



CALIFORNIA STATE BUDGET 2014-15



EDMUND G. BROWN JR. GOVERNOR STATE OF CALIFORNIA

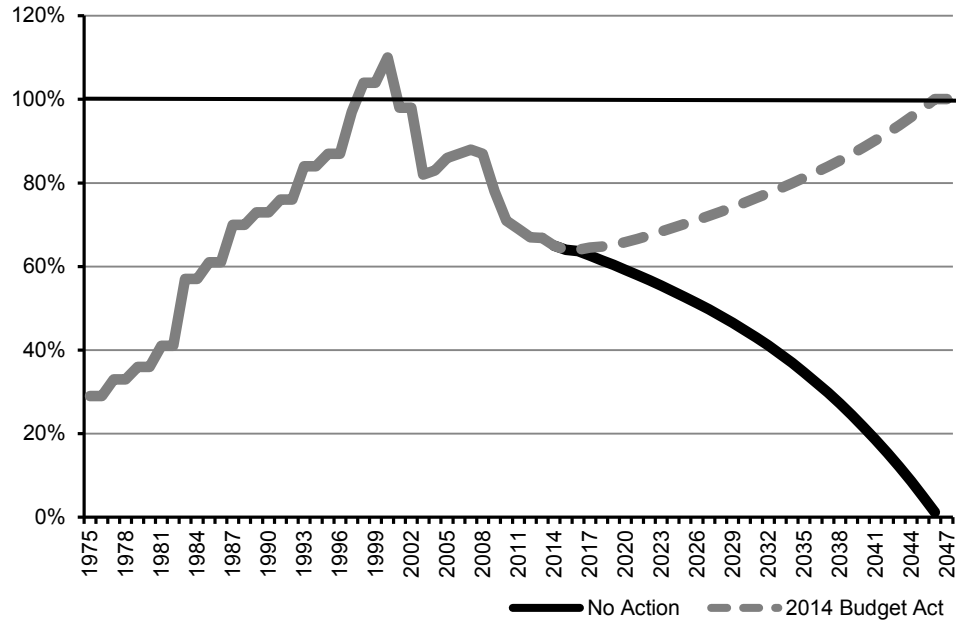
INTRODUCTION

The 2014 Budget Act advances a multiyear plan that is balanced, pays down budgetary debt from past years, saves for a rainy day, and shores up the teacher pension system. In addition, it increases spending for education, the environment, public safety, the judiciary, public works, health care, CalWORKs, In-Home Supportive Services, and affordable housing.

SHORING UP TEACHER PENSIONS

In its 101-year history, the California State Teachers' Retirement System (CalSTRS) has rarely been adequately funded—meaning that expected contributions and investment returns have not been equal to expected pension payouts. As shown in Figure INT-01, the system was only 29 percent funded as recently as 1975. The system did reach full funding (100 percent) for a few years around 2000 because of exceptional investment returns and higher contributions in the preceding years. Yet, reduced contributions, benefit enhancements and stock market crashes have reduced the system's funding status to its current 67 percent and set it on a consistent downward trajectory. Barring state action, the system would run out of money in 33 years.

Figure INT-01
**2014 Budget Shores Up
 Teacher Pensions**



To counteract this dire prospect, the Budget sets forth a plan of shared responsibility among the state, school districts and teachers to shore up the teacher pension system. The first year's contributions from all three entities are modest, totaling about \$275 million. The contributions will increase in subsequent years, reaching more than \$5 billion annually. Total contributions today equal 19.3 percent of teacher payroll and will rise to 35.7 percent. This is projected to eliminate the unfunded liability by 2046.

PAYING DOWN DEBTS AND LIABILITIES

The state's fiscal challenges have been exacerbated by the Wall of Debt—an unprecedented level of debts, deferrals, and budgetary obligations accumulated over the prior decade. The Budget reduces more than \$10 billion of the Wall of Debt by paying down the deferral of payments to schools by \$5 billion, paying off the Economic Recovery Bonds, repaying various special fund loans and funding \$100 million in mandate claims that have been owed to local governments since at least 2004.

If state revenues rise higher than anticipated in the Budget, the first call on additional funds will be for further debt payments—eliminating the remaining school deferrals (\$1 billion from Proposition 98) and local government mandate claims (\$800 million). As shown in Figure INT-02, the Budget plan would completely eliminate the Wall of Debt by 2017-18.

Figure INT-02

Budget Plan Would Eliminate the Wall of Debt
(Dollars in Billions)

	End of 2010-11 ^{1/}	End of 2013-14 ^{2/}	End of 2014-15 ^{3/}	End of 2014-15 with triggers ^{4/}	End of 2017-18 ^{3/}
Deferred payments to schools and community colleges	\$10.4	\$6.1	\$1.0	\$0.0	\$0.0
Economic Recovery Bonds	7.1	3.9	0.0	0.0	0.0
Loans from Special Funds	5.1	3.9	3.1	3.1	0.0
Unpaid costs to local governments, schools and community colleges for state mandates	4.3	6.7	6.2	5.4	0.0
Underfunding of Proposition 98	3.0	2.4	1.8	1.8	0.0
Borrowing from local governments (Proposition 1A)	1.9	0.0	0.0	0.0	0.0
Deferred Medi-Cal Costs	1.2	1.8	2.2	2.2	0.0
Deferral of state payroll costs from June to July	0.8	0.8	0.8	0.8	0.0
Deferred payments to CalPERS	0.5	0.4	0.4	0.4	0.0
Borrowing from transportation funds (Proposition 42)	0.4	0.2	0.1	0.1	0.0
Total	\$34.7	\$26.2	\$15.6	\$13.8	\$0.0

^{1/} As of 2011-12 May Revision

^{2/} Based on 2013 Budget Act policies

^{3/} As of 2014 Budget Act

^{4/} Separate trigger mechanisms to accelerate repayments to schools and local governments

Beyond the Wall of Debt, the state faces more than \$300 billion in retirement, deferred maintenance, and other long-term liabilities. As noted above, the Budget begins a multi-decade plan to eliminate the CalSTRS \$74 billion unfunded liability. In addition, the Budget contains a \$688 million package to reduce its deferred maintenance on critical infrastructure. If property taxes are higher than anticipated (and therefore offset state K-14 costs), up to an additional \$200 million in deferred maintenance for state buildings, the University of California, and California State University will be provided.

REINVESTING IN EDUCATION

The 2014 Budget continues a reinvestment in schools, providing more than \$10 billion this year alone in new Proposition 98 funding. The Budget provides \$1,954 more per K-12 student in 2014-15 than was provided in 2011-12. This funding will:

- Reduce the outstanding deferrals to school districts. As discussed above, as recently as 2011-12 these deferrals totaled \$10 billion, and the Budget reduces this amount to \$1 billion. The remaining deferrals will have the first call on funding if the Proposition 98 minimum funding guarantee rises this year due to higher revenues.
- Provide \$4.7 billion for the second year of implementation of the Local Control Funding Formula to correct historical inequities in school district funding by committing most new funding to districts serving English language learners, students from low-income families, and youth in foster care.
- Increase community college programmatic funding by \$594 million, concentrating on expanding student success programs, strengthening efforts to assist underrepresented students, reducing deferred maintenance, and increasing regional capacity for career technical education.
- Reduce outstanding school district and community college mandate claims by \$450 million. It is expected that these funds will be used to continue implementation of the new Common Core standards.
- Fund a second round of the Career Technical Education Pathway program with \$250 million for one-time capacity-building grants for programs focused on work-based learning.
- Expand the number of low-income preschool students served, increase the rates paid to providers, and provide grants to improve the quality of these programs (\$155 million Proposition 98, \$100 million General Fund).

In addition, the Budget increases funding for the University of California and California State University by 5 percent each and maintains tuition at its 2011-12 level.

EXPANDING HEALTH CARE

Last year, the state's adoption of the optional expansion of Medi-Cal under the Affordable Care Act represented a major new spending commitment in providing Californians with

affordable health care coverage. Medi-Cal enrollment is expected to rise from 7.9 million before implementation to 11.5 million in 2014-15, covering about 30 percent of the state's population.

Although the federal government will pay the costs for the optional expansion for the next few years, approximately 800,000 individuals will receive Medi-Cal benefits under the mandatory expansion where the costs are shared on a 50/50 basis with the federal government. As a result, the Budget assumes General Fund Medi-Cal costs will rise by \$2.4 billion over 2012-13.

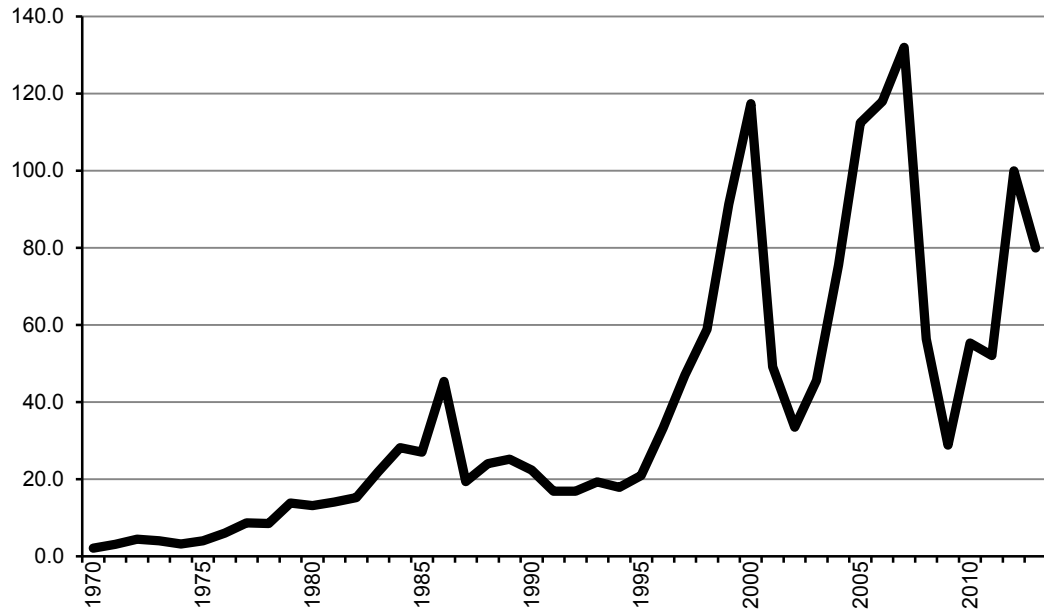
ADDRESSING CLIMATE CHANGE

The California Global Warming Solutions Act of 2006 (AB 32) established California as a global leader in reducing greenhouse gas emissions. To advance this effort, the Budget spends \$832 million of Cap and Trade auction proceeds to support existing and pilot programs that will reduce greenhouse gases, with a particular emphasis on assisting disadvantaged communities. An additional \$40 million was appropriated in February for drought related activities. The full spending plan will reduce greenhouse gas emissions by modernizing the state's rail system, including high-speed rail and public transit; encourage local communities to develop in a sustainable manner with an emphasis on public transportation and affordable housing; increase energy, water, and agricultural efficiency; restore forests in both urban and rural settings; and create incentives for additional recycling. The Budget permanently allocates 60 percent of future auction proceeds to sustainable communities, public transit, and high-speed rail. The remaining proceeds will be allocated in future budgets.

