Highlights and Analysis of the 2013-14 Final Budget - Updated

October 29, 2013
SENATE REPUBLICAN FISCAL OFFICE

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CALIFORNIA Senate Republican Caucus

Budget Briefs

SENATE REPUBLICAN FISCAL OFFICE

Highlights & Analysis of the 2013-14 Final Budget

October 29, 2013

Executive Summary

Conservative Revenue Forecast Saves The Day. The final 2013-14 state budget compromise generally reflects Governor Brown's more conservative revenue estimates and his desire to calm the legislative Democrats' exuberance for more government spending***. It is significantly better than the ruling party's alternative budget proposal*** that relied on the Legislative Analyst's Office's (LAO) optimistic revenue forecast to provide an additional $3.2 billion in tax revenues to fund their planned spending binge.

Spending Increases Lead To Tax Increases. Despite the improvements negotiated by the Governor, this budget plan still includes major spending increases for new programs and expansions of existing state programs that will grow larger in future years, thus imposing pressure to continue the Proposition 30 (November 2012) tax increases permanently, and undoubtedly other tax increases as well.

Record High Spending Levels. In fact, total state spending from all fund sources will hit a new record high at over $233 billion, while true General Fund program spending will surpass the pre-recession high ($103 billion) by about $5 billion - hitting around $108 billion.

Debt Repayment Clearly Not A Priority. While this budget plan includes many supportable elements, such as the additional funding for education programs and $2 billion of budgetary debt repayments, it ***fails to adequately prioritize reducing the $27 billion of existing budgetary debts and the state's $180 billion of unfunded retirement liabilities***.

More Taxes and Borrowing. Revenue growth from an improving economy and the voter approved tax increases from Proposition 30 provided more than $18 billion of additional tax revenue for the budget this year. It doesn't take a fiscal genius to balance the budget with that kind of new tax revenue growth, yet the Governor and legislative Democrats have chosen to go even further, by imposing an additional $645 million sales tax increase on Medi-Cal managed care plans and borrowing $500 million from AB 32 cap-and-trade tax revenues to bolster spending further and grow our state's debt load.

Budget Risks Everywhere. While the official state budget reserve is $1.1 billion, the Governor has acknowledged that the budget is only precariously balanced at best. The following is the short list of large-ticket items that could swing the state budget back into deficit mode:

- A recent judgment against the state in the *Gilbert Hyatt v. Franchise Tax Board* case will cost about $500 million if it stands. A Nevada Supreme Court decision is pending - oral arguments were heard on June 18, 2012 and the matter is now under submission.
- No funding is provided to address the recent federal court order to reduce the prison population, which could easily cost hundreds of millions of dollars for recidivism reduction programs,

community supervision and additional secure facilities. *UPDATE: Subsequent to passing the State Budget, SB 105 (Huff/Steinberg) Appropriated $315 million to prevent the early release of dangerous criminals.* *(See Public Safety, Page 27)*

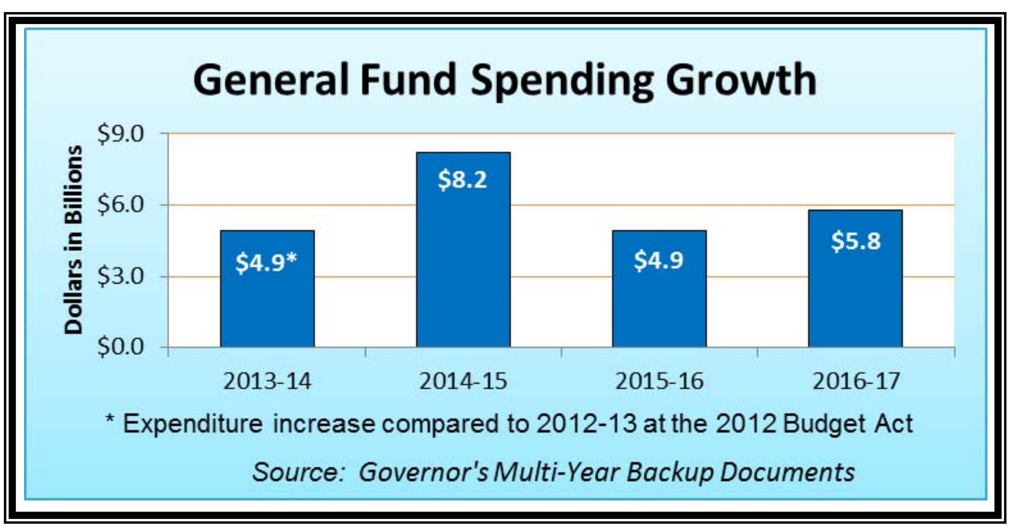
- Pending federal regulations could increase In-Home Supportive Services (IHSS) overtime costs by at least $200 million to $300 million, according to the Administration. Currently, the budget contains no funding or plan to deal with this issue.
- The budget assumes $1.5 billion from the dissolution of Redevelopment Agencies, despite at least 70 lawsuits pending on this issue.
- Both the Governor and LAO have expressed concern over volatility in the capital gains revenue forecast, which could swing revenues by billions of dollars.
- Rising health care costs could strain the budget since Medi-Cal will cover nearly 25 percent of the state's population, and state employee/retiree health care already costs billions of dollars. A change in the inflation rate could cost hundreds of millions more.

California Needs A Common Sense Rainy Day Reserve Fund. Governor Brown succeeded in slowing down legislative Democrats' government spending desires for now, but he fails to set an example by following the State Constitutional requirement to put money into a budget reserve fund. In addition, **the Governor should support the Republican effort to allow a vote of the people** on a true rainy day reserve pursuant to the bipartisan plan enacted in ACA 4 (2010) that would help ensure budget stability and avoid future budget crises.

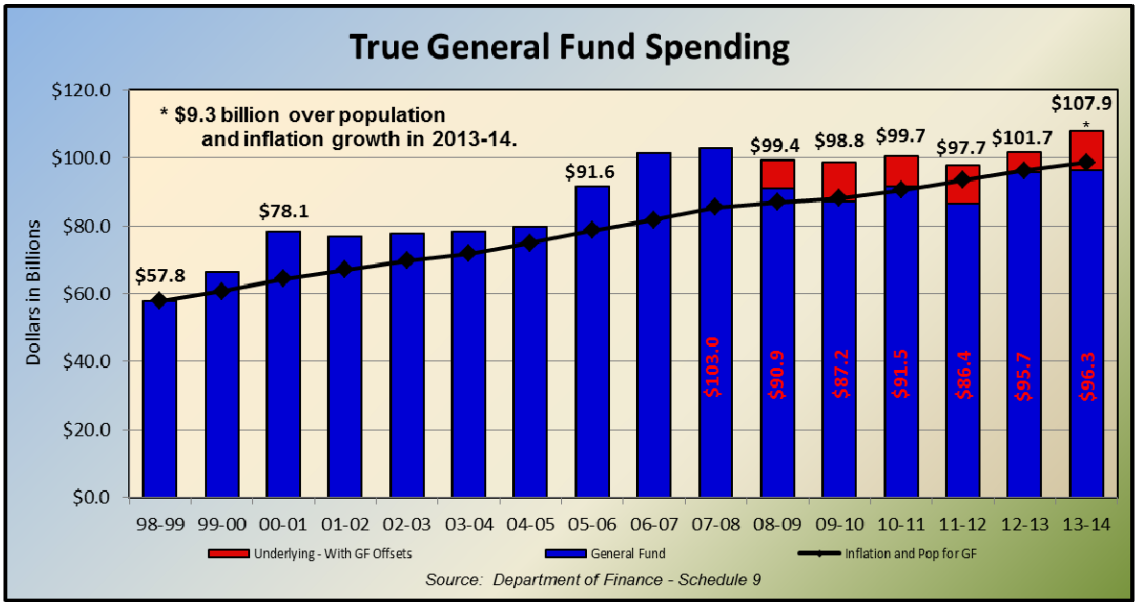
The Bottom Line. This budget prioritizes new spending over a more fiscally conservative approach that favors paying off accumulated state budgetary debts and unfunded retirement liabilities. Absent any changes, structural spending increases will grow in future years, and the interaction of that growth with the increased dependence on high income earners caused by the recently approved Proposition 30 *temporary* tax increases will inevitably lead California back into the "boom-and-bust" cycle that has caused a decade of fiscal crises.

Essential Charts:

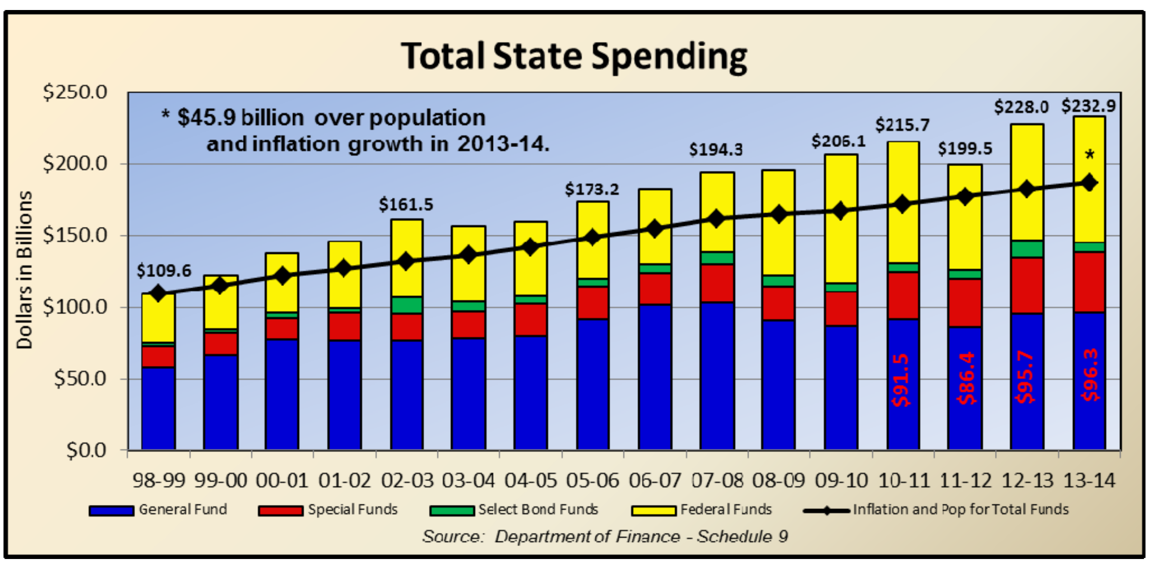
State Spending Grows Rapidly. The 2013-14 State Budget grows General Fund spending by $4.9 billion (5.5 percent) over the 2012 Budget Act level and by $23.9 billion (26.2 percent) over the next four fiscal years (*see chart below*). With regard to state spending, Governor Brown has said his budget "is a call for prudence, not exuberance." The Governor is preaching fiscal restraint, but **if a $24 billion spending increase is fiscal restraint, then one can only imagine what "exuberance" would look like.**



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, true General Fund program spending, which includes fund shifts, transfers, and various General Fund offsets, was never significantly reduced. As shown in the chart below, fiscal year 2013-14 General Fund program spending **totals $107.9 billion, which is $4.9 billion higher than the previous peak General Fund spending level and $9.3 billion higher than population and inflation growth.**



Total State Spending. General Fund spending is only a part of total state spending. Special funds, bond funds, and federal funds bring total state spending for 2013-14 to about $232.9 billion (*see chart below*). Despite the Great Recession and Democrats' claims of "cutting to the bone," total state spending has hit record high levels, and is $45.9 billion above population and inflation growth trends since the last stable budget in 1998-99 (with 'stable' defined as normal spending growth, with no significant new taxes or state spending reductions).



Proposition 30 Promises to Students Not Kept. In 2012, California voters signaled their willingness to prioritize education when they agreed via Proposition 30 to pay higher taxes to benefit education. However, actual K-14 Proposition 98 funding in 2013-14 will include less than $2.2 billion (35 percent) of the $6.1 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.* As shown in the chart below, if Proposition 30 revenues were dedicated solely to K-14 education, funding for the state's schools and community colleges would be over $3.9 billion higher in 2013-14 than provided in this budget.

Budget uses Prop 30 revenue for non-education programs
$ in billions

	2013-14
Minimum Prop 98 guarantee with no Prop 30 revenue	$53.121
Proposition 30 revenue	$6.087
Minimum Prop 98 guarantee plus all Prop 30 revenue	$59.208
Prop 98 funding included in final budget	$55.281
Prop 30 revenue used for non-education programs	$3.927

Instead of targeting all of the Proposition 30 revenue toward education, the Democrats' budget deal uses most of it for other priorities (e.g., about $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 (see Proposition 30 Promises Not Kept on Page 14).*

Revenues

The 2013 Budget Act projects total General Fund revenues of $98.2 billion in 2012-13 and $97.1 billion in 2013-14, and did not include rosier revenue estimates provided by the Legislative Analyst's Office that were more optimistic about capital gains growth. Page 8 of our *Highlights and Analysis of the 2013-14 May Revision* (http://cssrc.us/publications.aspx?id=14185) includes a chart that reflects changes in the Administration's revenue estimates over time, including a $3.3 billion increase over the 2012 Budget Act forecast in the Governor's January budget. The following chart reflects a summary of the current General Fund revenue projections assumed in the 2013 Budget Act.

General Fund Revenue Projections

	Dollars in millions	Growth over Prior Year	Percentage Growth
2011-12 Revenues	$86,786		
2012-13 Revenues	$98,195	$11,409	13.1%
2013-14 Revenues	$97,098	-$1,097	-1.1%

Revenue projections for the 2013 Budget Act reflect a variety of significant assumptions, including:

- Revenue projections for 2012-13 and 2013-14 reflect the impact of voters approving Proposition 30, which is estimated to generate $45 billion of new General Fund tax revenues over eight fiscal years. The following table reflects the most recent Department of Finance estimate of revenues related to Proposition 30 (totaling $44.5 billion).

