.3 million CalFire
- $5.3 million Department of Fish and Game
- $3.0 million Department of Conservation
- $2.5 million State Water Resources Control Board
- $2.3 million State Board of Equalization
- $217,000 Natural Resources Agency
- $50,000 Financial Information System for California

Judiciary

Trial Court Funding

Elimination of Trial Court Reserves. The Budget Act of 2012 included a major change to the way trial courts manage their operations. Beginning in 2014-15, the amount of reserves a court will be able to carry over from one fiscal year to the next will be limited to one percent of the court's operating budget from the prior fiscal year. Prior to this change, each trial court was authorized to carry over all unexpended funds, which allowed some courts to build up sizeable reserves over the years. To capture one-time General Fund savings and force the courts to begin to spend down their reserves, General Fund support for the trial courts was reduced by $400 million in 2012-13. The Governor's Budget restores the $400 million General Fund in 2013-14, but also includes a one-time transfer of $200 million from the Immediate and Critical Needs Account (ICNA) to the General Fund to offset the restoration's General Fund impact.

Courthouses Suffer to Protect General Fund Programs. The ICNA was established within the State Court Facilities Construction Fund by Chapter 311, Statutes of 2008 (SB 1407) as a repository for revenues from various fees and fee increases charged to court users. Funds within the ICNA may only be used for specific courthouse construction, renovation, and replacement purposes and for trial court operations.[6] The proposed transfer to the General Fund is inconsistent with the ICNA's purpose, and will necessitate the delay of courthouse construction projects already in the pipeline.

To make matters worse, the Governor's Budget also proposes $35 million from the ICNA in 2013-14, increasing to $54 million annually beginning in 2014-15, to make service fee payments for the new Long Beach Courthouse. The Long Beach Courthouse project is a public-private partnership in which the developer assumed the financing risks and up-front costs to deliver a suitable courthouse facility. Prior to the release of the 2013-14 Governor's Budget, no fund source had been identified for this project, although it had been widely assumed the annual service fee payments would be made from the General Fund.

The combined effect on the ICNA of the transfer to the General Fund ($200 million) and the Long Beach Courthouse service fee ($54 million annually) will likely delay all courthouse construction projects not already near completion for at least a year. Because the Long Beach service fee is an annually recurring expense, if the ICNA were to continue as the funding source, it would likely reduce the number of projects that can be delivered because there will be less funding available each year for debt service. Upon enactment of SB 1407, the Judicial Council adopted a list of 41 projects throughout the state deemed to be of immediate and critical importance. Many of these projects have already suffered serious delays as a result of recent fund shifts and transfers impacting the ICNA.

General Fund Reductions Indicate Courts Are Not a Priority. One of the most critical roles of government in a civilized society is to provide for an independent judiciary capable of resolving disputes in an equitable manner. Without a vibrant, unbiased court system, disputes between citizens can quickly decay into chaos, negatively impacting public safety, commerce, and the general welfare of the society. Recent budget reductions to the trial courts have forced the Judicial Branch to examine its operations in search of efficiencies to help it live within its means and to develop creative ways to finance necessary capital investments. While this has generally been a healthy process, courtroom closures (and in some cases, closures of entire courthouses) over the past two years suggest that the Branch has reached the limits of its ability to absorb further budget reductions. It is concerning that the Governor seems willing to sacrifice access to justice to fund increased state employee pay and benefits and expand other state programs. The state should renew its commitment to a healthy judiciary.

[6] "Trial court operations" was added as an allowable use of the ICNA by Chapter 41, Statute of 2012 (SB 1021).

Realignment

2011 Public Safety Realignment

The Governor's Budget reflects continued funding for the 2011 Public Safety Realignment (Realignment) of $6.4 billion in 2013-14, including $5.9 billion General Fund and $467 million Motor Vehicle License Fee Account. Of the total $6.4 billion, $4.2 billion would support realigned programs in the area of health and human services and $2.2 billion would fund local criminal justice programs. Of the $2.2 billion for criminal justice, $1.2 billion would be allocated to trial court security and local public safety programs that have traditionally been funded by the state, including the Citizens' Option for Public Safety (COPS) program, the Juvenile Justice Crime Prevention Act (JJCPA) program, juvenile probation and camps, booking fees, subventions for small and rural sheriffs, etc. This would leave just **under $1 billion for local law enforcement** to manage the population of offenders that was shifted from state to local responsibility pursuant to Chapter 15, Statutes of 2011 (AB 109).