SAVING FOR A RAINY DAY

The Budget is heavily dependent on the performance of the stock market and the resulting capital gains. Capital gains alone will provide 9.8 percent of General Fund revenues in 2014-15. In response to the volatility of these revenues (see Figure INT-03) and the resulting boom-and-bust budget cycles, the Legislature placed a constitutional amendment on the November ballot for a strong Rainy Day Fund that requires both paying down liabilities and saving for a rainy day. Upon voter approval, the Constitutional amendment would:

Figure INT-03
Unpredictable Capital Gains
(Dollars in Billions)



- Require deposits into the Rainy Day Fund whenever capital gains revenues rise to more than 8 percent of General Fund tax revenues. In addition, 1.5 percent of annual General Fund revenues will be set aside each year.
- Set the maximum size of the Rainy Day Fund at 10 percent of General Fund revenues.
- Require half of each year's deposit for the next 15 years be used for supplemental payments to the Wall of Debt or other long-term liabilities. After that time, at least half of each year's deposit would be saved, with the remainder used for supplemental debt payments or savings.
- Allow the withdrawal of funds only for a disaster or if spending remains at or below the highest level of spending from the past three years. The maximum amount that could be withdrawn in the first year of a recession would be limited to half of the Fund's balance.

- Require that the state provide a multiyear budget forecast to help better manage the state's longer term finances.
- Create a Proposition 98 reserve, whereby spikes in funding would be saved for future years. This would smooth school spending and thereby minimize future cuts. This reserve would make no changes to the Proposition 98 calculations, and it would not begin to operate until the existing maintenance factor is fully paid off.

Under current projections, the proposed Rainy Day Fund would result in over \$3 billion in savings and \$3 billion in additional debt payments in its first three years of operation. If capital gains surge above normal levels during that period, even more money would go into the Fund.

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SUMMARY CHARTS

This section provides various statewide budget charts and tables.

Figure SUM-01
2014 Budget Act
General Fund Budget Summary
(Dollars in Millions)

	2013-14	2014-15
Prior Year Balance	\$2,429	\$3,903
Revenues and Transfers	\$102,185	\$105,488
Total Resources Available	\$104,614	\$109,391
Non-Proposition 98 Expenditures	\$57,980	\$63,525
Proposition 98 Expenditures	\$42,731	\$44,462
Total Expenditures	\$100,711	\$107,987
Fund Balance	\$3,903	\$1,404
Reserve for Liquidation of Encumbrances	\$955	\$955
Special Fund for Economic Uncertainties	\$2,948	\$449
Budget Stabilization Account/Rainy Day Fund	-	\$1,606

Figure SUM-02
2014-15 Total State Expenditures by Agency
(Dollars in Millions)

	General Fund	Special Funds	Bond Funds	Totals
Legislative, Judicial, Executive	\$2,968	\$2,992	\$226	\$6,186
Business, Consumer Services & Housing	850	776	199	1,825
Transportation	216	8,358	1,902	10,476
Natural Resources	2,260	1,400	529	4,189
Environmental Protection	63	2,712	427	3,202
Health and Human Services	29,652	19,353	-	49,005
Corrections and Rehabilitation	9,590	2,383	-	11,973
K-12 Education	44,980	73	413	45,466
Higher Education	12,562	57	340	12,959
Labor and Workforce Development	303	613	-	916
Government Operations	692	217	8	917
General Government:				
Non-Agency Departments	715	1,506	2	2,223
Tax Relief/Local Government	442	1,727	-	2,169
Statewide Expenditures	1,088	2,157	-	3,245
Supplemental Payment to the Economic Recovery Bonds	1,606	-	-	1,606
Total	\$107,987	\$44,324	\$4,046	\$156,357

Note: Numbers may not add due to rounding.

Figure SUM-03
General Fund Expenditures by Agency
(Dollars in Millions)

	2013-14	2014-15	Change from 2013-14 Dollar Change	Percent Change
Legislative, Judicial, Executive	\$2,696	\$2,968	\$272	10.1%
Business, Consumer Services & Housing	643	850	207	32.2%
Transportation	73	216	143	195.9%
Natural Resources	2,234	2,260	26	1.2%
Environmental Protection	51	63	12	23.5%
Health and Human Services	28,858	29,652	794	2.8%
Corrections and Rehabilitation	9,332	9,590	258	2.8%
K-12 Education	42,893	44,980	2,087	4.9%
Higher Education	11,373	12,562	1,189	10.5%
Labor and Workforce Development	300	303	3	1.0%
Government Operations	754	692	-62	-8.2%
General Government:				
Non-Agency Departments	504	715	211	41.9%
Tax Relief/Local Government	420	442	22	5.2%
Statewide Expenditures	580	1,088	508	87.6%
Supplemental Payment to the Economic Recovery Bonds	-	1,606	1,606	100.0%
Total	\$100,711	\$107,987	\$7,276	7.2%

Note: Numbers may not add due to rounding.

Figure SUM-04
General Fund Revenue Sources
(Dollars in Millions)

	2013-14	2014-15	Change from 2013-14	
			Dollar Change	Percent Change
Personal Income Tax	\$66,522	\$70,238	\$3,716	5.6%
Sales and Use Tax	22,759	23,823	1,064	4.7%
Corporation Tax	8,107	8,910	803	9.9%
Insurance Tax	2,287	2,382	95	4.2%
Alcoholic Beverage Taxes and Fees	351	359	8	2.3%
Cigarette Tax	86	84	-2	-2.3%
Motor Vehicle Fees	19	20	1	5.3%
Other	2,054	1,278	-776	-37.8%
Subtotal	\$102,185	\$107,094	\$4,909	4.8%
Transfer to the Budget Stabilization Account/Rainy Day Fund	-	-1,606	-1,606	-100.0%
Total	\$102,185	\$105,488	\$3,303	3.2%

Note: Numbers may not add due to rounding.

Figure SUM-05
2014-15 Revenue Sources
(Dollars in Millions)

	General Fund	Special Funds	Total	Change From 2013-14
Personal Income Tax	\$70,238	\$1,737	\$71,975	\$3,999
Sales and Use Tax	23,823	12,936	36,759	1,866
Corporation Tax	8,910	-	8,910	803
Highway Users Taxes	-	5,544	5,544	-470
Insurance Tax	2,382	-	2,382	95
Alcoholic Beverage Taxes and Fees	359	-	359	8
Cigarette Tax	84	702	786	-26
Motor Vehicle Fees	20	6,211	6,231	179
Other	1,278	16,274	17,552	-2,010
Subtotal	\$107,094	\$43,404	\$150,498	\$4,444
Transfer to the Budget Stabilization Account/Rainy Day Fund	-1,606	1,606	0	0
Total	\$105,488	\$45,010	\$150,498	\$4,444

Note: Numbers may not add due to rounding.

K THRU 12 EDUCATION

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

The Budget includes total funding of \$76.6 billion (\$45.3 billion General Fund and \$31.3 billion other funds) for all K-12 Education programs.

PROPOSITION 98

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

The Budget includes Proposition 98 funding of \$60.9 billion for 2014-15, an increase of \$5.6 billion over the 2013 Budget Act level. When combined with increases of \$4.4 billion in 2012-13 and 2013-14, the Budget provides a \$10 billion increased investment in K-14 education. Proposition 98 funding for K-12 education grows by more than \$12 billion

from the 2011-12 fiscal year to the 2014-15 fiscal year, representing an increase of more than \$1,900 per student.

K-12 BUDGET ADJUSTMENTS

Significant Adjustments:

- **Local Control Funding Formula**—An increase of \$4.75 billion Proposition 98 General Fund to continue the State’s landmark transition to the Local Control Funding Formula. This formula commits most new funding to districts serving English language learners, students from low-income families, and youth in foster care. This increase will close the remaining funding implementation gap by more the 29 percent. Additionally, the Budget addresses an administrative problem related to the collection of income eligibility forms that are used to determine student eligibility for free or reduced-price meals.
- **K-12 Deferrals**—The Budget repays nearly \$4.7 billion Proposition 98 General Fund for K-12 expenses that had been deferred from one year to the next during the Great Recession, leaving an outstanding balance of less than \$900 million in K-12 deferrals. Further, the Budget includes a trigger mechanism that will appropriate any additional funding resources attributable to the 2013-14 and 2014-15 fiscal years subsequent to the enactment of the Budget for the purpose of retiring this remaining deferral balance.
- **Independent Study**—The Budget streamlines the existing independent study program, reducing administrative burdens and freeing up time for teachers to spend on student instruction and support, while making it easier for schools to offer and expand instructional opportunities available to students through non-classroom based instruction.
- **K-12 Mandates**—An increase of \$400.5 million in one-time Proposition 98 General Fund to reimburse K-12 local educational agencies for the costs of state-mandated programs. These funds will make a significant down payment on outstanding mandate debt, while providing school districts, county offices of education, and charter schools with discretionary resources to support critical investments such as Common Core implementation.
- **K-12 High-Speed Internet Access**—An increase of \$26.7 million in one-time Proposition 98 General Fund for the K-12 High Speed Network to provide technical assistance and grants to local educational agencies to address the technology

requirements necessary for successful Common Core implementation. Based on an assessment by the K-12 High Speed Network, these funds will be targeted to those local educational agencies most in need of help with securing required internet connectivity and infrastructure to implement the new computer adaptive tests under Common Core.