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	$3,356	$4,780	$4,766	$5,355	$5,709	$6,017	$6,326	$2,582
Sales Tax		$598	$1,321	$1,427	$1,484	$812	$0	$0
Total	**$3,356**	**$5,378**	**$6,087**	**$6,782**	**$7,193**	**$6,829**	**$6,326**	**$2,582**

Source: Department of Finance Multi-year Backup Documents

- In May, the Governor pulled back a little on the "economic optimism." The May Revision reflected that while California and national economies are expected to continue modest-paced growth, they will be weaker than anticipated in the January Governor's Budget. With unemployment falling, the housing sector slowly recovering, and monetary conditions offsetting fiscal tightening at the federal level, growth is becoming more sustainable. However, the expiration of the two percent payroll tax holiday at the beginning of 2013 has notably reduced disposable income, and with consumers now preferring a higher saving rate, we are seeing decreased sales and use tax revenues.

- May Revision projections also reflected an unanticipated windfall of Personal Income Tax (PIT) revenues received by the state. In February 2013 the State Controller's Office reported that the state General Fund in January had collected $4.3 billion more revenue than projected in the Governor's Budget, driven by $4.8 billion of unanticipated PIT revenues. Through February, March, and April, revenue collections generally tracked with projections. The budget is now based on higher PIT revenues in both 2011-12 (about $425 million accrued back to that fiscal year) and 2012-13. In conjunction with other economic factors, the windfall revenues contribute to increasing the 2012-13 PIT revenue projections by nearly $3.3 billion.

- ***Proposition 39*** was projected to generate annual General Fund revenues of $1.1 billion, and required at least half ($550 million) to be used to fund projects that create energy efficiency and clean energy jobs in California. The 2013 Budget Act reflects General Fund revenues of $453 million in 2012-13 and $928 million in 2013-14.

Major New Tax Concerns in the Budget

New Sales Tax on Services May Be Camel's Nose Under the Tent. The citizens of California should be very concerned about legislative Democrats' desire to increase taxes on services. In 2011, the Senate Pro Tempore Steinberg authored SB 653 which would, among other things, allow counties to impose county-level excise taxes on any and all products **or services** purchased in that county. Now, the super-majority in the Legislature has passed a budget trailer bill (SB 78/Committee on Budget and Fiscal Review) that would impose a sales tax on sellers of Medi-Cal managed care plans "for the privilege of selling Medi-Cal health care services at retail."

This step by legislative Democrats could lead to expanding the sales tax to any and all other services. Since 2009, with the creation of the Commission on the 21st Century Economy, proponents have supported imposing the state sales tax on accounting services, tickets to movies and live sporting events, plumbing services, nail salons, dry cleaning, dog grooming, child care, elder care, landscaping, shoe shining, and the list goes on and on. **Tax one service now, and soon all other services are fair game.**

Seismic Safety Commission Tax. The budget includes a new tax of 15 cents annually on every insured property in California, both commercial and residential, to provide funding of $1.1 million annually for the Seismic Safety Commission (Commission). The Commission is tasked with lowering earthquake risk to life and property of Californians, a benefit which reaches beyond property owners to the general public. Prior to 2001-02, the Commission was funded with General Fund. In an effort to provide General Fund relief in 2001-02, an assessment was imposed on the gross receipts of insurers of commercial and residential properties. Last year, this assessment was determined to be unconstitutional under Proposition 26, which specifies that the state insurance tax is in lieu of all other state and local taxes on insurers, leaving the Commission to seek a new funding source. The solution? A new tax on the insured rather than the insurer. Governor Brown previously promised no new taxes without a vote of the people but that promise is now broken.

Other Tax-Related Issues in Budget

Holds Counties Harmless Under Triple-Flip Ends. The budget includes budget trailer bill language (AB 92/Committee on Budget) intended to mitigate a potential quarter billion dollar negative impact on counties that could result from an unanticipated "shortcoming" of the original legislation that established the "triple flip." The "triple flip" was established in 2004 to dedicate one-quarter cent of sales and use tax revenues to pay down the Economic Recovery Bonds, and involved backfilling lost county sales tax revenues with additional property taxes. The original legislation did not anticipate the lag time between the purchase point-of-sale and BOE calculating the adjustment amount for county property tax offsets. This bill would resolve that shortcoming, and ensure that counties receive the property taxes due to them as the Economic Recovery Bonds are paid off and the "triple flip" ends.

New Compliance Tool for Tracking Like-Kind Exchange Transactions. One area of high noncompliance within the state's tax code involves taxpayers not reporting gains on real property transactions after the property and taxpayer have "left the state." The budget includes budget trailer bill language (AB 92/Committee on Budget) that would require taxpayers to report transactions when they sell a California property and defer capital gains by purchasing an out-of-state property. That way, California will not be left out when the new property is sold and capital gains taxes are eventually owed to California and the other state. The California Taxpayers Association indicates that this would be a useful compliance tool in an area of high noncompliance.

Expenditures

The 2013 Budget Act includes total General Fund expenditures of $95.7 billion in 2012-13 and $96.3 billion in 2013-14, nearly equivalent to what the Governor proposed at the May Revision. As reflected in the table below, since the 2012-13 Budget Act was signed, total General Fund spending will increase by $4.3 billion in 2012-13 and an additional $617 million in the budget year, bringing the total year-over-year spending increase to $4.9 billion (a 5.4 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 *Revenues* section on Page 6.

General Fund Expenditures by Agency

(Dollars in Millions)

Agency	Budget Act 2012-13	Revised 2012-13	Budget Act 2013-14	Year over Year Change
Legislative, Judicial, Executive	$2,056	$2,002	$2,778	$722
Business, Consumer Services, Housing	$219	$217	$646	$427
Transportation	$183	-$54	$206	$23
Natural Resources	$1,900	$2,030	$2,124	$224
Environmental Protection	$46	$47	$46	$0
Health and Human Services	$26,695	$27,000	$28,084	$1,389
Corrections and Rehabilitation	$8,887	$8,743	$8,911	$24
K-12 Education	$37,848	$41,074	$39,661	$1,813
Higher Education	$9,432	$9,910	$10,923	$1,491
Labor and Workforce Development	$342	$345	$300	-$42
Government Operations	$668	$661	$742	$74
General Government/Other	$3,062	$3,689	$1,860	-$1,202
Total, General Fund Expenditures	**$91,338**	**$95,664**	**$96,281**	**$4,943**
Difference since the Budget Act		$4,326	$617	
- As a Percentage		4.7%	0.6%	5.4%

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 changes, 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 reflected in the table above, most major programs grow from the 2012-13 to 2013-14, with the exception of "General Government/Other." A variety of factors contribute to the $1.2 billion decrease for that category, 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 under Proposition 1A.

General Fund spending represents only 41.4 percent of total state spending in 2013-14. As shown on Page 3 of the *Executive Summary*, adding special funds, bond funds, and federal funds brings total state spending for 2013-14 to about $232.9. This level of total state expenditures is $4.9 billion higher than total expenditures in 2012-13 ($228.0 billion), and continues to exceed population and inflation growth since 1998-99 by $45.9 billion.

True state General Fund program spending, which accounts for fund shifts, transfers, and General Fund offsets that allow General Fund programs to continue growing, now totals $107.9 billion in 2013-14, this is 4.8 percent higher than peak General Fund program spending in 2007-08 (prior to the "Great Recession"). See the chart on the next page.

Underlying General Fund Program Spending (dollars in billions)	'07-08	'08-09	'09-10	'10-11	'11-12	'12-13	'13-14
General Fund Expenditures	$103.0	$90.9	$87.2	$91.5	$86.4	$95.7	96.3
"Offsets" to Maintain General Fund Program Levels	--	$8.5	$11.6	$8.9	$11.3	$6.0	$11.6
Total, General Fund Program Expenditures	**$103.0**	**$99.4**	**$98.8**	**$100.4**	**$97.7**	**$101.7**	**$107.9**
Percentage Change from Peak 2007-08 General Fund Spending		-3.5%	-4.0%	-2.6%	-5.2%	-1.2%	4.8%

Department of Finance – Schedule 9 & Chart H

Though direct General Fund spending is down (compared to 2007-08), true General Fund program spending nears $102 billion in 2012-13 and reaches $107.9 billion in 2013-14. In addition to $96.3 billion General Fund, the 2013 Budget Act relies on an assortment of "offsets" that boost funding for General Fund programs including: (1) nearly $1.5 billion of property taxes from redevelopment agencies to fund education, (2) realigning $6.3 billion of public safety programs to the local level, (3) $200 million of trial court reserves to fund court costs, (4) $969 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.

Employee Compensation

Time for State Employee Pay Raises. The cost of state employees is on the rise. Not only have the furloughs ended (furloughs that saved more than $800 million total funds, $400 million General Fund in 2012-13), but the 2013 budget includes an additional $507 million ($250.5 million General Fund) for employee raises and increases in health and dental benefits, bringing the **total cost of state employee salaries and benefits to $15.7 billion**. Since 2006-07, base employee compensation costs have increased $2.2 billion ($1.1 billion General Fund), and cumulatively, employee compensation increases have resulted in an additional $11.8 billion ($5.9 billion General Fund) added to the state's employee compensation expenditures at the same time spending on schools and public safety were reduced and taxes and fees have been increased by tens of billions.

More Pay Raises Yet to Come. Of the 21 bargaining units (BU), 18 bargaining units currently have contracts in place, with most expiring July 1, 2015 or July 1, 2016 (with the exception of BU 5- California Highway Patrol which expires July 3, 2018 and BU 8- Firefighters which expires July 1, 2017).

AB 1377 (Committee on Public Employees, Statutes of 2013) ratified the memoranda of understanding (MOU) for BU's 1, 3, 4, 11, 14, 15, 17, 20, and 21, represented by the State Employees International Union (SEIU) and AB 478 (Gomez, Statutes of 2013) ratified the MOU's for BU 6 (Correctional Peace Officers), BU 7 (Statewide Law Enforcement), BU 9 (Professional Engineers), BU 12 (Craft and Maintenance), BU 16 (Physicians and Dentists), BU 18 (Psychiatrists), and BU 19 (Health and Social Professionals). The contracts generally include the following concessions:

- A 3 to 4.5 percent increase in pay by July 1, 2015,
- A guarantee of no new furloughs,
- Increased business and travel expenses, increasing costs for hotels and food when state employees travel,
- Reduced the amount of time it takes for dependents to "vest" for health care (ie: state taxpayers will pick up the cost of state employees' dependent's share of cost after one year instead of two years on the job),
- Removed the time limit to use previously paid personal leave program days, increasing taxpayer liability for state employees' vacation days,
- The contracts are projected to cost the state **<u>$1.3 billion ($718.6 million General Fund)</u>** over the life of the contract.

Three BU's (about 6,650 employees out of 200,000 total included in the 21 bargaining units) are currently working under an expired contract. These include BU 2- Attorneys and Hearing Officers, BU 10- Professional Scientific, and BU 13- Stationary Engineer, whose contracts all expired on July 1, 2013. There has been no indication from the Administration whether or not these bargaining units will have new agreements to be considered by the Legislature in the upcoming year.

Economic Development

In May, the Governor proposed significant changes to how the state provides tax incentives to businesses, including the elimination of state tax incentives currently provided under the Enterprise Zone program and 2009 New Hire tax credit, and redirection of those tax incentives from one group of businesses to a different group of businesses. **Thus, no net gain for job creation.**

In lieu of elimination, Senate Republicans had fought for enterprise zone reforms rather than eliminating this important local government tool for economic development. However, it became clear that the Governor was committed to eliminating enterprise zones, either legislatively or administratively if necessary. AB 93 (Committee on Budget, 2013) was hastily drafted to accomplish the Governor's goals, but some Republicans intervened and negotiated a significantly improved package of job creation incentives. Republican changes resulted in a sales and use tax exemption that will be in place for eight years instead of four and a half (as proposed by the Governor) and a more useful hiring credit with a larger pool of eligible people than the Governor and legislative Democrats sought.

In exchange for eliminating enterprise zones, Manufacturing Enhancement Areas, Targeted Employment Areas, and Local Agency Military Base Readjustment Areas (LAMBRA) and their associated state tax incentives, AB 93 and SB 90 created the following new programs:

- <u>New Hiring Credit</u>. Targeted to areas of high unemployment and poverty rates, based on census tract data, and within the boundaries of former enterprise zones and former LAMBRAs. Employers would be eligible for a 35 percent credit on wages paid to long-term unemployed individuals, specified veterans, ex-offenders previously convicted of a felony, and recipients of the Earned Income Tax Credit, CalWORKs, and general assistance. Republicans supported five pilot projects in which employers would be eligible for the hiring credit for paying wages equivalent to $10 per hour (instead of $12). **These pilot projects could become a model for future hiring credits if they prove successful.**

- <u>Sales Tax Exemption for Purchasing Manufacturing and Bio-tech Equipment</u>. Republicans supported an exemption for the first $200 million of equipment purchases from the state share of the sales tax (4.19 percent) for eight years statewide. **With the highest economic multiplier of all options, California would for the next eight years be on par with the 48 other states that do not tax the purchase of manufacturing equipment.**

- <u>GO-Biz Investment Incentives</u>. Allows the Governor's Office of Business and Economic Development to negotiate with businesses to locate and/or expand in California, and provide income tax credits for meeting negotiated performance (capital investment, hiring, multipliers, etc.). Republicans showed some support for this type of targeted tax incentive. However, even with the "safe guards" included in these bills, **concerns still remain that the Governor and legislative Democrats may abuse this authority** and use these funds as a political opportunity to help favored friends and supporters to the detriment of all Californians.

Statewide Debt

Wall of Debt. The "Wall of Debt" (see Appendix A for details) 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, that schedule continues to be revised to balance the budget. The 2013 Budget Act includes three notable changes to the pay-down schedule:

- In January, the most notable change to the pay-down schedule was a $1 billion delay of repayments for special fund loans, requiring fee payers to continue supporting General Fund programs instead of the special fund programs (funded by the fee), for which they paid the fee in the first place.
- In May, the Governor proposed a $500 million loan of cap-and-trade auction revenues to the General Fund that **increases** the Wall of Debt in 2012-13. At a time when the state is collecting $18.7 billion more General Fund from tax increases and an improved economy, it is irresponsible to continue borrowing more money and growing the state's debt.
- The 2012 Budget Act allocated about $2.2 General Fund to reduce K-14 education deferrals in 2012-13. Now, the 2013 Budget Act allocates an additional $2 billion to pay down K-14 education deferrals over the two year budget window ($1.8 billion in 2012-13 and $272 million in 2013-14). This amount is $672 million less than Governor Brown proposed in the May Revision, which equates to more state spending in the final budget deal.