Local Public Safety Disaster. The Governor and legislative Democrats touted Realignment as a way to generate state savings and to comply with a federal court order requiring the state to reduce its prison population to no more than 137.5 percent of capacity. Republicans in both the Senate and the Assembly warned that Realignment, as embodied in AB 109, posed a major threat to public safety and that the scheme would merely shift the state's problems to local governments. Now, a little more than a year after AB 109 took effect, evidence is beginning to surface that those warnings were well founded. There are constant news reports of realigned offenders, who were supposed to pose little risk to the public, committing violent crimes like rape and murder. Even the Governor appears to be softening on his position that realigned offenders pose no threat to public safety. He kicked off the new year with a campaign to end federal oversight of the state's prisons, during which he told reporters, "There's no doubt that if you let people out of prison you increase the potential of crime."[7] Sheriffs describe the "hardening" of the criminal element within their jails – the result of dangerous felons comprising an ever-growing percentage of jail populations. Many sheriffs are struggling to manage overcrowded jails and are being forced to release criminals early. The same legal issues associated with prison overcrowding that have plagued the state for years are beginning to flare up in local jails. It is only a matter of time before local sheriffs find themselves embroiled in legal battles over inmates' medical and mental health care. Probation chiefs report insufficient program capacity and personnel to manage the influx of offenders. Local jurisdictions are reporting significant increases in property crimes, gang activity – even violent crimes appear to be on the rise. It seems increasingly likely that the result of this major policy change will be an increase in the state's overall crime rates for the first time in more than two decades.

Current Funding Falls Short. The concept behind Realignment – improving public safety outcomes by supervising certain offenders locally – has some merit. For example, local agencies tend to have better access to rehabilitative programs and services than the state does. Housing offenders in their communities keeps them closer to potential support networks, which may improve rehabilitative outcomes. However, AB 109 was not a carefully-designed program to align offenders with the programming options most likely to improve public safety. It was a hastily-crafted, wholesale dumping of offenders with high recidivism rates on local law enforcement agencies as a means to save state General Fund resources and avoid having to build new prisons to comply with the federal court's population cap. Ironically, recent information reported by the Department of Corrections and Rehabilitation (CDCR) to the federal court indicates that upon full implementation of Realignment, the Department will still fall about 9,000 inmates short of meeting the court-ordered population cap.[8]

---

[7] *L.A. Times* website, "Brown takes prison message on the road", January 8, 2013. http://latimesblogs.latimes.com/california-politics/2013/01/brown-takes-prison-message-on-the-road.html

[8] CDCR's response to 3-Judge Court, U.S. District Court for Eastern District and Northern District of California, Case No. 3:01-cv-01351-TEH, "Defendant's Response to October 11, 2012 Order to Develop Plans to Achieve Required Prison Population Reduction", p. 8, lines 8-11. Filed with the court January 7, 2013.

Realignment, as it currently exists, has not only failed to meet the population reduction requirements of the federal court, but it is also destined to fail in its mission to improve public safety outcomes, in large part because the local bed capacity, programming space, and law enforcement staffing resources upon which its success is predicated do not exist. Moreover, the level of funding provided by the state is inadequate to build that capacity.

Allocations Must Be Equitable. With the passage of Proposition 30 in November 2012, which amended the State Constitution to guarantee existing Realignment revenue streams to local governments, Realignment is here to stay unless a constitutional amendment to repeal it is passed. The mission must now be to minimize the damage to public safety. One important step will be to establish a funding allocation methodology going forward that provides equitable funding for the law enforcement agencies that supervise realigned offenders. The current methodology, under which Realignment funding may or may not follow the offender, results in severe underfunding in some jurisdictions, while others fare much better. For example, according to a recent article in the *Fresno Bee*, Fresno County currently receives about $12,000 per realigned offender, whereas Contra Costa County gets about $40,000.[9] Disparities like this must be corrected. If Realignment is to have any chance of success, the funding must follow the offender.