- Career Technical Education Pathways Program—An increase of \$250 million in one-time Proposition 98 General Fund to support a second cohort of competitive grants for participating K-14 local educational agencies. Established in the 2013 Budget Act, the Career Pathways Trust Program provides grant awards to improve career technical programs and linkages between employers, schools, and community colleges.

CHILD CARE AND STATE PRESCHOOL

Subsidized Child Care includes a variety of programs designed to support low-income families so they may remain gainfully employed. These programs are primarily administered by the State Department of Education. Additionally, the State Preschool program is designed as an educational program to help ensure children develop the skills needed for success in school.

Significant Adjustments:

- Child Care and State Preschool Slots—The Budget includes \$57 million General Fund and \$30 million Proposition 98 General Fund for 500 slots for the Alternative Payment program, 1,000 slots for General Child Care, 7,500 part-day State Preschool slots, and 7,500 part-day wrap around care slots. The Budget also specifies that an additional 4,000 part-day State Preschool slots and 4,000 part-day wrap around care slots will be provided in 2015-16.
- Provider Rates and State Preschool Fees—The Budget includes \$24 million General Fund and \$25 million Proposition 98 General Fund to increase the standard reimbursement rate for state contracted providers by 5 percent, effective July 1, 2014, and \$19 million General Fund to update the regional market rate for voucher-based providers, effective January 1, 2015. The Budget also repeals part-day State Preschool family fees and backfills them with \$15 million Proposition 98 General Fund.

- Child Care and State Preschool Quality—The Budget includes \$50 million Proposition 98 General Fund for local block grants for locally driven quality improvement processes. The Budget also includes \$25 million Proposition 98 General Fund one-time for preschool and transitional kindergarten teacher training in early childhood development and \$10 million Proposition 98 General Fund one-time to provide loans for State Preschool facility expansion.

HIGHER EDUCATION

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

The Budget includes total funding of \$26.2 billion (\$14.7 billion General Fund and local property tax and \$11.5 billion other funds) for all programs included in these entities.

MULTI-YEAR STABLE FUNDING PLAN—UNIVERSITY OF CALIFORNIA AND CALIFORNIA STATE UNIVERSITY

The Budget continues the commitment to a multi-year stable funding plan for higher education.

- **Funding Stability**—The plan provides each segment up to a 20-percent increase in General Fund appropriations over a four-year period (2013-14 through 2016-17), representing about a 10-percent increase in total operating funds (including tuition and fee revenues). The Budget includes a 5-percent increase in 2014-15 for each university system (\$284 million total).
- **Affordability**—The plan assumes a freeze on UC and CSU resident tuition from 2013-14 through 2016-17 to avoid contributing to higher student debt and tuition levels.

- **Student Success**—The plan expects UC and CSU to decrease the time it takes students to complete a degree, increase the number of students who complete programs, and improve the rate of transfer of community college students to four-year colleges and universities.
- **Innovation**—In addition to efforts by UC, CSU, and CCC to meet student success goals, the Budget includes \$50 million to promote innovative models of higher education at the campus level that result in more bachelor's degrees, improved four-year completion rates, and more effective transfers between the community colleges and the universities.

The Budget also directs the universities to prepare three-year sustainability plans that set targets for key measures adopted in statute in 2013.

UNIVERSITY OF CALIFORNIA

Consisting of ten campuses, UC is the primary institution authorized to independently award doctoral degrees and professional degrees in law, medicine, business, dentistry, veterinary medicine, and other programs. The university manages one U.S. Department of Energy national laboratory, partners with private industry to manage two others, and operates five medical centers that support clinical teaching programs of UC's medical and health sciences schools that handle almost 4 million patient visits each year.

Significant Adjustments:

- **General Fund Increase**—The Budget includes an ongoing increase of \$142.2 million General Fund for the second installment of the multi-year funding plan. This funding is flexible and can be used by the university to meet its most pressing needs.
- **Behavioral Health Centers of Excellence**—One-time funding of \$15 million Proposition 63 funds to support the establishment of Behavioral Health Centers of Excellence at the Davis and Los Angeles campuses.
- **Deferred Maintenance**—As discussed in the Statewide Issues and Various Departments section, the Budget includes a trigger mechanism to provide up to \$50 million General Fund for deferred maintenance or other one-time priorities.
- **One-time General Fund Increases**—The Budget includes an additional \$2 million General Fund to support the UC Labor Centers and \$2 million General Fund for the Cal-BRAIN initiative.

CALIFORNIA STATE UNIVERSITY

The CSU provides undergraduate and graduate instruction through master's degrees and independently awards doctoral degrees in education, nursing practice, and physical therapy, or jointly with UC or private institutions in other fields of study. With 23 campuses, CSU is the largest and most diverse university system in the country. The CSU plays a critical role in preparing the workforce of California, awarding approximately 101,000 degrees in 2012-13; it grants more than one-half of the state's bachelor's degrees and one-third of the state's master's degrees. The CSU prepares more graduates in business, engineering, agriculture, communications, health, and public administration than any other institution of higher education. It also produces more than one-half of California's teachers.

Significant Adjustments:

- **General Fund Increase**—The Budget includes an ongoing increase of \$142.2 million General Fund for the second installment of the multi-year funding plan. This funding is flexible and can be used by the university to meet its most pressing needs.
- **Debt Service Costs**—Currently, the state separately funds general obligation and lease revenue debt service for CSU capital improvement projects. The Budget includes a shift of these appropriations into CSU's main appropriation to require CSU to factor these costs into the university's overall fiscal planning. Any new CSU capital expenditures will be subject to legislative review. Further, there are limits on the amount of CSU's budget that can be spent on capital expenditures.
- **Deferred Maintenance**—As discussed in the Statewide Issues and Various Departments section, the Budget includes a trigger mechanism to provide up to \$50 million General Fund for deferred maintenance or other one-time priorities.
- **Student Success Fees**—The Budget includes a moratorium on new student success fees at CSU institutions and directs the CSU Chancellor's Office to examine its fee policy.
- **Center for California Studies**—The Budget includes an increase of \$442,000 General Fund to support the Executive, Legislative, and Judicial Fellows programs at CSU's Center for California Studies.

CALIFORNIA COMMUNITY COLLEGES

The CCC are publicly supported local educational agencies that provide educational, vocational, and transfer programs to approximately 2.1 million students. The CCC is the largest system of higher education in the world, with 72 districts, 112 campuses, and 69 educational centers. By providing education, training, and services, CCC contribute to continuous workforce improvement and also provide remedial instruction for hundreds of thousands of adults across the state through basic skills courses and adult non-credit instruction.

Significant Adjustments:

- **Implementing Statewide Performance Strategies**—The Budget provides \$1.1 million non-Proposition 98 General Fund and nine positions for the Chancellor’s Office to develop leading indicators of student success and to monitor districts’ performance. Further, the Budget provides \$2.5 million Proposition 98 General Fund to provide local technical assistance to support implementation of effective practices across all districts, with a focus on underperforming districts.
- **Investing in Student Success**—The Budget provides \$170 million Proposition 98 General Fund to improve and expand student success programs and to strengthen efforts to assist underrepresented students. This includes \$100 million to increase orientation, assessment, placement, counseling, and other education planning services for all matriculated students. It also targets \$70 million to close gaps in access and achievement in underrepresented student groups, as identified in local Student Equity Plans. This funding will allow colleges to better coordinate delivery of existing categorical programs.
- **Apportionments**—The Budget includes an increase of \$140.4 million Proposition 98 General Fund for growth in general-purpose apportionments, which represents a 2.75-percent increase in enrollment. The Budget directs the Board of Governors to adopt a growth formula beginning in 2015-16 that gives first priority to districts identified as having the greatest unmet need in adequately serving their community’s higher educational needs. The Budget also includes \$47.3 million Proposition 98 General Fund for a statutory cost of living adjustment of 0.85 percent.

- Career Technical Education—The Budget includes \$50 million Proposition 98 General Fund to improve career technical education:
 - A one-time increase of \$50 million Proposition 98 General Fund to support the existing Economic and Workforce Development program at the CCC Chancellor’s Office. These funds provide resources for community colleges to develop, enhance, and expand career technical education programs that build upon existing regional capacity to better meet regional labor market demands.
 - Beginning in 2015-16, an increase in the funding rate for career development and college preparation non-credit courses (also known as CDCP or enhanced non-credit) to equal the rate provided for credit courses. Career development and college preparation non-credit courses offer flexibility for community colleges to design and deliver courses better suited for students pursuing career technical education. Community colleges will have a year to plan how best to take advantage of this new flexibility before the rates increase.
- Technology Infrastructure—The Budget includes \$6 million Proposition 98 General Fund, of which \$1.4 million is one-time and \$4.6 million is ongoing, to upgrade bandwidth and replace technology equipment at each community college. These investments support student success technology initiatives started in 2013-14, including electronic transcripts, electronic planning, incoming student evaluation, and the online education initiative.
- Disabled Student Programs and Services—The Budget includes \$30 million Proposition 98 General Fund to provide support services to students with disabilities.
- Eliminating Apportionment Deferrals—The Budget includes \$498 million Proposition 98 General Fund to buy down deferrals. Further, the Budget includes a trigger mechanism that will allow any additional funding resources attributable to the 2013-14 and 2014-15 fiscal years subsequent to the enactment of the Budget to be appropriated for the purpose of retiring the remaining \$94 million deferral balance.
- Mandates—The Budget includes \$49.5 million in one-time Proposition 98 General Fund to reimburse community colleges for the costs of state-mandated programs. These funds will make a significant down payment on outstanding mandate debt.
- Financial Stability for Apportionments—The Budget includes an increase of \$40.5 million in 2013-14 and \$37.8 million in 2014-15 in Proposition 98 General Fund by shifting a portion of revenues from former redevelopment agencies that are

scheduled to be received in the final months of the fiscal year to the following fiscal year. Proposition 98 General Fund will be used to backfill the difference between estimated total fiscal year redevelopment agency revenues and the amount the CCCs receive through April 15. This change will allow districts to have more certainty when preparing their fiscal plans.

- Investing in Deferred Maintenance and Instructional Equipment—The Budget includes a one-time increase of \$148 million Proposition 98 General Fund that colleges may use for deferred maintenance or instructional equipment purchases. These resources will allow districts to protect investments previously made in facilities, and improve students' experience by replenishing and investing in new instructional equipment.