Statewide Debt. The "Wall of Debt" is but one small portion of total California debt obligations. Additional information regarding the big picture of statewide debt can be on found Page 30 of our *January 2013 Highlights and Analysis* document (*http://cssrc.us/pubs/130114_Budget_HighlightsAnalysis.pdf*), but for reference purposes, the state is also responsible for the following obligations:

- $181.2 billion of *Unfunded Retirement Liabilities*.
- $74.1 billion of outstanding *General Obligation Bond* debt.
- In excess of $11 billion of outstanding *Lease Revenue Bonds*.
- $8.4 billion will be owed to the federal government to cover the *Unemployment Insurance (UI) Fund deficit* by the end of 2013.

Debt Service Costs. The 2013 Budget Act appropriates $4.7 billion [$4 billion General Fund for General Obligation (GO) Bond debt] in 2012-13 and $5.7 billion ($4.9 billion General Fund for GO debt) in 2013-14.

Short-term Cash Borrowing. Each year the state borrows internally (from special funds within the state treasury) and externally (Revenue Anticipation Notes from financial markets) to fund the cash flow purposes when monthly and daily expenditures exceed General Fund revenue collections. The 2013 Budget Act appropriates $40 million General Fund for internal borrowing costs and $60 million for external borrowing costs.

Labor and Workforce Development

Unemployment Insurance Loan Repayment. The 2013 Budget Act includes $261.5 million General Fund to pay interest due to the federal government in September 2013 for an Unemployment Fund loan secured to pay Unemployment Insurance (UI) benefits. The UI fund began incurring this debt in January 2009 at the height of the "great recession" and currently owes about $8.4 billion. California has already borrowed $611.8 million from the State Disability Insurance Fund to make the first two interest payments ($303.5 million in September 2011 and $308.3 million in September 2012), and will continue to pay interest until the UI loan is fully repaid. In the interim, **the federal government is ratcheting up federal employment taxes (by 0.3 percent each year)** to pay down the principal on the federal loan, which is currently projected to be fully repaid by 2020. In this case, a lack of action by the Governor and legislative Democrats equates to a backdoor tax increase on employers. In California, it seems employers are always picking up the pieces.

Workers Compensation Regulatory Assessments. Historically, the Division of Occupational Safety and Health and the Division of Labor Standards Enforcement were General Fund costs. In 2009, the Legislature established two new assessments on workers' compensation premiums to fund the Occupational Safety and Health Fund (OSHF) and Labor Enforcement and Compliance Fund (LECF) to support these programs.

Both the OSHF and LECF assessments were subject to an annual cap on total revenue collections ($52 million for the OSHF and $37 million for the LECF) and were scheduled to sunset on July 1, 2013. ***The 2013-14 budget eliminates the sunset dates, permanently funding these programs with assessments on workers' compensation premiums, and increases the annual caps by a total of $14 million to $103 million ($57 million for the OSHF and $46 million for the LECF).***

In 2009, employers went along with new assessments on workers' compensation premiums on a limited-term basis (through July 1, 2013) to help the General Fund in its time of need. However, with new tax increases and the General Fund's recovery, this action raises significant concerns:

- Since 2009, expenditures in these programs have increased by 51 percent, from $62.8 million in 2008-09 (General Fund) to $94.8 million in 2013-14 (assessments). **Since the General Fund was replaced by the new assessments, it appears that the state has lost control over spending on these programs.**

- These assessment increases are in addition to increased employer taxes that are being imposed by the federal government to fund $8.4 billion of debt supporting the unemployment insurance program (noted above).

- Opponents of this change claim that it should require a two-third vote of the Legislature as a tax increase because it does not provide a direct benefit to the fee payer. However, the Administration claims that these assessments fund the "reasonable regulatory costs to the State incident to issuing licenses and permits, performing investigations, inspections, and audits." This difference of opinion may result in litigation to determine if this issue required two-thirds vote of the Legislature (instead of simple majority as part of a trailer bill).

Proposition 30 Promises Not Kept

Proposition 30 Spending on Education. According to the Proposition 30 ballot summary, its tax hikes were expected to generate additional state revenues of about $6 billion annually from 2012–13 through 2016–17, and smaller amounts in 2017–18 and 2018–19. The summary also stated that these additional revenues would be "available to fund programs in the state budget."

Nevertheless, the Governor and others who campaigned for the initiative led voters to believe that all of the Proposition 30 tax increase revenue would be used for education. After voters agreed to the new taxes, the Governor and legislative Democrats negotiated a budget that uses only about one-third of the new money (roughly $2 billion of the $6 billion generated) for K-14 education, with the lion's share of the revenue going for other priorities, e.g., to eliminate state employee work furlough days and fund salary and benefit increases ($600 million), and to grow health and human services spending (about $2 billion for Medi-Cal, CalWORKs, IHSS, state-funded child care, mental health, etc.).

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Proposition 30 revenue	$6.087
Minimum Prop 98 guarantee plus all Prop 30 revenue	$59.208
Prop 98 funding included in final budget	$55.281
Prop 30 revenue used for non-education programs	$3.927

Specifically:

- According to the Legislative Analyst, in the absence of Proposition 30 revenue, the Proposition 98 minimum guarantee of funding for K-14 education would be about $53.1 billion.
- Estimated revenue from Proposition 30 in 2013-14 is about $6.1 billion.
- Thus, if the $53.1 billion Proposition 98 minimum guarantee of funding for K-14 education was increased by $6.1 billion in expected Proposition 30 revenue, funding for K-14 education would rise to about $59.2 billion, rather than the $55.3 billion actually provided.
- The Administration says that all Proposition 30 revenue goes into a special account used entirely to fund education, which is true. However, what it fails to say is that these special funds offset state General Fund that would otherwise be required to meet the Proposition 98 guarantee of funding for K-14 education, thereby freeing up that General Fund for non-education uses.

Education

Proposition 98 funding. The chart below displays proposed Proposition 98 funding for K-14 education:

Proposition 98 Funding at 2013-14 Final Budget Act *Source: Legislative Analyst's Office* ($ in millions, rounded)	2011-12	2012-13	2013-14	change 12-13 to 13-14
K-12 education [1/]				
General Fund	$29,685	$36,676	$35,235	-$1,441
Local property tax revenue	$12,125	$13,760	$13,936	$175
K-12 subtotal	$41,810	$50,436	$49,170	-$1,266
California Community Colleges				
General Fund	$3,279	$3,701	$3,742	42
Local property tax revenue	$1,977	$2,251	$2,291	40
CCC subtotal	$5,256	$5,951	$6,033	82
Other Agencies	$83	$78	$78	-
Total Proposition 98	$47,150	$56,466	$55,281	-$1,184
General Fund	$33,047	$40,454	$39,055	-$1,399
Local property tax revenue	$14,102	$16,011	$16,226	$215
Prop 98 per-pupil funding (K-12)	$7,007	$8,448	$8,219	-$229

1/ K-12 education amounts include state preschool programs funded within Proposition 98 ($368 million in 2011-12, $481 million in 2012-13, and $512 million in 2013-14)

As the chart above shows, the 2012-13 Proposition 98 minimum guarantee of funding for education is $56.5 billion, and the 2013-14 guarantee is $55.3 billion (the drop in the minimum guarantee results from a drop in expected total General Fund revenue).

Deferral paydowns. The enacted 2013-14 budget provides funding to reduce the state's inter-year deferral of K-14 funding (part of the "wall of debt") by an additional $2 billion over two years, from $8.2 billion to $6.2 billion.

Common Core implementation. The 2013-14 budget includes $1.25 billion in one-time funding for implementation of new "common core" academic standards for K-12 education adopted by the State Board of Education in 2010. Local educational agencies (LEAs) can use these funds for any professional development, instructional materials, or technology-based instruction (i.e., computer-based testing) expenses necessary for common core implementation.

New K-12 funding formula. The final budget includes a new "local control funding formula" (LCFF) that was generally supported by Republicans for several reasons, including its focus on local control and flexibility. It establishes funding targets similar to those proposed by the Governor in his January budget. It will be phased in over eight years, as Proposition 98 funding grows. The 2013-14 budget provides an augmentation of about $2.1 billion (including about $32 million for county offices of education) to begin moving toward its funding targets. For school districts and charter schools, the targets are comprised of up to three layers of funding for each student. The first layer is 'base funding' provided for every student, according to grade span, as follows:

- Grades K-3: $6,845 (plus 10.2 percent for districts that make progress toward and ultimately achieve an average class size of no more than 24, unless otherwise collectively bargained)
- Grades 4-6: $6,947
- Grades 7-8: $7,154
- Grades 9-12: $8,289 (plus 2.6 percent to cover the higher costs of high school instruction)

The second layer is "supplemental funding" (equal to 20 percent of the base grant) for every student who is poor[1], an English learner, or in the foster care system.[2] The third layer is "concentration grant funding" (equal to 50 percent of the base grant), which goes only to districts where more than 55 percent of students fall into one of these three categories.

In addition to its main formula described above, the LCFF provides permanent "add-on" funding for about 130 school districts whose per-pupil funding 1) would be under the 90th percentile as calculated under the old system (i.e., about $14,500 per pupil by 2020-21), and 2) would otherwise decrease under the new formula. Known as the "economic recovery target" (ERT) add-on, it is intended to ensure that these districts' funding rises at least to their 2007-08 levels, adjusted for inflation, by 2020-21 (2007-08 was the last year before the state began making education funding reductions). Specifically, the add-on ensures funding equal to a district's 2007-08 revenue limit, increased by annual 1.94 percent cost of living adjustments through 2020-21, plus its 2007-08 categorical funding prior to Budget Act Control Section 12.42 or "fair share" reductions.

Continuing categorical programs. All K-12 categorical program funding was folded into the LCFF, except that associated with the following programs, which continue to be funded outside of the LCFF:

- Special education
- Child nutrition
- K-12 mandates block grant
- Before- and after-school programs
- State preschool
- Quality Education Investment Act (QEIA)
- Assessments (testing)
- American Indian education centers
- Partnership academies
- Agricultural vocational education
- Specialized secondary programs
- Foster youth programs
- Adults in correctional facilities (jail education)

Other categorical funding changes. The new funding formula provides unique funding treatment to four other former categorical programs:

- **Home-to-school transportation** (HTS) funding and Targeted Instructional Improvement Grant (TIIG) funding were not folded into the LCFF – both funding streams continue permanently at the 2012-13 level for districts who received it in that year. Districts who continue to receive HTS funding must spend it on pupil transportation.
- School districts and county offices of education that opted to operated **Regional Occupational Centers and Programs (ROCPs)** and/or adult education programs in 2012-13 (at which time funding for those programs were "flexed") will be required to maintain those programs at the 2012-13 level for two years, after which the funding will again become flexible at the local level.
- **Joint powers authorities** that currently operate ROCPs or HTS programs will continue to receive funding for two years, through 2014-15, to give them time to negotiate continued funding

[1] Defined as eligible for free or reduced-priced school meals.
[2] A student who meets more than one of these characteristics is only counted once for purposes of the formula.

through their school districts and county offices of education, or proceed toward an orderly shut-down.
- **Basic aid districts** will continue to receive the same amount of state aid as received in 2012-13.

Other notable budgetary actions related to the LCFF include:

- No limit on the number of years for which the state will pay extra for an English learner.
- Exclusion of taxpayer-funded child care (other than state preschool) from the formula. Those programs continue to be funded with non-Proposition 98 General Fund.

County offices of education funded separately. County offices of education (COEs) will operate under their own two-part funding formula, with one funding stream supporting services provided to districts and charter schools (e.g., budget review), and another supporting alternative education programs run directly by the COEs (e.g., juvenile court schools, community day schools, etc.). The regional services stream provides base funding of about $656,000 per county, plus additional funding based on the number of school districts and average daily attendance in the county. The alternative education stream provides base grants of about $11,200 per pupil, plus supplemental funding of 35 percent (of the base grant) for every student who is poor, an English learner, or in the foster care system, and additional concentration funding of 35 percent for COEs where more than 50 percent of the students enrolled in alternative education programs fall into these same three categories.

Significant LCFF concerns remain. Many in the school community have welcomed this shift of power away from Sacramento and toward local school boards. Unfortunately, that shift may be short-lived, as **the LCFF legislation did not eliminate the statutory requirements** associated with categorical programs whose funding was shifted into the formula. Leaving that language in the Education Code **opens the door for the ruling party and special interests in Sacramento to chip away at the initiative's central concept of local control,** and eventually reclaim power over school operations[3]. In addition, the LCFF effort failed to give local school boards ability to ensure high quality teachers in every classroom and failed to expand students' ability to attend schools of their choosing.

New California Career Pathways grant program. The budget provides $250 million in one-time funding for a new K-14 education grant program intended to reduce the high school dropout rate and improve students' skills in science, technology, engineering, and math (STEM) fields. It would fund competitive grants that leverage private investments, to expand available resources for programs that integrate academics with a technical curriculum based on industry-themed pathways such as engineering, arts/media, or biomedicine/health. Republicans have been generally supportive of this effort to prepare students for real-world jobs in STEM fields.

New energy efficiency program (Proposition 39). The final budget includes $428 million in new revenue resulting from voter approval of Proposition 39 for energy efficiency projects at K-12 schools ($381 million) and community colleges ($47 million). A related trailer bill (SB 73) authorizes minimum grants of $15,000, $50,000, and $100,000 for K-12 local educational agencies with average daily attendance of up to 100, 1,000, and 2,000, respectively. Larger LEAs will be funded based on two factors: average daily attendance (weighted 85 percent) and students eligible for free or reduced-price meals (weighted 15 percent). For those entities, funding is likely to average about $57 per pupil, +/- $6, depending on the percentage of students who qualify for free or reduced-price meals. SB 73 authorizes the Chancellor of the California Community Colleges to allocate the $47 million CCC appropriation as he sees fit. Republicans were generally supportive of this approach, based on its relatively equitable distribution of funds.