Reinvestment in Public Safety Must Be Priority. Another necessary step to minimizing Realignment's negative impact on public safety will be to provide sufficient funding to local law enforcement agencies to ensure that the aforementioned bed capacity, programming space, and staffing needs are addressed. In enacting Realignment, legislative Democrats and the Governor talked with great fanfare about the need to reinvest savings generated by Realignment into improving criminal justice outcomes. In fact, AB 109 added Section 17.5 to the Penal Code, which states findings of the Legislature to that effect. To date, however, the effort to do so has been little more than lip service. According to CDCR's Spring 2012 realignment implementation plan, entitled "The Future of California Corrections", the shift of responsibility for low-level felons from the state to local governments is expected to have saved the state $3.1 billion General Fund by the end of 2013-14. Yet, based on information provided as part of the 2012-13 May Revision and the 2013-14 Governor's Budget, it appears the state will have allocated only about $850 million of that General Fund savings to local law enforcement agencies for the supervision of realigned offenders. From 2011-12 through 2013-14 the state will have pocketed about $2.2 billion in General Fund savings (over $700 million per year) that should be reinvested in local criminal justice programs to improve Realignment's chances for success. So far, however, the Governor and legislative Democrats have opted instead to use the savings for other purposes that are not as critical as ensuring safe communities for Californians.

[9] *Fresno Bee* website, "Fresno County demands more state funds for housing prisoners", December 2, 2012. http://www.fresnobee.com/2012/12/02/3086872/valley-counties-seek-more-prison.html

RDA Savings Fall Short

Chapter 5, Statutes of 2011 (ABx1 26) eliminated the state's approximately 400 redevelopment agencies (RDAs). It was followed by Chapter 26, Statutes of 2012 (AB 1484), which provided additional tools for successor agencies, oversight boards, and the Department of Finance to facilitate the orderly wind down of RDA activities. The main reasons stated for these two bills was to: (1) redirect property tax revenues from RDAs to cities, counties, and special districts, and (2) provide additional property tax revenues to schools (offsetting General Fund obligations under Proposition 98). The process of eliminating RDAs and winding down activities is expected to provide both one-time and annual, ongoing benefits to cities, counties, schools and special districts.

Much of the workload related to auditing various RDA funds, identifying unencumbered balances of funds, reviewing and approving RDA debt obligations is one-time in nature and should be completed no later than the summer of 2013. The complexity of this workload, combined with the significant amount of communications between successor agencies, oversight boards, and the Department of Finance, makes the actual fiscal benefit to cities, counties, special districts and schools a moving target.

The 2012-13 Budget Act estimated $3.2 billion of General Fund benefit in 2012-13 (associated with providing additional property taxes to schools), and $4.9 billion over three fiscal years.

2012-13 Budget Act	2011-12	2012-13	2013-14	3-yr Total
2011-12 Property Tax True-up	$0.0	$685.0		
2012-13 Property Tax Increment	$133.0	$991.0		
2013-14 Property Tax Increment			$1,010.8	
Asset Liquidation/Cash Sweeps		$1,479.0	$600.0	
Total "Solutions"	**$133.0**	**$3,155.0**	**$1,610.8**	**$4,898.8**

The Governor's Budget now reflects $1.6 billion of decreased solutions ($1.1 billion decrease in 2012-13 and nearly $500 million in 2013-14).