CALIFORNIA STUDENT AID COMMISSION

The California Student Aid Commission administers state financial aid to students attending all institutions of public and private postsecondary education through a variety of programs including the Cal Grant High School and Community College Transfer Entitlement programs, the Competitive Cal Grant program, and the Assumption Program of Loans for Education. More than 100,000 students received new Cal Grant awards, and more than 160,000 students received renewal awards in 2012-13. The Commission will also administer the Middle Class Scholarship program beginning in 2014-15.

Significant Adjustments:

- Cal Grant B Living Stipend Increase—The Budget includes \$30 million to fund an increase of the Cal Grant B Living Stipend from \$1,493 to \$1,648, an 11.9-percent increase.
- Private Institutions—The Budget includes \$9 million to reflect a delay to the scheduled decrease to Cal Grant awards for students attending private, non-profit and accredited for-profit institutions. The award will remain \$9,084 for the 2014-15 academic year and will decrease to \$8,056 beginning in the 2015-16 academic year.
- Middle Class Scholarship Implementation—The Budget includes \$107 million General Fund to begin implementation of the Middle Class Scholarship Program.
- Expand Cal Grant Renewal Award Eligibility—The Budget includes \$15.8 million General Fund in 2014-15 to allow students who have previously been denied a Cal Grant renewal award for financial reasons (their income rose above

eligibility levels) to reapply for the program no more than three academic years after receiving their original award (if their incomes fall below the income threshold in that timeframe).

- **Cal Grant Program Growth**—The Budget includes an increase of \$17.3 million General Fund in 2013-14 and \$143.3 million General Fund in 2014-15 to reflect revised participation estimates in the Cal Grant program.
- **Offset Cal Grant Costs with Federal Temporary Assistance for Needy Families (TANF) Reimbursements**—The Budget offsets \$377.4 million of Cal Grant General Fund costs with TANF.

CALIFORNIA STATE LIBRARY

Since 1850, the California State Library has promoted innovative library services statewide, ensuring that all Californians have access via their local libraries to information and educational resources.

Significant Adjustments:

- **High-Speed Internet Access**—The Budget includes \$3.3 million General Fund to provide public libraries access to high-speed Internet to better meet the demands of today's library patrons. This includes \$2.3 million to allow California's public library branches to access a statewide, high-speed Internet network, and \$1 million General Fund on a one-time basis for grants to public libraries that require equipment upgrades to connect to a high-speed network.
- **One-time Local Assistance Funding**—The Budget includes \$3 million General Fund for local library programs, including \$1 million for literacy programs.

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HEALTH AND HUMAN SERVICES

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

The Budget includes total funding of \$136.7 billion (\$29.6 billion General Fund and \$107.1 billion other funds) for all programs overseen by this Agency.

DEPARTMENT OF HEALTH CARE SERVICES

The Department of Health Care Services (DHCS) administers Medi-Cal, California's Medicaid program, which is a public health insurance program that provides comprehensive health care services at no or low cost for low-income individuals including families with children, seniors, persons with disabilities, children in foster care, and pregnant women. DHCS also administers California Children's Services, Primary and Rural Health program, Family PACT, Every Woman Counts, and Drug Medi-Cal as well as county-operated community mental health programs.

Significant Adjustments:

- Health Care Reform Implementation—The Budget assumes additional Medi-Cal caseload of 2.5 million individuals and costs of \$14.2 billion related to the implementation of the Affordable Care Act. Approximately 825,000 additional people will receive Medi-Cal benefits under the current 50-50 state-federal cost sharing

arrangement, which results in costs of \$1.7 billion (\$766 million General Fund). The federal government is paying nearly 100 percent of the costs of the remaining 1.6 million new individuals in the Medi-Cal program. Total Medi-Cal enrollment is expected to rise from 7.9 million before implementation of the Affordable Care Act to 11.5 million in 2014-15, covering about 30 percent of the state's population.

- **Pregnancy Wrap**—The Budget expands full-scope Medi-Cal services to pregnant women with incomes at or below 138 percent of the federal poverty level and creates an affordability and benefit program for pregnant women with incomes above 138 percent and up to 208 percent of the federal poverty level who enroll in a qualified health plan through Covered California. These changes result in General Fund savings of \$16.6 million in 2014-15.
- **Specialty Drug Supplemental Rebates**—The Budget authorizes DHCS to collect supplemental rebates on certain specialty drugs. These prescriptions will be reimbursed through supplemental payments, specifically high-cost drugs such as Hepatitis C treatments. Collection of the rebates results in General Fund savings of \$6 million in 2014-15 growing to \$31 million annually.
- **Pediatric Vision Services**—The Budget includes \$2 million (\$1 million General Fund) for a pilot program to increase utilization of pediatric vision services. The pilot will utilize qualified mobile vision providers to expand vision screenings and services. Participating mobile vision service providers will work with school districts to provide vision exams and eyeglasses to children enrolled in Medi-Cal managed care plans.
- **Programs for All-Inclusive Care for the Elderly**—The Budget changes the reimbursement methodology for Programs for All-Inclusive Care for the Elderly, resulting in General Fund costs of \$1.8 million in 2014-15 that grow to approximately \$8 million annually. These sites provide comprehensive medical and social services to older adults who would otherwise reside in nursing facilities.
- **Managed Risk Medical Insurance Board Transfer**—Effective July 1, 2014, the Budget transfers the Board and its remaining programs to DHCS.

DEPARTMENT OF SOCIAL SERVICES

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

Significant Adjustments:

- **In-Home Supportive Services Overtime**—Pursuant to new United States Department of Labor regulations, the Budget contains \$172.2 million General Fund in 2014-15 and \$354.4 million General Fund ongoing to pay overtime to providers who work in excess of 40 hours per week and for compensation for providers traveling between multiple recipients, wait time associated with medical accompaniment, and time spent on mandatory training. The Budget also includes a statutory framework to maintain quality of care while containing overtime costs.
- **CalWORKs Grant Increase**—The Budget includes \$46.6 million General Fund for a 5-percent grant increase, effective April 1, 2015. Similar to the 5-percent increase that took effect March 1, 2014, the General Fund will support these costs until sufficient revenues in the Child Poverty and Supplemental Support Subaccount of the Local Revenue Fund are available.
- **CalWORKs Homeless Support**—The Budget contains \$20 million General Fund to provide funding for families for whom homelessness and housing instability is a barrier to self-sufficiency.
- **CalWORKs/CalFresh Drug Felon Eligibility**—The Budget includes \$10.6 million General Fund to allow an individual convicted of a drug felony to be eligible to receive CalWORKs and CalFresh benefits effective April 1, 2015 as long as they do not violate the conditions of their parole or probation. Ongoing General Fund costs are \$32.5 million.
- **Commercially Sexually Exploited Children Program**—The Budget establishes a Commercially Sexually Exploited Children Program, which will include statewide training, the development of local protocols for addressing victims of exploitation, and specialized services. The Budget includes \$5 million General Fund and \$14 million General Fund ongoing for this program.
- **Foster Care Payments for Relative Caregivers**—Beginning January 1, 2015, the Budget increases payments to relative caregivers of federally ineligible youth in foster care for counties choosing to participate, with a General Fund cost of \$15 million in 2014-15 and \$30 million annually thereafter.
- **Community Care Licensing**—The Budget includes \$7.5 million (\$5.8 million General Fund) and 71.5 positions for a significant effort to enhance the quality of the Community Care Licensing Program. It provides the Department with new authority to take over a facility and assign a temporary manager in situations of licensee

non-compliance. The Budget also increases facility licensing and renewal fees by 10 percent.

- **State Utility Assistance Subsidy**—The Budget includes an increase of \$10.5 million General Fund to provide a state-funded energy assistance subsidy for CalFresh recipients. This change was necessary to comply with recent federal changes regarding the minimum energy assistance benefit that must be received by a household in order to access the standard utility allowance. This program increases household monthly food budgets by an average of \$62 for over 320,000 families.

DEPARTMENT OF PUBLIC HEALTH

The Department of Public Health is charged with protecting and promoting the health and well-being of the people in California.

Significant Adjustments:

- **AIDS Drug Assistance Program (ADAP)-New Hepatitis C Virus Medications**—The Budget includes \$26.1 million federal funds to add two new Hepatitis C virus drugs to the ADAP drug formulary. These drugs provide a significant improvement in treatment, have a better cure rate, and require a shorter treatment duration.
- **Black Infant Health**—The Budget contains \$4 million General Fund ongoing for the Black Infant Health Program, which addresses disproportionately high rates of preterm births and infant mortalities for black infants in California.
- **HIV Demonstration Projects**—The Budget includes \$3 million General Fund ongoing for HIV demonstration projects that will address outreach, screening, and care for Californians living with and at risk for HIV.

DEPARTMENT OF DEVELOPMENTAL SERVICES

The Department of Developmental Services provides consumers with developmental disabilities a variety of services and supports that allow them to live and work independently or in supported environments.

Significant Adjustments:

- **Community Homes**—The Budget includes \$9.3 million General Fund to develop a pilot program for new enhanced behavioral support homes and establish a crisis home model in the community.
- **Crisis Centers**—The Budget contains \$3.2 million (\$2 million General Fund) and 43.1 positions to improve crisis services at Fairview Developmental Center and establish new crisis services at Sonoma Developmental Center.
- **Early Start**—Beginning January 1, 2015, the Budget includes \$7.9 million General Fund for the Early Start Program to provide intervention services to more infants and toddlers based on an expanded eligibility criteria.

DEPARTMENT OF STATE HOSPITALS

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

Significant Adjustments:

- **Restoration of Competency Expansion**—The Budget expands the Restoration of Competency Program by up to 55 beds. The program provides for treatment of certain Incompetent to Stand Trial (IST) patients in county jails or community residential treatment facilities rather than inpatient treatment at a state hospital. The Budget includes \$3.9 million General Fund to fund this expansion.
- **IST Beds**—The Budget contains \$27.8 million General Fund to increase IST bed capacity in the state hospital system by 105 beds to help reduce the number of defendants waiting to be transferred to a state hospital.
- **Coleman Beds**—The Budget includes \$26.3 million General Fund to keep 137 beds active in the psychiatric programs at Salinas Valley and Vacaville to maintain sufficient capacity for the Department to serve *Coleman* patients during the activation of the California Health Care Facility in Stockton.
- **Enhanced Treatment Program**—The Budget contains \$2.1 million General Fund to design and plan for specialized short-term housing units, totaling approximately 44 beds. These units will house and treat the Department's most dangerous and violent patients.