[3] Senator Emmerson has introduced a bill, SB 587, that would repeal, these obsolete categorized programs.

UC, CSU, and financial aid. Funding for UC and CSU is displayed in the chart below.

UC & CSU Funding at 2013-14 Final Budget Act

(Core funds, in millions, rounded)

	Fund	2011-12	2012-13 [4/]	2013-14
UC	General Fund [1/]	2,453	2,567	2,844
	Tuition and Fees [2/]	3,427	3,408	3,460
	Other UC Core Funds [3/]	388	441	385
	Lottery	30	37	37
	Total	$6,298	$6,453	$6,727
CSU	General Fund	$2,000	$2,304	$2,607
	General Fund (GO bond debt service) [1/]	180	188	197
	Tuition and Fees [2/]	2,568	2,514	2,544
	Lottery	42	56	56
	Total	$4,789	$5,062	$5,404
	Total	$11,087	$11,514	$12,131

[1/] Beginning in 2011-12, includes GO bond debt service. 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. Amounts not available prior to 2012-13.

Source: Legislative Analyst's Office

As the chart above shows, year-over-year General Fund support rises by roughly $300 million for each segment. Most of each augmentation ($250 million each) is comprised of the $125 million per segment appropriated in a 2012 budget trailer bill, AB 1502, plus another $125 million per segment proposed by the Governor and approved by the Legislature in the 2013-14 enacted budget.

While it provides funding augmentations for both UC and CSU, the final budget does not impose any new "performance measures" as a condition of future UC and CSU funding augmentations, nor does it restrict future tuition increases. *Assembly and Senate Republicans have strongly advocated that **a strict tuition freeze should apply for as long as the Proposition 30 tax hikes are in effect,*** and have proposed via AB 67 (Gorell)[4] and SB 58 (Cannella)[5] to implement such a freeze.

In addition to the budgetary augmentations for UC and CSU referenced above, the higher education trailer bill, AB 94, takes several other budget-related actions. Most notably, it does the following:

- Authorizes a new **"Middle Class Scholarship Program"** for students with family incomes of less than $150,000, but above the eligibility limits for CalGrants, beginning in 2014-15. Republicans were generally supportive of this effort to provide relief to middle-class families, who are ineligible for the subsidies available to lower-income families through CalGrants and other types of financial aid.
- Allocates $15 million from existing UC funding for the new UC Riverside medical school
- Appropriates $375,000 to equip the new science and engineering building at UC Merced
- Folds UC debt service into its base budget and authorizes UC to restructure that debt to lower its short-term costs

[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

HEALTH

The budget package for health programs focuses on implementing federal health care reform, launching targeted new initiatives, and restoring a few program reductions made in previous budgets. The following chart summarizes the budgets and notable actions since 2012-13 for the largest health departments. The most significant budget components are then discussed in more detail below.

Summary of Department General Fund Spending					
Dollars in Millions					
	Revised	**Final Budget**	**Change from 2012-13 to 2013-14**		
Department	**2012-13**	**2013-14**	**$**	**%**	**Key Changes Since 2012-13**
Health Care Services, Medi-Cal	$14,929	$16,093	$1,164	7.8%	Expansion of Medi-Cal eligibility due to ACA; addition of adult dental benefit and new mental health/substance abuse benefits; transition of Healthy Families kids to Medi-Cal; expiration of one-time cash shift in 2012-13.
Public Health	131	114	-17	-12.6%	Shift of ADAP enrollees to local coverage or to ACA programs
MRMIB	166	22	-144	-86.7%	Healthy Families Program elimination.
Developmental Services	2,677	2,802	125	4.7%	Enrollment growth; expiration of provider rate reductions; loss of some federal funds for Sonoma Developmental Center.
State Hospitals	1,351	1,453	102	7.6%	Facility expansion, caseload growth
ADAP - AIDS Drug Assistance Program					
MRMIB - Managed Risk Medical Insurance Board (administers Healthy Families)					
ACA - Federal Affordable Care Act					

Medi-Cal Health Reform Implementation

The budget provides for certain costs and savings related to the Medi-Cal expansions authorized by the federal Affordable Care Act (ACA), which are set to take effect January 1, 2014. The budget package includes two special session bills [SB 1 (Hernandez) and AB 1 (Perez), both of the 2013 First Extraordinary Session] that specify key details on how these expansions will be carried out.

Optional Expansion Could Drive Huge Costs. The “optional” Medi-Cal expansion refers to new eligibility for non-disabled adults younger than 65 years of age who do not have children. These adults would be eligible if their incomes are below 138 percent of the federal poverty level ($15,856 for an individual). The ACA provides that the federal government will pay 100 percent of Medi-Cal coverage costs for these newly eligible adult enrollees for the first three years, after which the federal share would ratchet gradually down to 90 percent of costs by 2020. According to estimates by the Legislative Analyst’s Office, the state’s cost could range from $60 million to $257 million General Fund beginning in 2016-17, when the federal share begins to decline, and could exceed $1 billion by 2019-20. Unfortunately, SB x1 1 includes only weak “tie-back” protection: it would only mandate a program retraction if the federal government reduces its share below 70 percent prior to January 2018, and only after a 12-month delay. A smaller reduction of federal support, or any reduction after January 2018, would leave the state on the hook for billions of dollars of General Fund costs. Once this expansion is up and running, legislative Democrats are virtually certain to leave it in place no matter how much the costs increase.

Mandatory Expansion Also Costly. The mandatory portion of the ACA expansion refers to various eligibility standardization requirements, which generally set the income threshold at 138 percent of the federal poverty level ($32,499 annually for a family of four), and the mandate that most citizens obtain health coverage. Many individuals who could have enrolled under the old rules are expected to sign up due to the mandate, and the state must pay its usual 50 percent share of their costs. The budget includes $104 million General Fund for this part of the expansion, but this may understate the true costs because legislative Democrats reduced the Governor's estimate for this population by $84 million in order to fund other programs.

County "True-Up" Rips Off Local Health Funds. Counties are currently responsible for providing coverage to the uninsured, and are estimated to spend around $1.5 billion annually from 1991 realignment revenue on health programs. Many uninsured people are likely to enroll in the expanded Medi-Cal Program at some point after January 1, 2014, and the budget authorizes a mechanism to shift some of that county funding to the state. (Technically, the budget achieves these savings through a realignment mechanism involving CalWORKs, as described below under the Human Services section (see Page 23).

- For 2013-14, the budget includes state savings of $300 million to shift some of this county funding to the state for the first six months of the Medi-Cal expansion. Each county must pay a pro rata share of its realignment funding to reach the $300 million total savings amount.

- For 2014-15 and beyond, the budget package establishes savings formulas that would determine how much funding each county must shift to the state**.**

Unfortunately, the formulas likely will leave many counties without enough funds to maintain adequate health system infrastructure in their regions. The 34 mostly rural counties that are in the County Medical Services Program (CMSP)[6] will not have the ability to "true up" their actual costs with the funds that would become state savings. Additionally, some counties that do not operate a county hospital[7], such as Orange County and Santa Barbara County, believe that the funding mechanism in this bill will leave them short of needed funds as well. Only counties that operate public hospitals appear generally satisfied with the savings formulas, and one of them, Los Angeles County, received special treatment. The formulas also give county providers some advantages over private safety net providers, such as by mandating that managed care plans pay them cost-based reimbursement and by directing certain enrollees to county providers by default.

Major Benefit Expansion. The special session bills (SB x1 1 and AB x1 1) adopted as part of the budget package set out the benefits to be provided under the Medi-Cal expansions. Notably, benefits will include expanded mental health and substance abuse benefits for both existing and new Medi-Cal populations. The budget includes $67 million General Fund to pay for these mental health benefits in 2013-14, and **the annual costs will likely surpass $130 million General Fund.** Also, long-term care will be available only if the federal government agrees to allow Medi-Cal to maintain an asset test for

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[6] The 34 CMSP counties likely to be short-changed by this budget are Alpine, Amador, Butte, Calaveras, Colusa, Del Norte, El Dorado, Glenn, Humboldt, Imperial, Inyo, Kings, Lake, Lassen, Madera, Marin, Mariposa, Mendocino, Modoc, Mono, Napa, Nevada, Plumas, San Benito, Shasta, Sierra, Siskiyou, Solano, Sonoma, Sutter, Tehama, Trinity, Tuolumne, and Yuba.

[7] The 12 counties that do not operate county hospitals are Fresno, Merced, Orange, Placer, Sacramento, San Diego, San Luis Obispo, Santa Barbara, Santa Cruz, Stanislaus, Tulare, and Yolo.

that benefit only. While it is prudent to maintain an asset test for long-term care, the expansion of mental health and substance abuse benefits goes beyond what federal health reform requires.

Managed Care Sales Tax Sets Dangerous Precedent

The budget package extends the previous gross premiums tax (GPT) retroactively on Medi-Cal managed care organizations (MCOs) until June 30, 2013, and then **imposes a new sales tax of 3.94 percent on Medi-Cal MCOs for three years.** The previous GPT tax of 2.35 percent expired June 30, 2012. The retroactive 2012-13 GPT would generate $333 million in state revenues and provide $166 million in General Fund savings, primarily to offset the 2012-13 Healthy Families Program deficiency. The rest of the funds would be returned to managed care plans in the form of higher Medi-Cal rates. The new sales tax, which would force Medi-Cal managed care plans to pay a tax of 3.94 percent on their revenues, would generate proceeds of $645 million to the state in 2013-14 and provide General Fund savings of $305 million (with the remaining funds returned again to managed care plans through higher Medi-Cal rates).

Republicans opposed the extension of the GPT due to the elimination of the Healthy Families Program, but switching to a state sales tax going forward raises additional concerns:

- Unlike the GPT, which is fixed at 2.35 percent in the state Constitution, the sales tax rate can be raised with a two-thirds legislative vote and Governor's signature. Thus, Democrats will find it much easier to raise this sales tax.

- Now that a sales tax has been applied to one service, allowing the proverbial camel's nose under the tent, it will be more tempting for legislative Democrats to apply that sales tax to other services. These concerns are discussed in more detail under the Revenue Section on Page 6.

Other Medi-Cal Issues

- *10 Percent Provider Rate Reductions Threaten Patient Access.* The budget assumes net savings of $459 million General Fund in 2013-14 from implementing the 10 percent rate reductions that were originally authorized as part of the 2011-12 budget, then delayed by court actions. The 10 percent reduction alone could be enough to drive more providers out of the Medi-Cal network, but the budget creates even greater risks: in order to recover the savings retroactively, the Administration will actually impose reductions in excess of the 10 percent level over a period of 24 months to 30 months. Despite broad bipartisan support for policy bills that would have reversed all or part of the rate reductions [SB 640 (Lara) and SB 646 (Nielsen), both of 2013], the budget provides no relief for most providers. This action threatens to reduce patient access to care at the same time the state is implementing a major Medi-Cal eligibility expansion under federal health reform. *UPDATE: The hospital quality assurance fee bill (SB 239; see paragraph below) includes a provision to restore Medi-Cal reimbursement rates prospectively for distinct-part nursing facilities beginning October 1, 2013. This welcome restoration of rates for these facilities is expected to cost $30 million General Fund annually. However, these facilities will still be subject to the rate reductions for the period from June 2011 through September 2013.*

- *Flawed Coordinated Care Initiative (CCI) Still Planned.* The budget package revises the CCI program, which is a large pilot project to deliver all health and long-term care and social support services through Medi-Cal managed care plans for "dual eligible" enrollees in eight counties. The CCI pilot now would begin no earlier than January 2014, and the Department of Finance would have the authority to terminate the CCI if it appears that the program would not generate savings for the state. Although the budget claims savings of $120 million General Fund from the CCI in 2013-14, the reality is that this amount includes cash deferral gimmicks of $199 million and an increase of $141 million in MCO tax revenues (since the CCI enrolls high-cost patients into Medi-

Cal managed care). Absent these effects, the CCI would cost the state $220 million in 2013-14. The CCI continues major flaws like holding managed care plans at risk for In-Home Supportive Services benefits that they cannot control, and Republicans continue to have concerns about whether the CCI can ever achieve actual programmatic savings.

- *Reimbursement Change for Small Public Hospitals Could Be Problematic.* The 2012-13 budget included $94 million in General Fund savings associated with switching small public hospitals (mostly district hospitals) to a "certified public expenditure" reimbursement method. Due to lack of federal approval for that proposal, the 2013-14 budget abandons that policy and reinstates the General Fund spending. Instead, these hospitals will transition to the "diagnosis-related group" (DRG) method effective January 1, 2014 (six months after private hospitals will transition to the DRG method). This change in direction will drastically alter the reimbursement method for small and often rural hospitals without much time for those hospitals to evaluate the potential fiscal effects. Closure of any of these facilities, which are often in rural areas, would substantially harm patients in those areas. *UPDATE: AB 498 (Chavez), which passed the Legislature September 9, 2013, would authorize the Department of Health Care Services to seek new federal funds that could bring additional reimbursements of $53 million over two years to small public hospitals. If the federal government approves these payments, the state would also realize the same amount of savings to the Medi-Cal Program.*

- *Hospital Quality Assurance Fee (QAF).* The budget assumes new savings of $310 million General Fund in 2013-14 from revising the QAF and extending it for three years starting January 1, 2014. This amount would be in addition to $310 million in savings already assumed for the first six months of the budget year. Although the savings are assumed in the budget, a policy vehicle currently in the legislative process (SB 239, Hernandez) would actually implement this extension. **Some hospitals have expressed concerns that the state would retain too large a share of the proceeds under this proposal, making the QAF look more and more like just a tax rather than a fee.** *UPDATE: The Legislature passed SB 239 on September 12, 2013. The hospital industry reached consensus support for the bill, which includes a provision limiting the state's share of the savings in future years to 24 percent of the net benefit to the hospital industry.*

Mental Health Wellness Initiative

The budget package enacts a mental health wellness initiative that seeks to expand community-based mental health crisis treatment capacity. The budgeted cost of the initiative is $206 million, including the following:

- One-time General Fund expenditures of $143 million General Fund, including $125 million in grants to develop residential crisis treatment facilities.