2013-14 Governor's Budget	2011-12	2012-13	2013-14	3-yr Total
2011-12 Property Tax True-up		$233.7		
2012-13 Property Tax Increment	$133.0	$549.9		
2013-14 Property Tax Increment			$559.2	
Asset Liquidation/Cash Sweeps		$1,302.0	$558.0	
Total "Solutions"	**$133.0**	**$2,085.6**	**$1,117.2**	**$3,335.8**

In November, the LAO's Fiscal Outlook raised doubts about the Governor's estimates, estimating that $3.2 billion in 2012-13 would more likely be $1.4 billion ($2.6 billion over three years). In response to the release of the Governor's 2013-14 budget, the LAO now indicates that the newest estimates appear reasonable. However, these savings are subject to considerable uncertainty and could vary by several hundred million dollars annually because (1) several key steps in the dissolution process have yet to occur, (2) compliance by successor agencies has been uneven and unpredictable, and (3) outcomes of future litigation regarding dissolution could affect state savings. Bottom line is that the Governor's Budget recognizes that one of the Governor's solutions (eliminating RDAs) is coming in about $1.6 billion short of expectations.

Appendix A – Wall of Debt Repayments Delayed

The “Wall of Debt” reflects the fiscal impact of actions taken over the past 11 years by the Legislature and Governors Davis, Schwarzenegger, and Brown to solve annual budget deficits, including borrowing from special funds, deferring repayment of local and education mandate obligations, Economic Recovery Bonds, Proposition 1A borrowing from local governments, deferral of Medi-Cal costs and state payroll costs, etc. The Administration estimates that as of June 30, 2012, the state’s “budgetary borrowing” totaled approximately $34.2 billion.

With the 2012 Budget Act, Governor Brown adopted a schedule for paying down the "Wall of Debt," however; it appears that schedule has been revised to balance the budget by delaying debt repayments. The following table compares the Governor’s repayment schedule when the 2012 budget was enacted to his repayment schedule proposed with the 2013-14 Governor's Budget. The difference reflects the fact that the **Governor proposes to reduce payments** toward debt by $1 billion in 2013-14 and by $1.4 billion in 2014-15.

	Beginning Balance	2012-13	2013-14	2014-15	2015-16	Remaining
2012 Budget Act	$34,165	$5,933	$5,244	$7,356	$6,708	$8,924
2013 Governor's Budget	$34,165	$6,357	$4,198	$5,955	$7,345	$10,310
Difference		**$ (424)**	**$1,046**	**$1,401**	**$ (637)**	**$1,386**

In exchange for reducing payments in the near-term, “Wall of Debt” payments in 2015-16 and beyond would either be increased or delayed further. The biggest repayment decrease in 2013-14 shows up in delayed repayment of special fund loans, accounting for about $1 billion. This means that fee payers continue to support General Fund programs instead of the special fund programs (funded by the fee), for which they paid the fee in the first place.

A $1 billion delay in repaying special fund loans in 2013-14 is also notable because the budget would be in deficit mode absent this “solution.”

Statewide Debt

The “Wall of Debt” is but one small portion of total California debt obligations. For reference purposes, the state is also responsible for the following obligations:

- <u>$181.2 billion</u> of *Unfunded Retirement Liabilities*, including State Retiree Health, State Employee Pensions, Teacher Pensions, UC Employee Pensions, and Judges’ Pensions.
- <u>$74.1 billion</u> of outstanding *General Obligation Bond* debt, including self-liquidating Enterprise Fund Bonds. The Treasurer’s Office estimates that this debt will cost the state about $5.3 billion in 2012-13 (almost 5.9 percent of estimated General Fund revenues). The Governor's Budget estimates an additional $5.8 billion will be sold in 2013.
- In excess of <u>$11 billion</u> of outstanding *Lease Revenue Bonds*, which have funded the construction of a variety of state buildings (schools, universities, office buildings, etc.) throughout the state. The Governor's Budget estimates an additional $2.5 billion will be sold in 2013-14.
- <u>$10.2 billion</u> will be owed to the federal government to cover the *Unemployment Insurance (UI) Fund deficit* by the end of 2013. The state is estimated to owe $291.2 million in interest to the federal government in September 2013, and each year the UI Fund is insolvent employer taxes on California businesses will increase by 0.3 percent to repay the federal loan.

APPENDIX B – State of California Tax Rankings

California is a great state to live and work. The state's climate, weather and quality of life are the envy of the country. California leads the nation with its cutting edge high-tech and biotech industries and has a rich and vibrant agriculture industry. It also has large markets, its ports are the gateway to and from Asia and it has a large pool of skilled labor.