HEALTH AND HUMAN SERVICES AGENCY

Significant Adjustment:

- Office of Law Enforcement Support—The Budget contains \$1.4 million (\$787,000 General Fund) and 6 positions to establish the Office of Law Enforcement Support within the Health and Human Services Agency. The Office will develop standardized policies and procedures, improve recruitment and training, and provide centralized oversight and accountability to the law enforcement programs at the Departments of Developmental Services and State Hospitals.

PUBLIC SAFETY

The Budget includes the following changes related to public safety.

RECIDIVISM REDUCTION PROPOSALS

Chapter 310, Statutes of 2013 (SB 105), provided \$315 million General Fund for the California Department of Corrections and Rehabilitation to house inmates in contracted facilities to avoid early release and comply with the court-imposed population cap. It specified that if a sufficient time extension were granted by the court and all funding was not used for increased prison capacity, the first \$75 million of any savings would be transferred into the Recidivism Reduction Fund created by SB 105. Savings beyond the \$75 million would be split, with half going to the Recidivism Reduction Fund and half going to the General Fund. As a result, \$91 million is available in the Recidivism Reduction Fund in 2014-15.

The California Department of Corrections and Rehabilitation is provided \$42 million Recidivism Reduction Fund and \$4.2 million Inmate Welfare Fund for the following recidivism reduction efforts:

- Community Reentry Facilities—\$20 million for community reentry programs targeting mentally ill offenders who are within six to twelve months of release and focusing on services needed for successful reintegration into the community, such as work training, education, practical living skills, and substance use disorder

and mental health treatment. These facilities could also serve as transitional housing and intermediate sanctions for probationers.

- Substance Use Disorder Treatment Expansion in Prisons—\$11.8 million to expand treatment to all non-reentry hub prisons over a two-year period.
- Cognitive Behavioral Treatment at Contracted Facilities—\$3.8 million for rehabilitative programming at in-state contract facilities, similar to programming at reentry hubs.
- Case Managers at Parolee Outpatient Clinics—\$2.5 million to establish a three-year pilot program that includes case management social workers assisting parolee participants in managing basic needs, including housing, job training, and medical and mental health care.
- Grants to Community Colleges for Inmate Education—\$2 million one-time funding to provide coursework geared toward improving inmates' ability to find employment upon release.
- California Leadership Academy Planning Grant—\$865,000 one-time funding to develop a plan for a facility with specialized programming aimed at reducing recidivism for 18-to-25 year old male inmates.
- Independent Evaluation of Integrated Services for Mentally Ill Parolees Program—\$500,000 one-time funding to contract with an independent entity to do an evaluation of the program's effectiveness in reducing recidivism.
- Innovative Programming Grants—\$2.5 million one-time funding, of which \$2 million is funded from the Inmate Welfare Fund, to expand non-profit programs that have demonstrated success and focus on offender responsibility and restorative justice principles.
- Cal-ID Expansion—\$2.2 million Inmate Welfare Fund to expand the current identification card program at the reentry hubs to all prisons to prepare inmates for release.

The Board of State and Community Corrections is provided \$28 million Recidivism Reduction Fund for the following recidivism reduction grant programs:

- Mentally Ill Offender Crime Reduction Grants—\$18 million one-time funding for a competitive grant program with funding allocated to counties in the first year and available for expenditure for three years.

- Community Recidivism Reduction Grants—\$8 million one-time funding for nongovernmental entities engaged in a broad scope of recidivism reduction efforts in the community.
- Grants to Cities with the Highest Rates of Serious Crimes—\$2 million one-time funding to provide grants to cities with the highest rates of murder, rape, and robbery.

An additional \$21 million Recidivism Reduction Fund is provided for the following programs:

- Court Programs—\$15 million one-time funding for competitive grants for operation of court programs known to reduce recidivism and enhance public safety, such as collaborative courts and pretrial and risk assessment programs.
- Social Innovation Bonds—\$5 million to facilitate the use of social innovation financing for recidivism reduction programs, such as housing for former felons. Expenditure of these funds is subject to future legislation.
- Workforce Investment Boards—\$1 million one-time funding for a competitive grant program for workforce training and job development to serve the reentry population.

TRIAL COURT SECURITY

2011 Public Safety Realignment shifted responsibility for trial court security costs to counties and allocates funding based on historical court security expenditures. In addition, the state is required to provide annual funding for new administratively required activities in realigned programs that have an overall effect of increasing county costs.

The Budget includes \$1 million General Fund to address potential increased trial court security costs if a new court facility built by the state and opened after October 9, 2011, necessitates a different level of court security than the facility it replaced or was otherwise closed. A county must demonstrate the need for increased trial court security staff as a result of the new courthouse and approved requests will be adjusted annually.

LOCAL CRIMINAL JUSTICE FACILITIES

Legislation authorizes \$500 million of additional lease revenue bond financing authority for the acquisition, design, and construction of local criminal justice facilities. Use of this

financing is focused on improved housing with an emphasis on expanding program and treatment space as necessary to manage the adult offender population. This financing may be used to replace existing housing capacity, realizing only a minimal increase in capacity, if the county clearly documents an existing housing capacity deficiency.

LOCAL PUBLIC SAFETY

The Budget includes the following changes to strengthen public safety at the local level:

- **Community Corrections Performance Incentive Grant Program**—An increase of \$23.7 million General Fund, for a total of \$124.8 million, for county probation departments that have demonstrated success in reducing the number of adult felony probationers going to county jail or state prison.
- **City Law Enforcement Grants**—An increase of \$12.5 million to augment the existing grants for city police activities to \$40 million. The additional funding may be used for targeted innovative training designed to strengthen police forces.
- **Split Sentences**—The Budget includes legislation that would make a split sentence the default sentence for realigned offenders unless a court finds, in the interest of justice, that it is not appropriate in a particular case. Increasing split sentences will result in additional offenders placed under probation supervision upon release from jail, which helps to improve successful reintegration into the community through access to rehabilitative programming and supportive services.
- **Joint Task Force**—The Budget includes \$9.4 million to support two new Special Operations Unit Teams to be deployed as needed throughout California and the expansion of the Fresno Special Operations Unit Team to investigate violent criminals and organized crime throughout the state. The Department of Justice and the California Highway Patrol will work collaboratively to assist local law enforcement agencies in tracking and apprehending suspects in high-priority investigations.

CORRECTIONS AND REHABILITATION

The California Department of Corrections and Rehabilitation incarcerates the most violent felons, supervises them when they are released on parole, and provides rehabilitation programs to help them reintegrate into the community. The Department provides safe and secure detention facilities and necessary support services to inmates, including food, clothing, and academic and vocational training, as well as health care services.

The Budget includes total funding of \$9.8 billion (\$9.5 billion General Fund and \$293 million other funds) for the Department in 2014-15.

UPDATE ON MEETING THE COURT-ORDERED POPULATION CAP

For over two decades, California's prison system has faced many challenges with overcrowding and lawsuits related to the provision of health and mental health services in prison. The population increased from approximately 60,000 inmates in 1986 to an all-time high of 173,479 in 2006. In 2011, notwithstanding the significant progress made in providing medical and mental health services and reducing the prison population, the United States Supreme Court upheld a lower court ruling requiring the Department to reduce population in its institutions to 137.5 percent of the system's design capacity by June 30, 2013. Subsequent orders extended the deadline, and on February 10, 2014, the lower court issued a final order, granting the state a two-year extension to meet the cap by February 28, 2016. In granting the two-year extension, the court also established benchmarks, requiring the state to meet 143 percent of design capacity by June 30, 2014 and 141.5 percent by February 28, 2015. At present, the State's prison population is approximately 140.8 percent of design capacity.

The Budget includes the following augmentations to comply with the court-ordered population cap:

- **Population Reduction Strategies**—An increase of \$3.1 million General Fund to comply with the additional population reduction strategies ordered by the court. The resources will allow the Department to begin expanding medical parole, implementing an elderly parole program, establishing a parole process for non-violent, non-sex second strikers who have served 50 percent of their sentence, and reducing the hearing preparation timeline.
- **Post Release Community Supervision**—\$11.3 million General Fund for county probation departments to supervise a temporary increase in the average daily population of offenders on Post Release Community Supervision as a result of the additional credit earnings for non-violent, non-sex second strikers ordered by the court on February 10, 2014.

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EMERGENCY DROUGHT RESPONSE

The State of California has experienced three consecutive years of below-average rainfall, and is currently facing severe drought conditions in all of the state's 58 counties. The final seasonal survey of the Sierra Nevada snowpack recorded water content at 18 percent of the normal average. Water levels at the state's largest reservoirs, as well as groundwater aquifers, are also dangerously below average. As a result, drinking water supplies are at risk in some communities, agricultural areas face increased unemployment, dry conditions create higher risks for wildfires, and important environmental habitats have been degraded.

On January 17, 2014, the Governor proclaimed a state of emergency, directed state agencies to take all necessary actions to respond to drought conditions, and called for a 20-percent reduction in water use. On April 25, 2014, the Governor proclaimed a continued state of emergency to strengthen the state's ability to manage water and habitat effectively during the drought. The Governor has formed an interagency Drought Task Force, led by the Office of Emergency Services and comprised of representatives of the Governor's Cabinet and various department directors. The Task Force enables daily coordination on actions to help minimize harm from the drought.

LEGISLATION

In February, the Legislature enacted urgency legislation to assist drought-impacted communities and improve the management of local water supplies. The legislation provided \$687.4 million to support drought relief, including emergency financial assistance

for housing and food for workers directly impacted by the drought, funding to secure emergency drinking water supplies for drought-impacted communities, and funds for projects to help local communities more efficiently capture and manage water.