- On-going expenditures of $39 million from the Mental Health Services Account (Proposition 63), including $32 million to help support 600 triage personnel.

- On-going expenditures of $25 million in federal funds, including $22 million to help support 600 triage personnel.

Republicans argued that Proposition 63 funds should be used instead of General Fund for this initiative, and both the Legislative Analyst's Office and the Department of Finance agreed that approach was possible. However, legislative Democrats insisted on increasing General Fund spending. Nonetheless, the package should help to develop additional facilities for treatment and the training of personnel that could eventually provide more appropriate treatment for the seriously mentally ill and help to keep those individuals out of jails and emergency rooms.

<u>Department of Developmental Services (DDS)</u>

The DDS budget includes the following key elements:

- *Planning for the Future of Developmental Centers.* The budget package requires DDS to submit one report on the future of developmental centers and a subsequent report discussing the related fiscal effects. It also sets a firm target date for completing the closure of Lanterman Developmental Center by the fall of 2014 and no later than December 31, 2014. While more should be done to shift costs from the antiquated, high-cost developmental center system into community-based services, the budget package moves the discussion forward on potentially closing more developmental centers.

- *Disincentives for Private Insurance.* The budget package authorizes regional centers to pay copayments on behalf of consumers with private insurance who have incomes of less than 400 percent of the federal poverty level (about $92,000 for a family of four), but prohibits regional centers from paying deductibles. The prohibition on paying deductibles treats those families unfairly because the fact that they have private insurance at all saves the state money. If they had no insurance, DDS would pay for the entirety of their benefits, which often involves autism-related services for children. Also, most of the regional centers had agreed on their own to pay deductibles on behalf of at least some consumers, so the budget actually will result in higher out-of-pocket costs for those consumers. The budget assumes savings of $5.1 million General Fund by asking families to pay deductibles themselves.

- *Provider Rate Restoration.* The budget includes an increase of $32 million General Fund to reflect the sunset of the previously enacted rate reduction of 1.25 percent for community providers and regional center operating costs. This restoration should help to maintain the network of providers that serves the developmentally disabled population in the cost-efficient community delivery system.

HUMAN SERVICES

The 2013 budget includes minor spending reductions within the state's human services program (far less than previously budgeted) and major spending increases, including a five percent increase in CalWORKs cash grants, an increase in CalWORKs administration funding allocated to counties, expansion of work activities and of CalWORKs subsidized employment, and an increase in the vehicle asset limit that move the program from a work focus to a **welfare first focus**.

<u>CalWORKs</u>

Cash Grants on the Rise-California Could be Second Highest in the Nation. The 2013 budget includes $50.9 million (county Realignment funds) for a five percent increase in CalWORKs grants (with full year costs of $150 million projected for the five percent increase), and authorizes annual increases until grants reach 50 percent of Federal Poverty Level (FPL). The five percent grant increase in 2013-14 and future grant increases will be funded through the redirection of 1991 realignment general growth revenues. If counties do not have sufficient realignment funding to cover the additional costs, the state General Fund is on the hook for the balance. This could result in additional state **costs of $1 billion** upon reaching the 50 percent of FPL level, making California the **second highest welfare cash grant in the nation**.

Welfare Without Work. The 2013 budget unwinds CalWORKs reforms included in Chapter 47 (SB 1041, Statutes of 2012) by loosening participation requirements, increasing subsidized employment (which will result in more recipients retaining welfare after 24 months), and delaying when a recipients time on aid "clock" begins for welfare recipients. The budget includes $48.3 million, growing to between $150 million and $250 million annually for these program enhancements. SB 1041 adopted a 24 month time-on-aid clock, allowing for any type of activity identified as necessary to remove barriers to meet participation requirements within those 24 months. The 2013 budget would delay the start of the clock for those receiving the newly created family stabilization services (e.g., individuals receiving mental health and substance abuse services), lengthening recipients time on aid while not having to participate in work activities. **Essentially, this is a move backwards to a welfare <u>without</u> work program.**

Increasing Vehicle Asset Limit Expands Eligibility. The 2013 budget not only increases the vehicle asset limit from $4,650 to $9,500 but also uses the equity value of the car rather than the highest of fair market value or equity value, as is current law. This means that a welfare recipient could have a $30,000 loan on a car, have $3,000 in equity (from a down payment for example) and still be eligible for welfare. However another recipient that owns an older car outright, with a value of $9,501 would not be eligible for the program. **This is an example of rewarding irresponsible behavior for those on government welfare.**

Stealing From Peter to Pay Paul. With the passage of federal health reform, and the state's decision to expand Medi-Cal to the indigent population currently served at the county level, the state will incur additional costs in the hundreds of millions, while the counties would save hundreds of millions (in Realignment funding) due to no longer having to serve this population. The 2013 budget provides a fund shift for the state to offset some of the additional Medi-Cal costs by requiring counties to utilize freed up county realignment funds for costs within the CalWORKs program. The 2013-14 budget includes savings of $300 million within CalWORKs as a result of increasing counties' contributions for assistance payments due to this "county clawback," eventually projected to reach $1 billion in subsequent years. *(See County True-Up Rips Off Local Health Funds on Page 20)*

Funding Increase for CalWORKs Services. The 2013 budget includes a $241 million increase in county administration to support refocusing efforts through employment services and expanded job development activities, intensifying case management for non-participating recipients, reengaging previously exempt CalWORKs adults, and providing job search and child care support.

These augmentations flow through what's known as the state's CalWORKs "single allocation." The single allocation is basically a vast pot of funding that the counties determine how best to use to administer the CalWORKs program. Since single allocation funding can be flexibly expended on numerous activities, including program administration and child care, **it will be difficult to assess in the future how counties are utilizing funds,** if these funds are actually expended on the intended activities **or if they are expended on salary increases for county employees.**

General Fund Pays for Ineligible Adults and Felons on Welfare – The 2013 budget includes $447 million General Fund for CalWORKs cash grants for cases with a fleeing felon, an adult who has been getting welfare checks for five years, or an adult not looking for work, including these types of cases in a program outside of CalWORKs that is funded with General Fund (referred to as Non-Maintenance of Effort General Fund). The new program results in the state spending $447 million more General Fund than is required by the federal government within CalWORKs, a policy that will eventually move this caseload from the CalWORKs program and into a state-only program**. General Fund costs will increase by hundreds of millions in subsequent years above the state's required expenditure limit.**

<u>In-Home Supportive Services</u>

Costs and Caseload Continue to Grow. The 2013 budget includes $6.2 billion ($1.9 billion General Fund) for the In-Home Supportive Services (IHSS) program, an increase of three percent above revised 2012-13 expenditures of $6.0 billion ($1.8 billion General Fund). The budget projects the average monthly caseload in IHSS will be 448,225 recipients in 2013-14, **an increase of 1.2 percent** above revised 2012-13 projections. The 2012-13 average monthly caseload is projected to be 442,769, an increase of 2.0 percent from the prior year.

Counties Lose Incentive to Control Cost. The 2013 budget includes $76 million General Fund in 2013-14 for higher IHSS costs as a result of the IHSS county MOE, authorized as part of the 2012 budget, and which shifts program costs above the 2011-12 level to the state General Fund. **Counties now have even less incentive to maintain program integrity as they will not share in any future cost increases.**

Program Integrity Efforts Fail- Health Care Certificate Savings Erode. The 2013 budget includes an increase of $95 million General Fund in 2013-14 that reflects eroded savings related to the IHSS health care certification requirement. The 2011-12 Budget included savings of $67.4 million General Fund as a result of a requirement that all IHSS applicants and recipients have a certification of need from a licensed health care professional prior to receipt of services. The Governor's January Budget increased the savings projection to $97 million, but now the final 2013 budget includes savings of only $2 million annually. **Clearly the effort to ensure recipients are truly in need has failed due to use of "licensed health care professional" in lieu of "physician" in statute, a loose definition that allows acupuncturists, psychiatrists, and dental assistants to authorize an IHSS recipient's need for home health care services.**

IHSS Settlement Results in $277 Million Less Savings. The 2013 budget includes General Fund savings of $178.2 million General Fund in 2013-14 for an eight percent reduction in IHSS hours, and $159 million in 2014-15 for a seven percent reduction in IHSS hours. Chapter 4, Statutes of 2013 (SB 67), codified the terms of a settlement agreement reached between the Administration and plaintiffs, resolving outstanding lawsuits affecting the IHSS program and replacing previously enacted reductions with an across-the-board reduction in hours and a future tax or assessment on home care services intended to offset the reduction going forward. **The agreement results in a reduction that is $277 million less than other budget reductions the Administration refused to argue for.**

SB 67 repeals provisions that included a 20 percent reduction in hours, reduced participation in wages, and provided more restrictive eligibility criteria. SB 67 also authorizes the seven percent reduction to be partially or fully offset by General Fund savings resulting from a new tax or assessment on home care services, including IHSS. The settlement agreement results in significantly less General Fund savings when compared to the savings of the other budget reductions that were enjoined by the court. **If the state prevailed, savings would be $436 million General Fund, $277 million more than the settlement agreement.**

Federal Overtime Regulations Result in Major General Fund Cost Pressure. In addition to the lost savings from the settlement agreement noted above, proposed federal regulations would now require the state to pay overtime rates in the IHSS program, resulting in significant cost pressure on the state General Fund. In a recent Senate Full Budget and Fiscal Review Committee, when asked what the Administration's plan was for dealing with the federal regulations and what the potential cost would be to the state, the Governor's Department of Finance responded that there was no plan to address the issue and state costs could increase by at least $200 million to $300 million. With the release of the Governor's May Revision, the Administration had indicated that language would be forthcoming to address this issue, but after waiting weeks for its release, the Administration back-pedaled and said no language would be released. **These regulations could increase IHSS costs in the hundreds of millions of dollars.**

Realignment

<u>2011 Public Safety Realignment</u>

The enacted budget provides continued funding for the 2011 Public Safety Realignment (Realignment) of $6.3 billion in 2013-14, including $5.8 billion General Fund and $467 million Motor Vehicle License Fee Account. Of the total $6.3 billion, $4.1 billion would support realigned programs in the area of health and human services and $2.1 billion would fund local criminal justice programs. Of the $2.1 billion for criminal justice, less than **$1 billion is provided 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 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 prison capacity, programming, and legal problems to local governments. Meanwhile, the Governor and legislative Democrats continue to insist that there are no problems with Realignment, despite constant news reports of realigned offenders committing violent crimes like rape and murder.

At the local level, many sheriffs are struggling to manage overcrowded jails and are being forced to release criminals early. Sheriffs describe the "hardening" of the criminal element within their jails – the result of dangerous felons comprising a growing percentage of jail populations. Sex offenders are cutting off their GPS monitoring devices because there are no serious repercussions. The same legal issues associated with prison overcrowding that have plagued the state for years are beginning to flare up in local jails. Counties are finding 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.

Democrats Reject Effort to Adequately Fund Realignment. The concept behind Realignment – improving public safety outcomes by supervising certain offenders locally – has some merit. Local agencies tend to have better access to rehabilitative programs and services than the state does, which can give them an advantage in the effort to reduce recidivism. Designed properly and adequately funded, Realignment could have potentially improved public safety 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 effort to dump offenders with high recidivism rates on local law enforcement agencies as a means for the state to save money. Furthermore, state funding for Realignment has been grossly inadequate and has favored relatively wealthy counties, mostly represented by the ruling party, rather than counties that experience the greatest impact from Realignment.

In late January, Republicans introduced a common-sense solution to Realignment's funding problems. SB 144 (Cannella) would have reinvested state prison savings from Realignment into preserving and enhancing public safety by allocating those savings to local government agencies charged with implementing Realignment. It would have created a new pool of Realignment funding to supplement the funding provided under current law, allocating the new funding based on a formula wherein the money follows the offender. This approach would have compensated for some of the problems with the existing formula. The bill was heard in the Senate Budget and Fiscal Review Committee, where Democrats killed it on a straight party-line vote.

Public Safety

Community Corrections Performance Incentive Grants. Pursuant to the California Community Corrections Performance Incentives Act of 2009 (SB 678), the state awards grants to county probation departments that successfully reduce their felony probation failure rates. The program is funded by state savings from reduced prison incarceration. Republicans have generally supported this performance-based concept to improve the success of the probation system.

As a result of the Governor's 2011 public safety realignment, total funding available to counties under the original SB 678 formula would have been dramatically reduced (from $138.9 million in 2012-13 to an estimated $34.8 million in 2013-14). Without some adjustments, counties would have had little remaining financial incentive to improve probation outcomes, as it would have become cheaper and easier to send these offenders to jail or prison when they violate the terms of their probation.

The enacted budget redefines the SB 678 funding formula by (1) including both probationers revoked to prison <u>and</u> those revoked to jail in determining a county's baseline probation failure rate; (2) recognizing greater marginal savings for the state for each probationer that is not revoked to prison than is reflected in the "Corrections Blueprint"; (3) adding a third tier of performance incentive payments for counties that improve their felony probation failure rates, but that still have rates that are above the 2006 through 2008 baseline statewide failure rate; and (4) extending the $200,000 minimum grant amount to include counties that fail to improve, but who still maintain a probation failure rate below the statewide average. These changes result in increased General Fund spending of $72.1 million over what would otherwise have occurred under the original formula, bringing total 2013-14 SB 678 funding to $106.9 million.