For all of California's benefits, it has some significant drawbacks. For the privilege of living, working or operating a business in the state, Californians are required to pay some of the highest personal and corporate income taxes in the nation, and are subjected to unnecessarily burdensome and overly complex laws and regulations.

Over the last decade, California has consistently placed at or near the bottom of many national business climate and tax rankings, which compare the business climates of the nation's 50 states.

CEO magazine, in its 2012 annual survey of 650 CEOs, ranked California as the worst state to do business for eight years in a row. Keep in mind that they have conducted the survey for only eight years.[10]

Forbes Magazine rated California as being the 41st worst state for business. This report was based on six factors: business costs, labor supply, regulatory environment, current economic climate, growth prospects and quality of life.[11]

According to the Tax Foundation's 2013 *State Business Tax Climate Index,*[12] California has the third worst business tax climate in the nation, behind only New York and New Jersey (see following table). *The **Index rates a state's tax systems*** based on individual income tax, corporate tax, sales tax, and property tax. It is important to note that California achieved this low ranking even before voters approved Propositions 30 and 39 in November 2012.

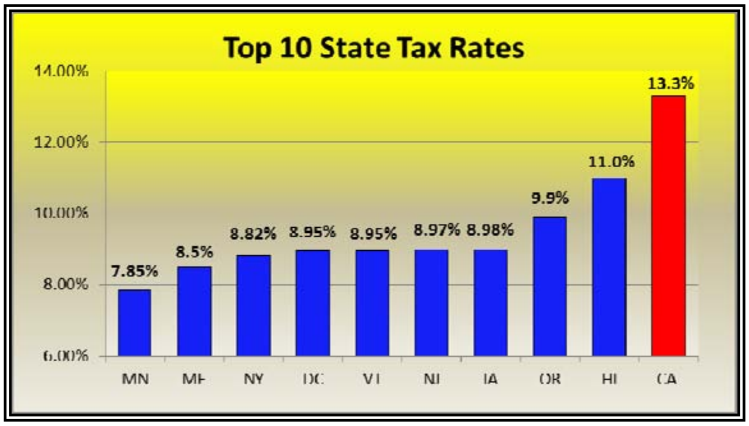
State	Overall Rank	Corporate Tax Rank	Personal Income Tax Rank	Sales Tax Rank	Property Tax Rank
California	**48**	**45**	**49**	**40**	**17**
New Jersey	49	40	48	46	49
New York	50	23	50	38	45

The next couple of pages will dissect a portion of the state's overall tax structure, and provide a comparison of how California compares to other states in terms of the state's major tax rates.

[10] Chief Executive Magazine, Another Triumph for Texas: Best/Worst States for Business 2012 - http://chiefexecutive.net/best-worst-states-for-business-2012
[11] Forbes Magazine, "Worst States for Business," published December 12, 2012. http://www.forbes.com/sites/kurtbadenhausen/2012/12/12/maine-leads-list-of-the-worst-states-for-business/
[12] Tax Foundation, "2013 State Business Tax Climate Index," published October 9, 2012. http://taxfoundation.org/article/2013-state-business-tax-climate-index

Personal Income Tax: Highest in the Nation

California has the highest, and one of the most progressive, personal income tax systems in the nation. Before the passage of Proposition 30 in November 2012, California had the second highest personal income tax rate in the nation. Proposition 30 pushed personal income tax rates even higher, increasing taxes on those making $250,000 or more. The state's top rate is now 13.3 percent for all personal income taxpayers with taxable income over $1 million (this includes the 1 percent surcharge for mental health programs under Proposition 63 of 2004). Hawaii ranks second with a top tax rate 11 percent which kicks in at $200,000. Seven states do not impose a personal income tax.



Source: 2013 State Business Tax Climate Index

In terms of tax system progressivity, where a small number of higher-income taxpayers pay a larger share of their incomes in taxes, California has one of the most progressive tax systems in the nation. The Pacific Research Institute rated California 48 out of 50 on the progressivity of its tax structure, behind only Hawaii and New Jersey.[13] In the 2010 tax year, 14.8 million returns were filed with the California Franchise Tax Board (including all classifications). California taxpayers with an adjusted gross income (AGI) greater than $200,000 accounted for only 4.1 percent of the total tax returns filed, but paid 59.3 percent of the taxes collected. Taxpayers with an AGI greater than $400,000 (top 1.1 percent) account for 42.4 percent of the taxes collected.