Highlights of the legislation include:

- \$549 million from the accelerated expenditure of voter-approved bonds, Proposition 84 and Proposition 1E, for the Department of Water Resources (DWR) to provide infrastructure grants for local and regional projects. These projects will increase local water supply reliability by recapturing storm water, expanding the use and distribution of recycled water, enhancing the management and recharge of groundwater storage, and strengthening water conservation efforts.
- \$30 million Greenhouse Gas Reduction Fund for the DWR to support state and local water use efficiency projects that will save energy and reduce greenhouse gas emissions.
- \$25 million General Fund for the Department of Social Services to provide food assistance to those impacted by the drought.
- \$21 million special funds and federal funds for the Department of Housing and Community Development for housing-related assistance for individuals impacted by the drought.
- \$15 million General Fund for the Department of Public Health to address drought-related drinking water emergencies.
- \$13 million General Fund for the California Conservation Corps and local community conservation corps to expand water use efficiency and conservation activities and to reduce fuel loads to prevent catastrophic fires.
- \$10 million Greenhouse Gas Reduction Fund for the California Department of Food and Agriculture to invest in irrigation and water pumping systems that reduce water use, energy use, and greenhouse gas emissions.

EXPANDED FIRE PROTECTION

The Governor's emergency proclamation directed the Department of Forestry and Fire Protection (CAL FIRE) to hire additional seasonal firefighters to suppress wildfires and take other needed actions to address elevated fire risk as a result of drought conditions. Between January 1 and June 14, CAL FIRE responded to over 2,324 wildfires that have

burned nearly 17,800 acres. In an average year, over the same period, CAL FIRE would typically respond to 1,447 wildfires. CAL FIRE's quarterly seasonal outlook predicts above-normal large-fire potential through August. To combat severe fire conditions, CAL FIRE has increased its firefighter surge capacity pool to address high-risk areas. Enhancements to CAL FIRE's firefighting capacity are estimated to cost an additional \$44 million General Fund (Emergency Fund), and total Emergency Fund expenditures including the drought-related costs are expected to increase by \$90 million in 2013-14. Additional funds for 2014-15 are discussed below.

BUDGET ACTIONS

The Budget includes additional one-time resources for 2014-15 to continue immediate drought-related efforts started in the current year.

Significant Adjustments:

- Department of Forestry and Fire Protection—An increase of \$53.8 million General Fund and \$12.2 million other funds to continue firefighter surge capacity, retain seasonal firefighters beyond the budgeted fire season, provide additional defensible space inspectors, and enhance air attack capabilities to suppress wildfires. Of these additional resources, \$10 million is available to support local grants for fire prevention projects or public education efforts that benefit owners of habitable structures in state responsibility areas.
- Department of Fish and Wildlife—An increase of \$30.3 million General Fund and \$8.5 million other funds to implement enhanced salmon monitoring, restore sensitive habitat, improve water infrastructure for wildlife refuges, expand the fisheries restoration grant program, and remove barriers for fish passage.
- Department of Water Resources—An increase of \$18.1 million General Fund to comprehensively assess current surface and groundwater conditions, expedite water transfers, provide technical guidance to local water agencies, assist local water agencies with emergency water supply projects, and provide additional public outreach through the Save Our Water campaign.
- Department of Social Services—An increase of \$5 million General Fund and a reappropriation of \$15 million to provide food assistance for communities most impacted by the drought.

EMERGENCY DROUGHT RESPONSE

- Office of Emergency Services—An increase of \$4.4 million General Fund for the State Operations Center to continue to provide local communities with technical guidance and disaster recovery support related to the drought.
- Department of General Services—An increase of \$5.4 million special funds to implement water efficiency and conservation measures in state-owned facilities.
- State Water Resources Control Board—An increase of \$4.3 million General Fund to continue enforcement of drought-related water rights and water curtailment actions.

CAP AND TRADE EXPENDITURE PLAN

The California Global Warming Solutions Act of 2006 (AB 32) established California as a global leader in reducing greenhouse gas emissions (GHGs). To meet the goals of AB 32, the state has adopted a three-pronged approach to reducing emissions, including adopting standards and regulations, providing emission reduction incentives via grant programs, and establishing a market-based compliance mechanism known as Cap and Trade. The Cap and Trade program sets a statewide limit on the GHG sources responsible for 85 percent of California GHG emissions. Through an auction mechanism, it establishes a financial incentive for industries subject to the statewide cap to make long-term investments in cleaner fuels, more efficient energy use, and transformational technological and scientific innovations. The Cap and Trade program provides GHG emitters the flexibility to implement the most efficient options to reduce GHG emissions. Based on the first update to the Climate Change Scoping Plan, the Cap and Trade program will be responsible for approximately 30 percent of the required GHG emission reductions to meet the AB 32 goal of reducing GHG emissions to 1990 levels by 2020.

Chapter 830, Statutes of 2012 (SB 535), requires that the state invest at least 10 percent of the auction proceeds within the most disadvantaged communities and at least 25 percent of the proceeds be invested to benefit these communities. The California Environmental Protection Agency, directed by SB 535, will determine the list of disadvantaged communities using CalEnviroScreen, a tool developed by the Office of Environmental Health Hazard Assessment, in collaboration with stakeholders and an advisory group.

The Budget provides \$832 million of Cap and Trade proceeds to support existing and pilot programs that will reduce GHG emissions and meet SB 535 goals (see Figure CAP-01). This expenditure plan will reduce emissions by modernizing the state's rail system including high-speed rail and public transit, encouraging local communities to develop in a sustainable manner with an emphasis on public transportation and affordable housing, increasing energy, water, and agricultural efficiency, restoring forests in both urban and rural settings, and creating incentives for additional recycling. The Budget permanently allocates 60 percent of future auction proceeds to public transit, affordable housing, sustainable communities, and high-speed rail. The remaining proceeds will be allocated in future budgets.

Figure CAP-01
Cap and Trade Expenditure Plan
(Dollars in Millions)

<i>Investment Category</i>	<i>Department</i>	<i>Program</i>	<i>2014-15</i>	<i>Ongoing</i>
Sustainable Communities and Clean Transportation	High-Speed Rail Authority	High-Speed Rail Project	\$250	25 percent
	State Transit Assistance	Low Carbon Transit Operations Program	\$25	
	Caltrans	Transit and Intercity Rail Capital Program	\$25	35 percent
	Strategic Growth Council	Affordable Housing and Sustainable Communities Program	\$130	
	Air Resources Board	Low Carbon Transportation	\$200	Annual Appropriations
Energy Efficiency and Clean Energy*	Department of Community Services and Development	Energy Efficiency Upgrades/Weatherization	\$75	
	Energy Commission	Energy Efficiency for Public Buildings	\$20	Annual Appropriations
	Department of Food and Agriculture	Agricultural Energy and Operational Efficiency	\$15	
Natural Resources and Waste Diversion	Department of Fish and Wildlife	Wetlands and Watershed Restoration	\$25	
	Department of Forestry and Fire Protection	Fire Prevention and Urban Forestry Projects	\$42	Annual Appropriations
	Cal Recycle	Waste Diversion	\$25	
Total			\$832	

* Emergency drought legislation enacted in February 2014 included \$40 million of Cap and Trade funds for water use efficiency projects.

Specifically, the Cap and Trade Expenditure Plan invests in the following programs:

SUSTAINABLE COMMUNITIES AND CLEAN TRANSPORTATION

- High-Speed Rail—\$250 million for the High-Speed Rail Authority for construction of the initial construction segment in the Central Valley and further environmental and design work on the statewide system. The Budget also provides an ongoing commitment of 25 percent of future Cap and Trade proceeds to the high-speed rail project and specifies that \$400 million remaining from a prior General Fund loan also be available for the project. This long-term funding commitment allows for the advancement of the project on multiple segments concurrently, which yields cost savings and creates an opportunity for earlier potential private sector investment. These investments in the high-speed rail system will alleviate pressure on California's current transportation network and will provide both environmental and economic benefits.
- Low Carbon Transit Operations Program—\$25 million for local transit agencies to support new or expanded bus and rail services, with an emphasis on disadvantaged communities. Expenditures are required to result in an increase in transit ridership and a decrease in GHG emissions. The Budget also provides an ongoing commitment of 5 percent of future auction proceeds for this purpose.
- Transit and Intercity Rail Capital Program—\$25 million for Caltrans to administer a competitive grant program for rail and bus transit operators for capital improvements to integrate state and local rail and other transit systems, including those located in disadvantaged communities, and those that provide connectivity to the high-speed rail system. The Transportation Agency will prepare a list of projects recommended for funding, to be submitted to the California Transportation Commission for programming and allocation. The Budget also provides an ongoing commitment of 10 percent of future auction proceeds for this purpose.
- Affordable Housing and Sustainable Communities Program—\$130 million to support the implementation of sustainable communities strategies required by Chapter 728, Statutes of 2008 (SB 375), and to provide similar support to other areas with GHG reduction policies, but not subject to SB 375 requirements. The Strategic Growth Council will coordinate this program. Projects that benefit disadvantaged communities will be given priority. Also, projects will reduce GHG emissions by increasing transit ridership, active transportation (walking/biking), affordable housing near transit stations, preservation of agricultural land, and local planning that promotes infill development and reduces the number of vehicle miles traveled.

The Budget also provides an ongoing commitment of 20 percent of future auction proceeds for this program and requires that at least half of the expenditures be allocated for affordable housing projects.

- **Low Carbon Transportation**—\$200 million for the Air Resources Board to accelerate the transition to low carbon freight and passenger transportation, with a priority for disadvantaged communities. This investment will also support the Administration's goal to deploy 1.5 million zero-emission vehicles in California by 2025. The Board administers existing programs that provide rebates for zero-emission cars and vouchers for hybrid and zero-emission trucks and buses. These expenditures will respond to increasing demand for these incentives, as well as provide incentives for the pre-commercial demonstration of advanced freight technology to move cargo in California, which will benefit communities near freight hubs.

ENERGY EFFICIENCY AND CLEAN ENERGY

- **Weatherization Upgrades/Renewable Energy**—\$75 million for the Department of Community Services and Development to assist in the installation of energy efficiency and renewable energy projects in low-income housing units within disadvantaged communities. Weatherization measures typically include weather-stripping, insulation, caulking, water heater blankets, fixing or replacing windows, refrigerator replacement, electric water heater repair/replacement, and heating and cooling system repair/replacement. Renewable energy measures include installation of solar water heater systems and photovoltaic systems. This program will serve a mix of single and multifamily housing units.
- **Energy Efficiency in Public Buildings**—\$20 million for the Energy Resources Conservation and Development Commission to finance energy efficiency and energy generation projects in public buildings, including the University of California, the California State University, and courts. Energy savings projects will include lighting systems, energy management systems and equipment controls, building insulation and heating, ventilation, and air conditioning equipment.
- **Agricultural Energy and Operational Efficiency**—\$15 million for the Department of Food and Agriculture to support projects that reduce GHG emissions from the agriculture sector by capturing greenhouse gases, harnessing greenhouse gases as a renewable bioenergy source, improving agricultural practices and promoting low carbon fuels, agricultural energy, and operational efficiency.