<u>Department of Corrections and Rehabilitation (CDCR)</u>

Prison Capacity Plan Prevents Early Release of Criminals. Senate Republicans have consistently opposed the early release of dangerous criminals from state prison and raised significant concerns about the impact of the state prison "realignment" (AB 109) enacted by the Governor and legislative Democrats that has shifted more than 60,000 felons to local responsibility. In response to a federal court order to release as many as 8,000 criminals early from state prison into California communities, a bipartisan plan that **appropriated $315 million for a comprehensive approach that includes both recidivism reduction programs, and a plan for future prison capacity** was adopted in SB 105 (2013). The additional funding provided by SB 105, which was jointly authored by Senators Huff and Steinberg (coauthored by Senators Knight and Emmerson) will allow CDCR to secure enough in-state and out-of-state contract beds to prevent the early release of prison inmates that would otherwise be required by the federal three-judge panel's population order (which requires the state to take steps to reduce its prison population to 137.5 percent of design capacity by December 31, 2013 or immediately release inmates to comply with the cap). In addition to securing capacity to prevent early release, the budget provides flexibility to reduce the use of contract beds if the court approves a time extension, and to redirect funds to implement rehabilitative programs to reduce recidivism, providing a more durable solution to the overcrowding problem. This compromise avoids the early release of dangerous criminals and provides an opportunity to invest in programs to reduce the "revolving door" to prison. Incarcerated individuals that want to become productive members of society will have that chance.

Chelsea's Law – Sex Offender Management Programs. Currently, CDCR contracts with community-based service providers to deliver sex offender management services to high-risk sex offender parolees, but does not provide these services to non-high-risk sex offenders. The budget includes a $5 million General Fund augmentation in 2013-14, increasing to $12.4 million in 2014-15, to extend sex offender management services to non-high-risk sex offender parolees, as required by Chapter 219, Statutes of 2010 (AB 1844), also known as "Chelsea's Law."

Judiciary

Some Help for Trial Courts. Between 2008-09 and 2012-13, annual baseline General Fund support for the trial courts was reduced by about $724 million. To implement this permanent General Fund reduction, approximately $276 million has either been backfilled by revenues from court user fee increases or offset by transfers from trial court special funds. Another $214 million has been operationalized by individual courts through court closures, furloughs, layoffs, and other changes, leaving about $234 million in remaining reductions that the trial courts will have to absorb in 2013-14.

The Budget Act of 2013 includes a $63 million General Fund augmentation for the courts ($60 million for trial courts, $2.4 million for the Courts of Appeal, $500,000 for the Supreme Court, and $150,000 for the Habeas Corpus Resource Center) to begin to restore the Judicial Branch to its pre-recession vitality. Although well short of the amount that would be necessary to reverse recent court closures and reductions in service, the $60 million for trial courts will certainly help some courts to avoid more drastic measures (like additional closures, layoffs, etc.) that would otherwise be necessary to operationalize the remaining $234 million in reductions. It should be noted that it is not clear the courts have tried very hard to create efficiencies or control salary increases in the face of budget reductions. It seems closures are their go-to plan.

Court Construction Funds Prop Up Governor's General Fund Assumptions. The enacted budget restores a 2012-13 $400 million General Fund reduction, but rips off $200 million of construction funds that would have allowed seven courthouse capital outlay projects to move forward. Instead, the Judicial Council will delay indefinitely these "immediate and critical needs" projects in the counties of Kern, Los Angeles, Monterey, Placer, and Plumas.

Some Construction Projects Move Forward. The enacted budget reflects capital outlay spending of $781.4 million in 2013-14 ($511.4 million in new lease-revenue bonds, $240.2 million in re-appropriated lease-revenue bonds, $26.3 million from the Immediate and Critical Needs Account, $3.6 million in Reimbursements) for various phases of nine approved court construction projects. These projects will replace or renovate court facilities in the counties of San Joaquin, San Diego, Merced, Tehama, Imperial, Riverside, Glenn, and Siskiyou.

Contract Payment for New Long Beach Courthouse. The budget includes $34.8 million from the Immediate and Critical Needs Account (ICNA) in 2013-14, increasing to $54.2 million (full year) in 2014-15, for a service fee payment on the New Long Beach Courthouse. This is a public-private partnership that will culminate with the state leasing a build-to-suit facility from the private contractor who builds it. The contractor will manage and maintain the facility for the term of the contract, after which the state will assume ownership. The decision to fund this service fee payment from the ICNA, rather than the General Fund or some other source, has forced the Judicial Council to indefinitely delay four courthouse construction/renovation projects in the counties of Fresno, Los Angeles, Nevada, and Sacramento.

Fee Increases Further Erode Access to Justice. The enacted budget includes a new round of fee increases on court users. Since 2008-09, wave after wave of court user fee increases have increased the financial barriers faced by poor, elderly, and working-class Californians seeking justice through the court system. In fact, court user fees have increased by about $130 million per year compared to 2008-09 levels. Are Californians getting more or better court services for the additional fees they are now paying? No. In fact, civil and criminal case backlogs continue to grow in virtually every court statewide and access to justice for the most vulnerable segments of the population continues to dwindle.

Transportation

Zero-Based Budgeting = Zero Savings. In December 2011 Governor Brown issued Executive Order B-13-11 directing the Department of Finance to incorporate common sense program evaluation methods, into the budget process, including zero-based budgeting to fund programs based on necessity and effectiveness. The goal is to cut costs and increase efficiency by looking at programs from top to bottom, rather than only considering incremental changes.

The budget includes four zero-based budgeting proposals for the California Department of Transportation (Caltrans). While the zero-based budgeting process is intended to cut state spending and increase operational efficiency, the proposals submitted by Caltrans redirect savings, grow programs, and increase overall state spending. In fact, **Caltrans turned $19.3 million in efficiency reductions into net additional expenditures of $4.4 million.** Caltrans plans to zero base additional programs in future years and we suspect this trend of additional spending will continue through this process.

Active Transportation Program. The budget includes language allowing a new Active Transportation Program (ATP) to be implemented mid-year following the assembly of a working group and enacted legislation creating the new program. Budget Trailer Bill SB 99 implements the ATP by directing the California Transportation Commission to develop and adopt program and project selection guidelines. The $129.5 million ATP program is a consolidation of various programs that previously existed to promote non-motorized transportation. The primary focus of ATP is to promote human-powered transportation, for instance walking and biking, with the goal of achieving greenhouse gas reduction targets established by SB 375 (2008, Steinberg).

The major ATP elements are as follows:

- Safe Routes to Schools projects will receive a $24 million carve out for three years. Previously, this program received approximately $45 million annually. After three years Safe Routes to Schools projects will compete for funds with all other projects seeking ATP funding.
- Directs $21 million of federal Highway Safety Improvement Funds to the ATP for bicycle and pedestrian safety projects. These funds were previously used to improve safety on highways and local roads or for bike-related safety improvements. Since the federal MAP-21 apportionment of Highway Safety Improvement Funds increased by $70 million this year, redirecting $21 million has not generated concern from stakeholders.
- Redirection of $7.2 million from the Bicycle Transportation Account to the ATP.
- Redirection of $2.28 million (40 percent) from the Recreational Trails program within the Department of Parks and Recreation to the ATP. This reduction will impact non-motorized trail projects.
- Off-highway vehicle funding remains at prior levels and continues to be programmed by the Department of Parks and Recreation.
- Redirection of $3 million from the Environmental Enhancement and Mitigation Program to the ATP.
- Requirement that 25 percent of all ATP funds benefit “disadvantaged communities.”

Prior ATP proposals raised concern among off-highway vehicle enthusiasts because the Governor planned to opt out of the federal Recreational Trails Program, essentially redirecting federal funds earmarked for recreational trails to the Transportation Alternative Program, where they could be used for a variety of purposes. These ***federal funds generated by federal gas taxes paid by the off-highway vehicle owners*** are estimated to be $22 million annually in California. Opting out would have meant this user-paid tax would no longer provide any user benefit. However, under the adopted ATP, California will remain opted in to the federal program which means the funding will remain subject to the federal guidelines restricting the use of the funds to recreational trails projects.

Resources, Environmental Protection, and Energy

Consistent with past budgets, the 2013-14 budget includes a host of fee increases, special fund rip-offs, and unfortunate policy changes that abuse taxpayers and make California hostile to businesses:

Cap and Trade Fee Rip-Off. The state budget includes a loan of $500 million in Cap-and-Trade fee revenues to the General Fund with no repayment date identified. So far, three Cap-and-Trade auctions have generated $257.4 million for state programs and $539.3 million for investor owned and publicly owned utilities to be used as credits/benefits to ratepayers. Although the Governor has provided an investment plan to the Legislature pursuant to AB 1532 (John A. Perez) of 2012 that identifies broad state priorities, there are still no details on future program expenditures. Loaning these funds to the General Fund rather than use them to implement the program increases the "wall of debt" and proves that the "fee" is really a tax.

AB 32, Cost of Implementation (COI) Fee Increases. At the same time Legislative Democrats and the Governor are borrowing Cap-and-Trade revenues, they are also increasing the AB 32 COI fee on businesses by $649,000 to support housing element review workload resulting from the implementation of SB 375 (2008, Steinberg). Legislative Counsel concluded that this use of the fee would be unlawful *(See General Government section, Page 35).* With this proposal, the total annual AB 32 COI fee would increase to $39.6 million. In addition, there is a loan repayment of $8 million plus interest to the Beverage Container Recycling Fund in 2013-14 to be made from the COI fee. This will be the last remaining loan repayment.

Expanded use of State Responsibility Area (SRA) Fire Prevention Fees. The Budget includes 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 $13.5 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 had proposed 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 was 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.** Although the trailer bill was rejected, the funding for the local safety elements did not get reduced. At this time, it is unclear how those additional funds will be spent.

- The budget also uses SRA fees to fund fuel treatment activities at $2.1 million through the Vegetation Management Program and spends $5.2 million to hire seasonal defensible space inspectors to educate homeowners on the prevention of fires.

- Lastly, $1.7 million in additional SRA fees will 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 (annual program costs total $4.2 million).

Homeowner Fire Protection Lowest Priority. There is also budget bill language that prohibits the use of $5.1 million of SRA fees appropriated for vegetation management purposes to be used for any project located on scrub lands in San Diego, Imperial, Riverside, Orange, Los Angeles, Ventura, Santa

Barbara, Kern, and San Bernardino counties that utilizes CalFire's new Programmatic Environmental Impact Report for the Vegetation Treatment Program. This will require CalFire to continue using their existing vegetation management practices for this fiscal year because environmental groups are upset with the proposed removal of certain types of sage brush and other plants. This language requires the new Environmental Impact Report to be peer reviewed, among other requirements. **This policy puts environmental benefits before homeowner protection in the SRA.**

The Electric Program Investment Charge (EPIC) Program Trickery. The budget includes an increase of $193 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 (two-third vote requirement) 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 although Legislative Democrats now deny any authorization. This measure attempts to authorize the program again with additional criteria through a simple majority vote in both AB 110 (Budget Bill) of 2013 and SB 96 (Resources Trailer Bill) of 2013. This program will fund research, 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 approved by a two-thirds vote of the Legislature, therefore, this new tax should receive the same vote threshold. It will not, therefore, it makes a mockery of Proposition 26.**

Middle Class Subsidizes Expensive Cars for Wealthy Environmentalists. A last minute addition to the state budget repays $24.5 million in loans to the Alternative and Renewable Fuel and Vehicle Technology Fund (AB 118), which are transferred to the Air Quality Improvement Fund under the California Air Resources Board to increase funding to the Clean Vehicle Rebate Project. AB 118 funds are derived ***from increases to the smog abatement, vehicle registration, and vessel registration fees and provides approximately $200 million annually*** for three programs to fund air quality improvement projects and develop and deploy technology and alternative and renewable fuels. As a result of the additional $24.5 million, funding will grow from approximately $15 million to $40 million. These monies will be given out as grants ($900 to $2,500) to individuals who purchase a select group of electric and plug-in vehicles which range in price from $7,000 (GEM 20 mph limit, two seater) to **$101,000** (Tesla Roadster). General Motors, which makes the Volt, said in 2011 that the average income of Volt buyers is a $175,000 a year. ***"The people who are buying these vehicles today are demographically very well off,"*** said Jeremy Anwyl, vice chairman of consumer web site Edmunds.com. "They're buying these vehicles because they're passionate about them. ***They would buy these vehicles whether there was a rebate or not."*** Nissan's all-electric Leaf also attracts a wealthy crowd, the average household income of owners is $140,000.

State Water Resources Control Board Fees. The Budget Act includes $5.8 million in ongoing Waste Discharge Permit fee increases that will further burden businesses in California. This includes an additional $800,000 in local assistance funding for Beach Water Quality Monitoring and $650,000 for increased oversight and enforcement of agricultural wastewater dischargers. The remaining increases are part of the Board's baseline budget associated with existing program cost increases. The original amount of the fee increase on agricultural wastewater dischargers was reduced per the Governor’s veto.

More Department of Food and Agriculture Regulations. The budget authorizes a continuous appropriation of $1.2 million from the Food and Agriculture Fund requiring an increase in the mill assessment on fertilizer products in order to expand regulation and enforcement of fertilizer use as it relates to groundwater nitrate contamination. The specific details behind this proposal have never been publicly provided so one can only speculate that this Legislative Democrat proposal will not be good for agricultural businesses in this state.

More Department of Pesticide Regulation Control. The Budget includes $383,000 for the Department of Pesticide Regulation for increased enforcement of the state's pesticide regulations and additional pesticide product re-referral reviews and approvals. This is another legislative Democrat proposal that appears to harass agricultural businesses in California; however, the details remain unclear to the public. This original amount was reduced per the Governor's veto

Despite the usual failings, there are some positive elements in the Resources, Environmental Protection, and Energy areas:

$5 Million More for Off-Highway Vehicle (OHV) Program. The 2013-14 budget provides the Off-Highway Vehicle (OHV) program with an additional $5 million in funding for its local assistance grant program which will return the program to its past funding level of $26 million. The OHV Trust Fund is still owed $133 million from loans taken to benefit the General Fund. The Administration intends to repay these loans by 2015-16, although no due date is established in statute.

Federal Funding for the Recreational Trails Program. The Recreational Trails Program funding for Off-Highway Vehicle Grants will be funded at $1.7 million which is 30 percent of the overall federal funding received by the state. The state will remain opted into the Recreational Trails Program which means that the OHV grants will continue to receive its 30 percent allotment.