Adjusted Gross Income	Returns	Tax Liability
No Taxes Paid	36.0%	0.0%
Less and $50,000	28.7%	4.0%
$50,000 to $100,000	20.2%	13.8%
$100,000 to $200,000	11.0%	22.9%
$200,000 to $400,000	3.0%	16.9%
More than $400,000	1.1%	42.4%

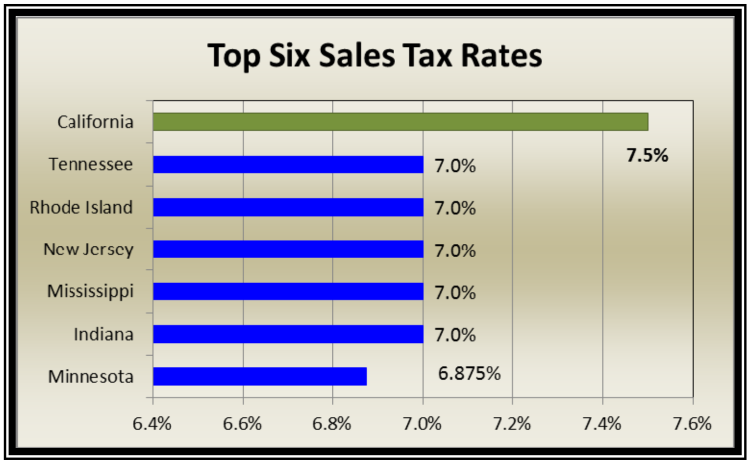
Source: FTB 2011 Annual Report

Also note that 36 percent of returns filed (approximately 5.3 million) either did not have a California tax liability or received a full refund of wage withholding. These numbers do not include (a) employees who did not file a return because they did not meet the minimum requirements to do so, and (b) the "scofflaws" who are required to file a return but did not.

[13] Pacific Research Institute – Taxifornia: California's tax system, comparisons to other states, and the path to reform in the Golden State. By Robert P. Murphy, PH.D., and Jason Clemens. March 2010

State Sales Tax: Highest in the Nation

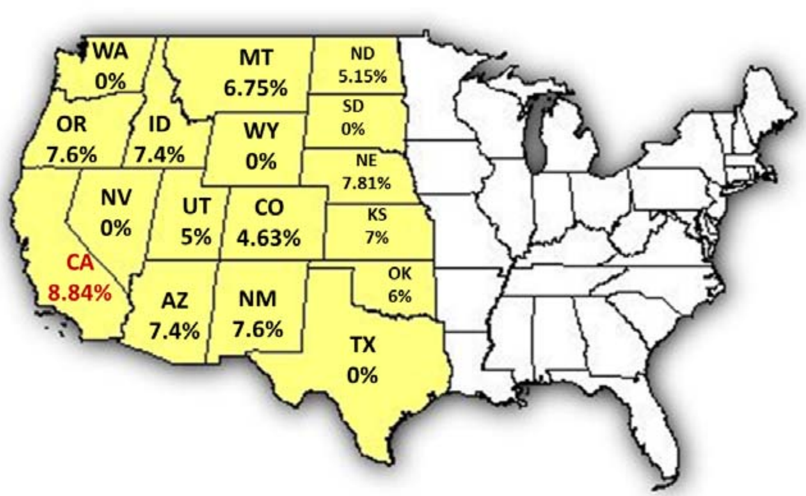
California imposes a 7.5 percent statewide sales and use tax on the purchase or use of tangible personal property, which is the highest statewide rate in the nation. This rate includes the passage of Proposition 30's quarter cent sales tax increase, which is effective January 1, 2013 through December 31, 2016. In California, cities and counties may also vote to increase the sales tax rate by up to two percent (2 percent) to fund activities within their localities. Three counties have a rate of nine percent (Alameda, Los Angeles, and Santa Barbara), while the statewide average (including local add-ons) is closer to eight percent. The following table shows how California compares to the next six highest statewide sales tax rates.