NATURAL RESOURCES AND WASTE DIVERSION

- Wetlands and Coastal Watersheds—\$25 million for the Department of Fish and Wildlife to implement projects that provide carbon sequestration benefits, including restoration of wetlands (including those in the Delta), coastal watersheds and mountain meadows. In addition to furthering the goals of AB 32, these types of projects are also identified in the Water Action Plan and are integral to developing a more sustainable water management system statewide.
- Fire Prevention and Urban Forests—\$42 million for the Department of Forestry and Fire Protection to support urban forests in disadvantaged communities and forest health restoration and reforestation projects that reduce wildfire risk and increase carbon sequestration. These expenditures will enhance forest health and reduce fuel loads in light of climate change increasing wildfire intensity and damage.
- Waste Diversion—\$25 million for the Department of Resources Recycling and Recovery to provide financial incentives for capital investments that expand waste management infrastructure, with a priority in disadvantaged communities. Investment in new or expanded clean composting and anaerobic digestion facilities is necessary to divert more materials from landfills, a significant source of methane emissions. These programs reduce GHG emissions and support the state's 75-percent solid waste recycling goal.

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ENVIRONMENTAL PROTECTION

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

The Budget proposes total funding of \$3.7 billion (\$59.7 million General Fund and \$3.6 billion other funds) for all programs in this Agency.

GROUNDWATER MANAGEMENT

Groundwater accounts for more than one-third of the water used by cities and farms and much more in dry years when other sources are reduced. Some of California's groundwater basins are sustainably managed, but many are not. Inconsistent and inadequate tools, resources, and authorities make managing groundwater difficult in California and impede the state's ability to address problems such as overdraft, seawater intrusion, land subsidence, and water quality degradation. The Administration is continuing discussions on groundwater legislation with the Legislature and stakeholders.

Significant Adjustments:

- Sustainable Groundwater Management—\$1.9 million General Fund and ten positions for the State Water Resources Control Board to act as a backstop when local or regional agencies are unable or unwilling to sustainably manage groundwater basins.

The Water Board will protect groundwater basins at risk of permanent damage until local or regional agencies are able to do so.

- Technical Assistance to Local Agencies—\$2.5 million General Fund in 2014-15 and \$5 million annually for four additional years for the Department of Water Resources (DWR) to support local groundwater efforts. The state's role should be to provide guidance, tools, and resources to local and regional entities to assist them in management of groundwater basins.
- Groundwater Data Collection and Evaluation—\$2.9 million General Fund and 12 positions for the DWR to continue current groundwater monitoring efforts and develop an online well completion report submission system. The data and analyses will provide state, regional, and local water managers more efficient and timely access to hydrogeologic and well construction data that will improve groundwater management plans, identify and understand changes in groundwater supplies, and more effectively integrate groundwater use with surface water use. The expanded groundwater information will support state and local efforts to evaluate anticipated impacts of climate change, drought conditions, and water supply reliability.

REORGANIZATION OF THE DRINKING WATER PROGRAM

Disadvantaged communities often struggle to provide an adequate supply of safe, affordable drinking water. Programs designed to protect water quality for drinking and other purposes are housed in multiple agencies, reducing their effectiveness.

The Budget transfers \$313.6 million (\$5 million General Fund) and 302.2 positions for the administration of the Drinking Water Program from the Department of Public Health to the State Water Resources Control Board. Transferring the Drinking Water Program will achieve the following objectives:

- Establish a single water quality agency to improve coordination and enhance accountability for water quality programs.
- Better provide comprehensive technical and financial assistance to help communities, especially small disadvantaged communities, address an array of challenges related to drinking water, wastewater, water recycling, pollution, desalination, and storm water.

- Improve the efficiency and effectiveness of drinking water, groundwater, water recycling, and water quality programs.

OFFICE OF ENVIRONMENTAL HEALTH HAZARD ASSESSMENT

The Office of Environmental Health Hazard Assessment (OEHHA) protects and enhances public health and the environment through scientific evaluation of risks posed by hazardous substances. OEHHA's risk assessments provide state and local agencies with the scientific tools upon which to base risk management decisions.

PROPOSITION 65

The Budget includes \$1.1 million Safe Drinking Water and Toxic Enforcement Fund and 4 positions to revise Proposition 65 regulations and develop a website that provides information to the public on exposure to listed chemicals. This effort will better inform the public about their exposures to chemicals that cause cancer or reproductive harm by revising existing regulations to take into consideration technological advances made over the last 25 years, and by developing a website that will contain detailed information regarding listed chemicals as well as exposure pathways, risks, and avoidance measures.

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JUDICIAL BRANCH

The Budget includes total funding of \$3.6 billion (\$1.4 billion General Fund and \$2.2 billion other funds) in 2014-15 for the Judicial Branch, of which \$2.6 billion is provided to support trial court operations. The Judicial Branch consists of the Supreme Court, courts of appeal, trial courts and the Judicial Council. The trial courts are funded with a combination of resources from the General Fund, county maintenance-of-effort requirements, fees, and other charges. All other portions of the Judicial Branch primarily receive funding from the General Fund.

The Budget includes the following significant adjustments:

- Trial Court Funding—A two-year strategy to stabilize trial court funding that provides \$86.3 million to support trial court operations in 2014-15 and an additional 5-percent increase in the 2015-16 Governor’s Budget.
- Trial Court Employee Costs—An increase of \$42.8 million for health benefit and retirement rate cost adjustments for trial court employees. The future increases for health benefits and retirement costs for trial court employees and retirees will be provided annually, one year in arrears.
- Trial Court Trust Fund Revenues—An increase of \$30.9 million to the Trial Court Trust Fund to backfill the potential fee revenue loss estimated in 2014-15. These funds will be allocated as needed after the 2015 May Revision following an assessment of estimated fee revenue to be received in 2014-15.

JUDICIAL BRANCH

- Immediate and Critical Needs Account Transfer—A one-time \$40 million General Fund augmentation to reduce the transfer from the Immediate and Critical Needs Account to the Trial Court Trust Fund to support the Judicial Branch’s capital outlay and infrastructure program.

The Budget also includes an additional \$5 million for the state judiciary and \$2.2 million for increased rent costs for the Supreme Court, courts of appeal, and the Administrative Office of the Courts.

LOCAL GOVERNMENT

This part of the Budget includes information related to local governments.

DISSOLUTION OF REDEVELOPMENT AGENCIES

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

In 2011-12 and 2012-13 combined, approximately \$620 million was returned to cities, \$875 million to counties, and \$310 million to special districts. The Budget estimates that cities will receive an additional \$593 million in general purpose revenues in 2013-14 and 2014-15 combined, with counties receiving \$731 million and special districts \$227 million.

In 2011-12 and 2012-13 combined, approximately \$2.2 billion was returned to K-14 schools. The Budget estimates that Proposition 98 General Fund savings resulting from the dissolution of RDAs will be \$2.1 billion in 2013-14 and 2014-15 combined.

STATE-COUNTY ASSESSORS' PARTNERSHIP AGREEMENT PROGRAM

The Budget includes \$7.5 million for a three-year limited term State-County Assessors' Partnership Agreement Program to enhance local property assessment efforts. The Program will be limited to nine county assessors' offices that will be competitively selected from a mix of urban, suburban, and rural counties. Participating counties will match their state grant on a dollar-for-dollar basis.

Program funds will be used to enhance equalization efforts, including:

- Enrolling newly constructed property and property ownership changes.
- Reassessing property to reflect current market values.
- Enrolling property modifications that change the property's taxable value.
- Responding to assessed valuation appeals.

As the three-year Program term nears its expiration date, the Department of Finance will evaluate the results and issue findings to the Legislature.

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

The Department of Housing and Community Development (HCD), among other responsibilities, administers housing finance, economic development, and community development programs.

Significant Adjustments:

- Proposition 41 Implementation—The Budget includes \$76.2 million in bond funds for the Veterans Housing and Homeless Prevention Act of 2014 (Proposition 41) passed by voters in June 2014. Proposition 41 authorizes a total of \$600 million in general obligation bonds to provide affordable multifamily supportive housing for homeless and low-income veterans and their families. Pursuant to Proposition 41, HCD will work collaboratively with the California Housing Finance Agency and the Department of Veterans Affairs to award the bond funds.
- Multifamily Housing Programs (General and Supportive Housing)—The Budget includes \$100 million General Fund for the Multifamily Housing Programs to

provide deferred payment loans for eligible costs of development, construction, rehabilitation, acquisition, and/or conversion of transitional or affordable rental housing developments. Of the \$100 million, the Supportive Housing Program will receive \$50 million to provide deferred payment loans for permanent affordable housing rental developments that contain supportive housing units with a requirement that at least 40 percent of the units in each development be designated for individuals or families experiencing chronic homelessness, homeless youth, and individuals leaving institutional settings.

STATE MANDATE REIMBURSEMENTS

The Commission on State Mandates is a quasi-judicial body that determines whether local agencies and school districts are entitled to reimbursement by the state for costs related to new or higher levels of service mandated by the state. The state owes counties, cities, and special districts \$900 million in mandate costs incurred prior to 2004 that must be repaid by 2020-21. Annual payments on this debt have been postponed in recent years due to budget shortfalls.

The Budget accelerates the state's repayment of the pre-2004 mandate debt by appropriating \$100 million to local governments. Approximately 73 percent of the payment will go to counties, 25 percent to cities, and 2 percent to special districts. These funds will be available to fund core local government services such as public safety and improving the implementation of 2011 Realignment.

The Budget Act includes a trigger mechanism that makes additional payments for the remaining pre-2004 mandate debt. Additional funds, up to \$800 million, will be provided if estimated General Fund revenues for the 2013-14 and 2014-15 fiscal years at the 2015 May Revision exceed the 2014 Budget Act's estimate for those same revenues. After satisfying the Proposition 98 guarantee, the additional revenues will pay down the remainder of the state's pre-2004 mandate debt.