Use of Lease Revenues to Manage Wildlife Areas. The Resources Trailer Bill (SB 96 of 2013) would direct the revenues from the Department of Fish and Wildlife's agriculture and grazing leases to land management activities instead of transferring the funds to the Wildlife Conservation Board to purchase more state owned lands. This will reduce the amount of new lands purchased while better managing the lands that the state already owns, which is a better use of the money.

Hazardous Waste Fee Reform Rejected. The Governor's hazardous waste fee proposal that would have negatively impacted thousands of businesses generating and handling hazardous waste in California was eliminated from the language in SB 96 (Resources Trailer Bill) on 2013. The Department of Toxic Substances Control's (DTSC) proposal and the assumptions behind it were ill conceived. The Governor should not have tried to fast track it through the 2013-14 budget process. This measure would have increased the number of fee payers from 5,000 to over 8,800, however, there was no stakeholder involvement in the development of this new fee schedule despite the far reaching economic impacts. Don't be surprised if the fees are resurrected soon.

California Public Utilities Commission (CPUC) Statutory Changes. The Resources Trailer bill (SB 96 of 2013) makes several changes which would restrict the establishment and funding of current and future "nonstate" entities (defined as a company, corporation, partnership, firm, or other entity or group of entities, whether organized for profit or not for profit). The bill also strengthens the ability of the Legislature to remove a sitting commissioner by specifying that <u>beginning June 1, 2014</u>, a commissioner is "negligent of duty" if the commissioner acts as an owner, director, or officer of a nonstate entity that was established <u>prior to January 1, 2014</u>, as a result of an order, decision, motion, settlement, or other action by the CPUC in which the commissioner participated, and may be removed pursuant to the Section 1 of Article XII of the California Constitution. This language is clearly directed at actions taken by the CPUC that the Legislature views as violating the public trust.

The resources trailer bill also requires the CPUC to conduct a zero-based budget for all of its programs by January 10, 2015.

More Independence for the Division of Ratepayer Advocates (DRA). The Resources Trailer Bill would change the name of the Division of Ratepayer Advocates to the Office of Ratepayer Advocates and require DRA's budget to be approved by the Department of Finance instead of the CPUC. In addition, DRA would be allowed to hire its own personnel including legal support staff but also is required to continue to share legal staff with the CPUC and pay for those costs. This policy shift is intended to better protect ratepayers from internal conflicts of interest at the CPUC.

CalRecycle, Beverage Container Recycling Fund Reform. The Resources Trail Bill improves fiscal and quality controls and reporting requirements of the department to start to address the structural imbalances within the fund, which is a good first step towards restructuring the Beverage Container Recycling Program so that recycling becomes the top priority again and unnecessary cost drivers are eliminated.

General Government

DEPARTMENT OF VETERANS AFFAIRS

New Funds for California's Veterans. In addition to the base budget of $354 million, the California Department of Veterans Affairs (CalVet) budget includes $24.5 million to proceed with the opening of the Redding and Fresno veterans' homes. Resident admissions are expected to begin in October 2013. The budget also includes $3 million to fund strike teams to assist with the claims backlog at federal U.S. Department of Veterans offices in California, and another $3 million in one-time funding for the County Veterans Service Officers to hire more service representatives and conduct additional outreach. These measures are expected to assist California veterans in receiving the benefits to which they are entitled and decrease the amount of time it takes to receive those benefits.

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

Illegal Use of AB 32 Cost of Implementation Fee. The Global Warming Solutions Act of 2006 (AB 32, Nunez) established regulatory and market mechanisms aimed at reducing greenhouse gas (GHG) emissions to 1990 levels by 2020. AB 32 also authorized the Air Resources Board to adopt a schedule of fees to be paid by sources of GHG emissions. Under the provisions of AB 32, these revenues are to be used to fund the state's cost of implementing AB 32.

The 2013-14 Governor's Budget included a proposal to fund five two-year limited-term positions with $649,000 from the AB 32 cost of implementation fee to support housing element review workload resulting from the implementation of SB 375 (2008, Steinberg). While SB 375 enhances California's ability to achieve the goals of AB 32 by promoting sustainable communities, it is a separate piece of legislation. The Office of Legislative Counsel (Legislative Counsel) provided an oral opinion stating that the connection between AB 32 and SB 375 as it relates to reducing GHGs through changes to housing allocations is indirect. Additionally, Legislative Counsel determined other changes contained in SB 375 related to housing element review appear to carry out traditional government purposes related to low income housing and jobs that are not specifically related to implementing AB 32. **Legislative Counsel concluded that changes to the housing element components in SB 375 do not primarily carry out AB 32's goals but rather do so incidentally, therefore the requested appropriation would be unlawful.** The Administration and legislative Democrats ignored the legal advice of the Legislative Counsel and approved the appropriation of AB 32 funds for this purpose, exposing the state to additional litigation surrounding AB 32.

Budget Related Trailer Bills

Budget & Related Trailer Bills		
Bill Number	**Subject**	**STATUS**
SB 67	**In-Home Supportive Services**	Chaptered
Ch. 4/2013	Replaces previously enacted reductions with an across-the-board reduction in hours & a future tax or assessment on home care services intended to offset the reduction going forward.	
SB 68	**DDS & DSS Deficiencies**	Chaptered
Ch. 5/2013	Appropriates $32.8 million General Fund for the 2012-13 fiscal year to address budget deficiencies for the Department of Developmental Services (DDS) & the Department of Social Services (DSS) also reappropriates funds for the Office of Statewide Health Planning & Development & the Judicial Branch.	
SB 71	**State Government**	Chaptered
Ch. 5/2013	Establishes a $2-million-per-year grant program for trauma centers, makes a variety of organizational and reorganizational changes to Executive Branch departments, cleans up state financing statutes related to public education and the capitol area plan, increases workers' compensation costs, restructures funding for Compliance Monitoring Unit, imposes the Displaced Janitor Opportunity Act on a single entity, authorizes the State Personnel Board (SPB) to bill departments for the costs of the Compliance Review Audit program, requires the Department of Human Resources and the SPB to report on its review of exempt employee additional appointments, and weakens the mandate that protects victims of domestic violence.	
SB 73	**Proposition 39 Implementation**	Chaptered
Ch. 29/2013	Enacts statutory & fiscal changes necessary to allocate funding under the “California Clean Energy Jobs Act” (Proposition 39), which was approved by the voters in November 2012. Appropriates funding to the California Energy Commission for an energy revolving loan program & for technical assistance workload. Appropriates funding to the Conservation Corps for workforce training & development. Appropriates funding to the California Workforce Investment Board for a job training program. Establishes allocation methodologies for $428 million in Proposition 98 funding appropriated to K-12 schools & California Community Colleges in the 2013 Budget Act.	
SB 74	**Corrections**	Chaptered
Ch. 30/2013	Modifies the statutory structure & responsibilities of the Department of Corrections & Rehabilitation (CDCR) to include health care services; adds a full-time, paid chair to the Board of State & Community Corrections; & appropriates $750,000 to CDCR for capital outlay statewide budget packages & advance planning.	
SB 75	**Courts**	Chaptered
Ch. 31/2013	Increases specified court user fees. Reduces trial court workload by eliminating unnecessary processes. Includes provisions to help trial courts deal with cash flow issues. Makes permanent the requirement for a trial court to provide public notice & opportunity for input before adopting its annual budget. Modifies the California Community Corrections Performance Incentives Act of 2009 (SB 678) to reflect the impacts of realignment. Requires the Judicial Council to report on the cost effectiveness of the Long Beach Courthouse construction project. Clarifies statute relating to jurisdiction for parole revocation hearings.	
SB 76	**Public Safety**	Chaptered
Ch. 32/2013	Requires the Department of Corrections & Rehabilitation to provide specified medical information to counties for inmates released to postrelease community supervision & to notify a county of the opening, closure, or relocation of any parole office or reception center affecting the county; requires certain local public safety funding to be disbursed monthly, rather than quarterly; makes the 2012-13 realignment growth funding allocation formula for local law enforcement grants permanent; cleans up provisions of the 2011 public safety realignment related to split sentences and parole/PRCS responsibility; authorizes local corrections officials to award additional sentence credits to inmates for participation in work or job training; & transfers regulatory responsibilities for remote caller bingo from the Gambling Control Commission to the Department of Justice.	

Budget & Related Trailer Bills		
Bill Number	**Subject**	**STATUS**
SB 78 Ch. 33/2013	**Public Health: Medi-Cal managed care plan taxes** Extends the managed care organization tax that expired June 30, 2012, by one year. Sets a new precedent by imposing a sales tax on Medi-Cal managed care plans for three years primarily to increase state revenues & "build a reserve." By switching to a sales tax, creates an incentive for legislative Democrats to increase or expand that tax in the future - perhaps to other services.	Chaptered
SB 82 Ch. 34/2013	**Mental Health** Implements a multifaceted plan to expand community mental health capacity & treatment by establishing two new grant programs with specific goals of creating new mobile crisis support teams, crisis stabilization beds, residential treatment beds, & triage personnel within local communities.	Chaptered
SB 85 Ch. 35/2013	**Transportation** Continues in perpetuity the use of unrestricted revenues for transportation debt service, modifies the fund from which certain debt service payments are made, clarifies existing law related to accounting practices for specified transportation funds, & provides legal procedures for the relocation of utilities as necessitated by the high-speed rail project.	Chaptered
SB 89 Ch. 36/2013	**2012-13 Supplemental Appropriations** This supplemental appropriations bill provides a total of $497.3 million General Fund to fund deficiencies for the 2012-13 fiscal year for the Department of Health Care Services (DHCS), the Department of Developmental Services (DDS), County Homicide Trials, and the California Public Employees' Retirement System (PERS).	Chaptered
SB 90 Ch. 70/2013	**Economic Development: Taxation: Credits: Exemptions. Clean-up AB 93** Substantively expands and provides numerous technical fixes to AB 93. Expands the statewide SUT exemption for the purchase of manufacturing and R&D equipment from five years to eight years. Expands the new hiring credit to include hard-to-hire individuals who are on CalWorks, on general assistance, ex-felons and veterans hired within 12 months of discharge. Creates five Designated Pilot Areas where the floor of the hiring credit is lowered to $10/hour (rather than $12). Makes "technical" fixes to AB 93.	Chaptered
SB 91 Ch. 49/2013	**K-12 Education - Local Control Funding Formula - Clean Up** Conforms the local control funding formula legislation passed by the Legislature on June 14, 2013 with the agreement struck between the Governor & legislative Democratic leadership. Specifically, the bill removes the requirement in AB 97 that the 2.6 percent "add on" to the base grant for each pupil in grades 9-12 be used to support a school's "goals for college & career readiness," making these "add on" dollars discretionary at the local level.	Chaptered
SB 94 Ch. 37/2013	**Medi-Cal Managed Care: Long-Term Services & Supports IHSS** Makes various changes to the Coordinated Care Initiative, including making it conditional on a determination by the Department of Finance that it would save state money. The bill also delinks the IHSS county maintenance of effort from the dual demonstration, now tying it to the ongoing implementation of the CCI. Increases General Fund costs by at least $76 million initially & more annually as IHSS expenditures increase. Restricting county participation in IHSS will result in increased fraud & abuse as counties will no longer have any incentive to contain program expenditures.	Chaptered
SB 96 Ch. 356/2013	**Public Resources** Makes several substantive & technical changes most significantly: allowing the Department of Fish & Wildlife to use lease revenues to manage wildlife areas, authorizes the Electric Program Investment Charge program, allows for the appointment of staff to serve as legislative alternates, continues to fund the School Bus Retrofit program, requires the Department of Water Resources' hydroelectric facilities relicencing proposals to get Joint Legislative Budget Committee approval, creates a loss reserve for the Property Assessed Clean Energy program, makes various statutory changes to the California Public Utitlities Commission & the Division of Ratepayer Advocates, provides minor reforms to the Beverage Container Recycling program, & eliminates outdated statutes & reporting requirements.	Chaptered

Budget & Related Trailer Bills		
Bill Number	**Subject**	**STATUS**
SB 97 Ch. 357/2013	**Education** Makes a variety of technical & substantive changes to the existing budget & related statute, most notably: 1) appropriates up to $100 million to backfill a shortfall in the community colleges' local property tax revenue; 2) appropriates $3.2 million for up to 25 new positions at the Department of Education; 3) authorizes the Inglewood Unified School District to use proceeds from its General Fund cash flow loan to pay related expenses incurred by the California Infrastructure & Economic Development Bank; 4) provides a subsidy to defray the costs of South Monterey County Joint Union School District's emergency loan financing, likely worth several million dollars between 2013-14 & 2029-30; 5) requires charter schools that vacate school facilities which were improved with Proposition 39 energy efficiency funds within five years of project completion to repay those funds.	Chaptered
SB 98 Ch. 358/2013	**Public Health** Intended to provide technical cleanup to previous 2013 Budget trailer bills. Identicle bill to AB 104 that was not voted upon.	Chaptered
SB 99 Ch. 359/2013	**Active Transportation Program** Includes statutory changes necessary to implement an Active Transportation Program (ATP). Would eliminate independent programs & funds related to bicycle transportation, bikeways, & safe routes to schools by combining funding for these programs into the ATP. Under this measure a portion of funding would remain separate for the Environmental Enhancement & Mitigation Program & the Recreational Trails Program.	Chaptered
SB 100 Ch. 360/2013	**General Government - Public Finance** Makes technical changes to the existing allocation methodology for realigned local criminal justice subventions, deletes a reporting requirement related to the California Community Corrections Performance Incentives Act of 2009 (SB 678), extends the sunset for the Interstate Compact for Juveniles by two years, exempts members of certain unions from conflict of interest prohibitions when they sit on state boards or commissions, provides an additional 18 months for certain businesses to claim a sales & use tax credit for manufacturing equipment purchased within the boundaries of former enterprise zones & targeted tax areas, & appropriates $100,000 to the Governor's Office of Business & Economic Development (GO-Biz) to staff the California Competes Tax Credit Committee.	Chaptered
SB 101 Ch. 361/2013	**Health** Makes several amendments to the 2013 Health budget trailer bill, including transferring expenditure authority among departments, establishing a new special account, & appropriating funds for Medi-Cal outreach & enrollment activities.	Chaptered
SB 102 Ch. 397/2013	**State Employees: Memoranda of Understanding** Ratifies the addenda to current memoranda of understanding's entered into between the state & several bargaining units. Major provisions include: 1) Salary increases of between 17.9% & 37.4% effective 7/1/13 for State Water Project employee classifications within BU 12 (Craft and Maintenance); 2) Increase in travel reimbursement for BU 5 (Highway Patrol): 3) Relocation assistance ($3,500) & leave cash-out option provided to Lanterman Developmental Center employees within BU 12 (International Union of Operating Engineers, BU 18 (California Association of Psychiatric Technicians) & BU 19 (American Federation of State, County, & Municipal Employees) as well as employees of SEIU Local 1000 that voluntarily transfer; 4) Classification revisions & travel crew requirements within Department of Water Resources' BU 12 employees; 5) Salary increases of 1.5% & 7.5% for Department of Motor Vehicle employees included in SEIU Local 1000 & BU 7 (California Statewide Law Enforcement Association) & extended to managers & supervisors associated with affected employees; & 6) Increase in travel reimbursement for BU 8 (Firefighters).	Chaptered