Source: 2013 State Business Tax Climate Index

Corporate Income Tax

California has the eighth highest tax rate in the nation at 8.84 percent levied on all corporate income. Only eight states have higher rates (Alaska, Delaware, Illinois, Iowa, Maine, Minnesota, New Jersey, Pennsylvania and District of Columbia). Iowa levies the highest tax rate at 12 percent, but that rate only applies to incomes over $250,000. Comparing states that levy flat rates (every dollar earned is taxed the same), California has the 6th highest of the 50 states. And, California still has the highest rate in the western United States.

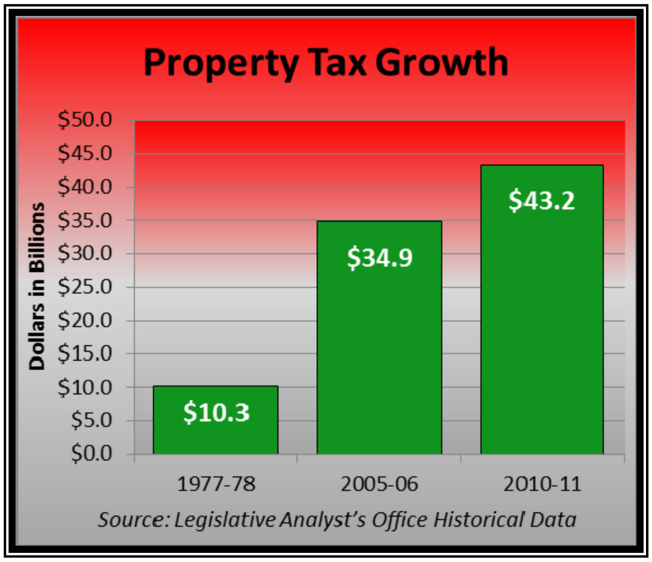


Data Source: 2013 State Business Tax Climate Index

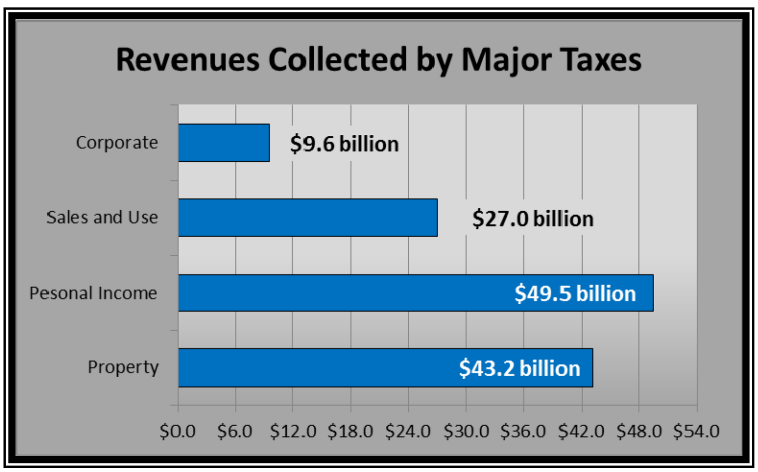
Property Tax: High, Even Under Proposition 13

While not the highest in the nation, California's property tax rates are in the top 30 percent. Notwithstanding the protections commercial and residential property owners receive under Proposition 13, which capped ad valorem taxes at 1 percent of assessed value, as of July 1, 2012, property taxes in California were $1,458 per capita, ranking California as 15th highest in the nation.[14]

In 2010-11, county assessors/collectors collected $43.2 billion in property taxes from taxable real property (not including property tax revenues raised from voter approved debt rates),[15] which is up from $10.3 billion in 1977-78 (after voters *cut* property taxes via Proposition 13) and $34.9 billion in 2005-06.[16]



As a source of tax revenue, property taxes are the second largest source of tax revenue behind personal income taxes which accounted for $49.5 billion in 2010-11 and accounts for more tax revenue than the state's sales and use tax and corporate income tax combined.