Budget & Related Trailer Bills		
Bill Number	**Subject**	**STATUS**
SB 105	**Corrections**	Chaptered
Ch. 310/2013	Provides a temporary solution allowing the state to comply with the federal three-judge court's order limiting the state's prison population to 137.5 percent of design capacity by December 31, 2013. Makes statutory changes necessary to implement the Governor's plan to contract for enough prison beds to avoid releasing inmates early. To that end, it appropriates $315 million from the General Fund to the Department of Corrections & Rehabilitation (CDCR). Provides for flexibility to use a portion of the appropriated funds for programs that reduce recidivism in the event the three-judge court agrees to extend the deadline. Changes the SB 678 grant formula (a 2009 local recidivism reduction grant program) to increase the grant funding available to counties.	
SB1 X1	**Medi-Cal: Eligibility**	Chaptered
Ch. 4/2013	Makes numerous changes including: 1) the addition of woefully inadequate "tie-back" language; 2) elimination of the use of "self-attestation" in the Medi-Cal eligibility determination process; & 3) double jointing this bill with ABX1 1. One of a two-bill package -- the other being ABX1 1 (Perez) -- that implements: a) the mandatory Medicaid (known as Medi-Cal in California) expansion (to currently eligible populations through eligibility & enrollment simplifications) required under the federal Patient Protection & Affordable Care Act (ACA), and b) the optional Medicaid expansion (to childless adults with incomes up to 138 percent of the federal poverty level) allowed but not required under federal law.	
AB 74	**Human Services**	Chaptered
Ch. 21/2013	Enacts statutory changes necessary to implement the 2013 Budget Act. The bill increases General Fund expenditures by hundreds of millions of dollars annually & unwinds CalWORKs reforms adopted in the 2012 Budget Act as a result of expanding allowable activities outside of employment.	
AB 75	**Alcohol & Drug Programs**	Chaptered
Ch. 22/2013	Enacts the elimination of the Department of Alcohol & Drug Programs by shifting its programs to the Department of Health Care Services & the Department of Public Health.	
AB 81	**Public Safety: Domestic Abuse**	Chaptered
Ch. 161/2013	Restores three mandatory statutes related to the prevention of, & response to, domestic violence. Intended to "fix" a concurrent trailer bill (SB 71, 2013) that changes these statutes to make their requirements permissive for local law enforcement. Restores the following requirements as mandatory: Every law enforcement agency - Develop, adopt, & implement written policies & standards for officers' responses to domestic violence calls, & to make those policies & standards available to the public. Maintain a complete and systematic record of all protection orders with respect to domestic violence incidents. Develop a system for recording all domestic violence-related calls for assistance, including whether weapons are involved, & to compile that information & submit to the Attorney General monthly.	
AB 82	**Health**	Chaptered
Ch. 23/2013	Enacts various health program changes associated with the 2013 Budget Act. Notable provisions include partially restoring adult dental benefits for the Medi-Cal Program, restoring the Medi-Cal enteral nutrition benefit, & allowing foster children to remain enrolled in Medi-Cal beyond the age of 21.	
AB 85	**Health & Human Services**	Chaptered
Ch. 24/2013	This bill (1) rips off county funds to support the state's implementation of the federal affordable Care Act, (2) significantly increases CalWORKs cash grants, which could eventually cost the state nearly $1 billion annually upon full implementation & would make California the second highest cash grant in the nation, & (3) may leave many counties that lack county hospitals without enough funds to maintain adequate health systems in their regions.	

Budget & Related Trailer Bills		
Bill Number	**Subject**	**STATUS**
AB 86	**K-14 Education (Omnibus Bill #1)**	Chaptered
Ch. 48/2013	Reduces the state's annual education funding deferrals by $2 billion, from $8.2 billion to $6.2 billion. Appropriates $1.25 billion in one-time Proposition 98 funding to implement new "common core" state academic standards. Establishes the California Career Pathways Trust, a new career technical education program. Authorizes a $55 million General Fund loan to the Inglewood Unified School District to replace existing authority for a $29 million emergency loan plus $26 million in State Infrastructure Bank financing. Makes a variety of other changes.	
AB 89	**Developmental Services**	Chaptered
Ch. 25/2013	Requires DDS to submit a plan addressing the future of the high-cost developmental centers, standardizes policy for paying insurance deductibles & copayments on behalf of consumers; & makes various other changes.	
AB 92	**General Government**	Chaptered
Ch. 26/2013	Clarifies how the wind-down of the "triple flip" will be accomplished so as to hold local governments harmless, establishes a reporting requirement for taxpayers that take advantage of tax benefits associated with like-kind real estate property exchanges, and extends the liquidation period for Proposition 1C funds granted for Transit Oriented Development and Infill Incentive Grants.	
AB 93	**Economic Development: Taxation: Credits, Deductions, Exemptions, & Net Operating Loss**	Chaptered
Ch. 69/201.	Eliminates all enterprise zones (including EZs, MEAs, TTAs, & LAMBRAs) & their associated state tax incentives, allowing previously earned credits to be carried over to 10 future years. Also, (1) Establishes a sales tax exemption on manufacturing & R&D equipment for 4.5 years statewide & seven years in EZs & designated census tracts, (2) Establishes a new hiring credit within designated census tracts & former enterprise zones for seven years (from 1/1/2014 to 1/1/2021), & (3) Authorizes GO-Biz to award up to $200 million in tax credits annually to businesses seeking to locate to California.	
AB 94	**Higher Education**	Chaptered
Ch. 50/2013	Establishes a new Middle Class Scholarship Program to reduce tuition costs of UC & CSU students with family incomes above the Cal Grant eligibility limits but below $150,000. Reforms UC capital outlay debt processes by shifting existing lease-revenue bond debt into UC's main support appropriation & authorizing UC to "restructure" the debt to free up funds for pension costs, & to use & pledge its state General Fund support appropriation for capital expenditures, both "pay-as-you-go" & capital bond debt. Earmarks $15 million from existing UC funds for the UC Riverside medical school. Authorizes the California Student Aid Commission to accept fees from other states in return for technical assistance with implementation of those states' "Dream Acts." Makes a variety of other changes.	
AB 97	**K-12 Education - Local Control Funding Formula**	Chaptered
Ch. 47/2013	Enacts a "local control funding formula" to replace California's existing system of school funding, beginning in 2013-14. Eliminates "revenue limits" & most categorical program funding, & instead provides base grants that vary by grade span, plus supplemental grants for English learners, low income pupils, & foster youth, plus concentration grants for districts with high percentages of those pupils. Expands local control over the expenditure of school funds.	
AB 98	**Seismic Safety Fee**	Chaptered
Ch. 27/2013	Imposes a 15 cent tax on all insured properties in California to generate revenue to support the operation of the Alfred E. Alquist Seismic Safety Commission.	

Budget & Related Trailer Bills

Bill Number	Subject	STATUS
AB 101	**Budget Act of 2013**	Chaptered
Ch. 354/2013	Is a 2013-14 end-of-session "budget bill junior" follow-up to the budget that was enacted in June 2013. Makes minor changes to the previously enacted state budget for 2013-14 (AB 110). The only difference is that this bill also now authorizes the General Fund to backfill county costs for certain county/federal health coverage programs, estimated to reach up to $679,000 annually.	
AB 106	**Economic Development - Enterprise Zone Clean-up**	Chaptered
Ch. 355/2013	Clarifies that the new 10-year carry-forward period for enterprise zones that were repealed by AB 93 begins January 1, 2014, regardless of when that credit was earned. Clarifies that only employees hired prior to January 1, 2014 can be considered "qualified employees" for expiring enterprise zone (or LAMBRA) hiring credits. Explicitly authorizes local entities to continue to provide vouchers for "qualified employees" (under the expiring enterprise zone statutes) until the end of 2014. Technically, this was not a trailer bill, but cleans up three other enterprise zone trailer bills.	
AB 110	**Budget Act of 2013**	Chaptered
Ch 20/2013	Contains multiple appropriations for all aspects of state government that implement the budget plan negotiated between the Governor & legislative Democrats. This final compromise budget is significantly better than the legislative Democrats' prior budget plan that assumed more than $3 billion in higher revenues. However, this plan still includes spending increases for new programs & expansions of existing state programs that will only grow larger in future years, thus imposing pressure to continue the Proposition 30 tax increases permanently, & other tax increases as well. Includes a $500 million "loan" from Cap & Trade tax revenues to support higher spending while increasing the wall of debt, & assumes implementation of an increased Managed Care Organization tax increase that benefits the state General Fund rather than use all of the tax proceeds to support increased payments for health plans and Medi-Cal providers.	
AB 113	**SOS Business Filings Workload**	Chaptered
Ch. 3/2013	Appropriates $1.6 million from the Business Fees Fund to the Secretary of State's Office for costs associated with reducing the processing time for business filings and to report to the JLBC on the 30th of each month on the progress in achieving those reductions.	
AB 1 X1	**Medi-Cal: Eligibility**	Chaptered
Ch. 3/2013	One of a two-bill package -- the other being SBX1 1 (Hernandez and Steinberg) -- that implements: a) the mandatory Medicaid (known as Medi-Cal in California) expansion (to currently eligible populations through eligibility & enrollment simplifications) required under the federal Patient Protection & Affordable Care Act, & b) the optional Medicaid expansion (to childless adults with incomes up to 138 percent of the federal poverty level) allowed but not required under federal law.	

Wall of Debt - Appendix A

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. See “Statewide Debt” section on page 12.

Wall of Debt as of 2013 Budget Act							
	Outstanding (as of end of 2011-12)	**2012-13 Pay Down**	**2013-14 Pay Down**	**2014-15 Pay Down**	**2015-16 Pay Down**	**2016-17 Pay Down**	**Amount Remaining after 2016-17**
Deferred Payments to Schools and Community Colleges	$10,430	$3,994	$272	$3,290	$2,874	$0	$0
Economic Recovery Bonds	6,263	1,113	1,480	1,558	1,664	0	448
Loans from Special Funds	4,290	-311	696	660	2,167	578	500
Unpaid Costs to Local Governments, Schools and CCCs for State Mandates	5,055	141	0	0	852	956	3,106
Underfunding of Proposition 98	2,756	380	0	410	700	1,266	0
Borrowing from local government (Proposition 1A)	2,095	2,095	0	0	0	0	0
Deferred Medi-Cal Costs	1,659	-340	49	-64	256	700	1,058
Deferral of State Payroll Costs from June to July	759	41	0	0	0	718	0
Deferred Payments to CalPERS	524	84	0	0	0	440	0
Borrowing from Transportation Funds (Proposition 42)	334	83	83	83	85	0	0
Totals	**$34,165**	**$7,280**	**$2,580**	**$5,937**	**$8,598**	**$4,658**	**$5,112**

**Dollars in millions. Source: Governor's Multi-year Back-up Documents*

All Vetoes - 2013 Budget Act – Appendix B

(Dollars in Thousands)

Department/Issue Title	General Fund (Non-Prop. 98)	General Fund (Prop. 98)	Other Funds
Judicial Branch—Open Meetings Requirement (page 1)	$0	$0	$0
Department of Consumer Affairs, Boards—Veterinary Medical Board Enforcement Staff (page 1)	0	0	359
Department of Transportation—Complete Streets Program (page 1)	0	0	480
Department of Water Resources—American River Water Information System (page 2)	0	0	653
Department of Water Resources—Salton Sea Financial Assistance Program (page 2)	0	0	3,000
Department of Pesticide Regulation—Enforcement Augmentation (page 2)	0	0	250
State Water Resources Control Board—Nitrate Contamination (page 2)	0	0	319
Corrections and Rehabilitation—Department of Justice Legal Services (page 3)	0	0	0
Corrections and Rehabilitation—State-Funded Adult Literacy Programs (Technical) (page 3)	0	0	0
Board of State and Community Corrections—Juvenile Justice Research (page 3)	0	0	0
Department of Education—Translation of Parental Notification Documents and Templates (page 3)	0	0	225
Department of Education—Child Care Preschool Plan (page 3)	0	0	0
Department of Education—Special Education Equalization (page 4)	0	30,000	0
Department of Education—State Preschool Program Slots (page 5)	0	5,000	0
UC—Earmarks for Various Programs (page 5)	0	0	0
UC—Enrollment Target (page 5)	0	0	0
UC Merced Science and Engineering Building 2 - Equipment (Technical) (page 5)	0	0	375
CSU—Earmarks for Various Programs (page 5)	0	0	0
CSU—Enrollment Target (page 6)	0	0	0
Student Aid Commission—Contingency Backfill Language for Federal Challenge Grant (page 6)	0	0	0
Franchise Tax Board—Multi-State Tax Commission Dues (Technical) (page 6)	(270)	0	0
Public Utilities Commission—Division of Ratepayers Advocates Fund Transfer (Technical) (page 6)	0	0	0
Total	**$0**	**$35,000**	**$5,661**

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