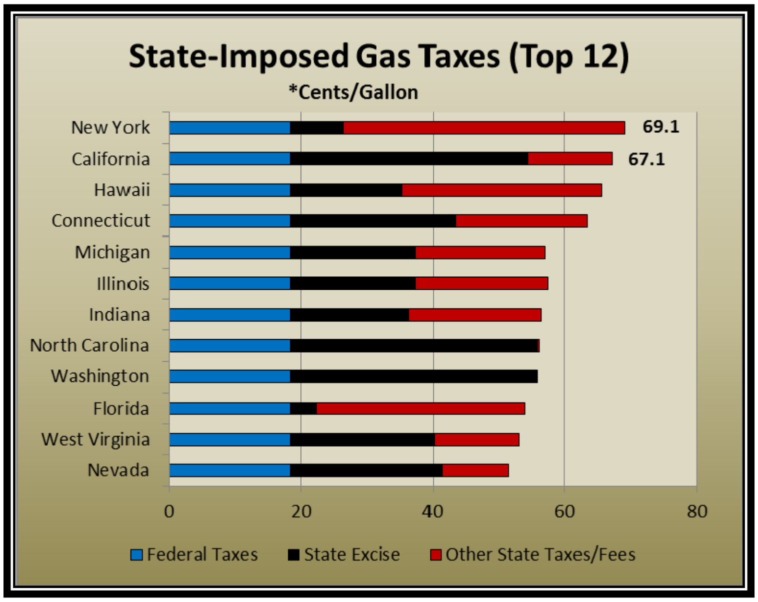
Source: Legislative Analyst's Office Historical Data

[14] Tax Foundation, "2013 State Business Tax Climate Index," published October 9, 2012. http://taxfoundation.org/article/2013-state-business-tax-climate-index

[15] Legislative Analyst's Office, "Understanding California's Property Taxes," published November 29, 2012. http://www.lao.ca.gov/reports/2012/tax/property-tax-primer-112912.pdf

[16] Legislative Analyst's Office, "California's Tax System: A Primer," published April 2007. http://192.234.213.2/2007/tax_primer/tax_primer_040907.aspx

Gasoline Tax: Second Highest in the Nation
Federal government collects 18.4 cents on every gallon sold in the United States. In addition, states levy their own sales, use and excise taxes, as well as other taxes and fees. According to the American Petroleum Institute, California imposes the second highest state gasoline taxes on consumers in the nation at 48.7 cents per gallon. Combined with the federal gas taxes, California taxpayers pay 67.1 cents for every gallon to the government, only two pennies behind New York taxpayers.[17]



Source: American Petroleum Institute

Conclusion:
If past and present policies are any indication of future actions, California will remain a high-tax state for the foreseeable future. With the addition of weak economic factors and burdensome government laws and regulations, it has become increasingly difficult for businesses to make products in this state at a lower cost than businesses in other states. Unless and until California's policymakers take actions to change, California will continue to be perceived as having a hostile business climate.

For additional information regarding this tax structure comparison update, call Joe Shinstock or Scott Chavez in the Senate Republican Fiscal Office at (916) 651-1501.

[17] American Petroleum Institute, "January 2013 Summary Reports," updated January 1, 2013. http://www.api.org/oil-and-natural-gas-overview/industry-economics/~/media/Files/Statistics/State_Motor_Fuel_Excise_Tax_Update.ashx

Senate Republican Fiscal Staff Assignments

Seren Taylor, Fiscal Director
Trish Lenkiewicz, Budget Committee Assistant

Contact Number: (916) 651-1501

Assignment Area	Consultant
Education	Cheryl Black
Public Safety, Judiciary, Corrections	Matt Osterli
Energy & Environment	Rocel Bettencourt
Health	Kirk Feely
Human Services, Public Employees Retirement	Chantele Denny
Revenue, State & Local Government, Taxes	Joseph Shinstock
Transportation, Veterans, Housing & Consumer Affairs	Heather White

For more information, please visit our website at http://cssrc.us/publications.aspx