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STATEWIDE ISSUES AND VARIOUS DEPARTMENTS

This Chapter describes items in the Budget related to statewide issues and various departments.

TEACHERS' RETIREMENT SYSTEM

In its 101-year history, contributions to CalSTRS have rarely aligned with investment income to meet the promises owed to retired teachers, community college instructors, and school administrators. The 2012 pension reform law lowered long-term costs at CalSTRS by reducing benefit levels and extending retirement ages for new teachers. Even with those changes, and despite recent investment success, the viability of CalSTRS ultimately requires significant new money on an annual basis.

In recognition of the critical need to address this issue, the Budget includes a comprehensive funding solution to close the CalSTRS shortfall—now estimated at \$74.4 billion.

Built on shared responsibility among the state, schools, and teachers, the funding plan will put CalSTRS on a sustainable path and eliminate the unfunded liability in about 30 years. The plan will start modestly in 2014-15 to provide the state, schools, and teachers sufficient time to prepare for future budget costs. The plan directs \$276 million (\$59.1 million General Fund) in additional contributions from all three entities in 2014-15.

Under the plan, teacher contributions will increase from 8 percent to a total of 10.25 percent of pay, phased in over the next three years. School contributions will increase from 8.25 percent to a total of 19.1 percent of payroll, phased in over the next seven years. These school contributions will be paid from existing revenue sources.

The state's total contribution to the Defined Benefit plan will increase from approximately 3 percent in 2013-14 to 6.3 percent of payroll in 2016-17 and ongoing. In addition, the state will continue to pay 2.5 percent of payroll annually for a supplemental inflation protection program—for a total of 8.8 percent.

The plan also provides the CalSTRS board with limited authority to increase the school and state contributions based on changing conditions. The authority also allows the board to reduce school and state contributions if they are no longer necessary.

STATE EMPLOYEES' RETIREMENT

The Budget includes state retirement contributions totaling \$4.6 billion (\$2.7 billion General Fund) for 2014-15. California State University retirement contributions make up \$542.8 million (\$542.5 million General Fund) of this total. This represents a \$600.2 million (\$352.1 million General Fund) increase over the 2013-14 retirement base. Retirement rates increased substantially as a result of the following:

- On February 20, 2014, the California Public Employees' Retirement System (CalPERS) Board of Administration adopted new assumptions as part of a regular review of demographic trends. Key assumption changes included longer post-retirement life expectancy, earlier retirement ages, and higher-than-expected wage growth for State Peace Officers/Firefighters and California Highway Patrol. The impact of the assumption changes will be phased in over three years, with a 20-year amortization, beginning in 2014-15. This action accounts for \$430.1 million (\$254.2 million General Fund) of the total increase.
- Additionally, there were normal changes due to differences in actual versus projected employer contributions, payroll growth, retirement dates, and benefit payments. Of the total incremental increases indicated above, these factors account for \$170.1 million (\$97.9 million General Fund) additional costs.

Figure VAR-01 provides a historical overview of the contributions to CalPERS, CalSTRS, the Judges' Retirement System (JRS), the Judges' Retirement System II (JRS II), and the Legislators' Retirement System (LRS) for pension and retiree health care benefits.

Figure VAR-01
State Retirement Contributions*
(Dollars in Millions)

	CalPERS ¹	CSU CalPERS	Retiree Health & Dental	CSU Retiree Health	CalSTRS	JRS	JRS II	LRS
2005-06	\$2,403		\$887		\$1,081	\$121	\$24	\$0
2006-07	2,765		1,006		959	129	27	0
2007-08	2,999		1,114		1,623 ²	162	37	0
2008-09	3,063		1,183		1,133	189	40	0
2009-10	2,861		1,182		1,191	184	32	0
2010-11	3,230		1,387		1,200	166	54	0
2011-12	3,174		1,505		1,259	195	58	0
2012-13	2,948 ³	449 ³	1,365 ³	222 ³	1,303	160	51	0
2013-14 ⁴	3,219	474	1,420	246	1,360	188	52	1
2014-15 ⁴	4,042	543	1,559	270	1,486	179	56	1

^{1/} In addition to the Executive Branch, this includes Judicial and Legislative Branch employees. Contributions for judges and elected officials are included in Judges' Retirement System (JRS), Judges' Retirement System II (JRS II), and Legislators' Retirement System (LRS).

^{2/} Includes repayment of \$500 million from 2003-04 Supplemental Benefit Maintenance Account withholding/lawsuit loss (interest payments not included).

^{3/} Beginning in 2012-13, California State University (CSU) pension and health care costs are displayed separately.

^{4/} Estimated as of the 2014-15 Budget Act. 2014-15 General Fund costs are \$2,120 million for CalPERS, \$543 million for CSU CalPERS, \$1,553 million for Retiree Health & Dental, and \$177 million for JRS. The remaining totals are all General Fund.

* The chart does not include contributions for University of California pension, retiree health, and retiree dental costs or CSU retiree dental costs.

EMPLOYEE COMPENSATION

The Budget includes \$189.2 million (\$91.4 million General Fund) for trigger salary increases for 15 of the state's collective bargaining units based on agreements reached during the last 12 months. (Two of these bargaining units recently came to tentative agreements with the state and have yet to ratify them.)

DEFERRED MAINTENANCE

If property taxes are higher than anticipated in 2013-14 (and therefore offset state K-14 costs), up to \$200 million General Fund will be provided to address the most critical statewide deferred maintenance projects. If less than \$200 million is determined to be available, entities would receive a proportionate share of the funds. These funds will start

to address the backlog of deferred maintenance. This will help the state keep its assets functioning longer and reduce the need to build new infrastructure.

The amounts by entity are as follows:

- California State University—\$50 million
- University of California—\$50 million
- Department of Parks and Recreation—\$40 million
- Department of Corrections and Rehabilitation—\$20 million
- Department of Developmental Services—\$10 million
- Department of State Hospitals—\$10 million
- Department of General Services—\$7 million
- State Special Schools—\$5 million
- California Military Department—\$3 million
- Department of Forestry and Fire Protection—\$3 million
- Department of Food and Agriculture—\$2 million

OIL TRANSPORTATION SAFETY

Rail shipments of oil, including North Dakota Bakken oil, are expected to significantly increase from 3 million barrels to approximately 150 million barrels per year by 2016. As part of the Administration's ongoing efforts to improve the safety of the extraction, transportation, processing, and use of fossil fuels in California, the Budget includes additional funding to enhance the Department of Fish and Wildlife's Oil Spill Prevention and Response Program and the Public Utilities Commission's Freight Safety Program.

Significant Adjustments:

- Oil Spill Response Program—\$6.7 million Oil Spill Prevention and Administration Fund and 38 positions to address the increased risk of oil spills by supporting prevention, emergency response preparedness, cleanup, and enforcement measures. This additional funding will be supported by expanding

the existing 6.5 cent-per-barrel fee, which is currently collected at marine ports, to all crude oil sent to California refineries.

- Railroad Safety—\$1.1 million Public Utilities Commission Transportation Reimbursement Account and 7 positions to increase inspections of railroad bridges, tanker rail cars, and railroad track related to the expected increased transport of crude oil in California. The volatility of Bakken crude oil requires additional security measures to enhance public safety.

DEPARTMENT OF TRANSPORTATION

The Department of Transportation (Caltrans) designs and oversees the construction of state highways, operates and maintains the highway system, funds three intercity passenger rail routes, and provides funding for local transportation projects. The Department maintains 50,000 road and highway lane miles and nearly 13,000 state bridges, and inspects more than 400 public-use and special-use airports and heliports.

Significant Adjustment:

- Repayment of General Fund Loans—The Budget includes \$351 million in early General Fund loan repayments. Of this amount, \$100 million is for cities and counties for preservation of local streets and roads. The majority of the remaining amount will be allocated to pavement rehabilitation and maintenance projects on the state highway system and traffic management projects that improve mobility.

DEPARTMENT OF MOTOR VEHICLES

The Department of Motor Vehicles (DMV) promotes driver safety by licensing drivers, and protects consumers and ownership security by issuing vehicle titles and regulating vehicle sales. The Budget includes \$1.1 billion, all from non-General Fund sources, for support of DMV.

Significant Adjustment:

- Expanded Eligibility for Driver's Licenses—The Budget includes \$67.4 million Motor Vehicle Account to accept driver's license applications from undocumented immigrants who live in California. The DMV estimates that approximately 1.4 million individuals will apply for a license over the next three years pursuant to the provisions of Chapter 524, Statutes of 2013 (AB 60). The Budget also provides a mechanism

to increase DMV resources if a significantly higher number of applicants request driver's licenses in 2014-15.

EMPLOYMENT DEVELOPMENT DEPARTMENT

The Employment Development Department (EDD) administers the Unemployment Insurance (UI), Disability Insurance, and Paid Family Leave programs and collects payroll taxes from employers, including the Personal Income Tax. EDD connects job seekers with employers through a variety of job services, programs, and one-stop service centers. The Department also supports workforce training programs.

Significant Adjustment:

- **UI Program Administration**—Because the federal cost recovery model does not fully fund the UI Program, the Budget reflects a combination of efficiencies and supplemental funding to support the program and provide timely unemployment benefits. Specifically, the Budget provides more than \$100 million in additional funding, including almost \$47 million General Fund, to continue improved customer service as follows:
 - Process all claims for unemployment benefits within three days of receipt.
 - Respond to online inquiries within five days of receipt.
 - Schedule 95 percent of eligibility determinations in a timely manner.
 - Respond to 50,000 calls per week.

DEPARTMENT OF CONSUMER AFFAIRS

The Department of Consumer Affairs (DCA) oversees a wide variety of boards and bureaus that certify, register, and license individuals and entities that provide goods and/or services in the state. The overall purpose of DCA is to promote a fair and competitive marketplace in which consumers are protected. DCA provides exams and licensing as well as mediation and enforcement in response to consumer complaints. When appropriate, cases are referred to the Office of the Attorney General or other law enforcement authorities for administrative action or civil and/or criminal prosecution. There are currently 26 boards, 9 bureaus, 2 committees, a certification program, and a commission under the broad authority of DCA.

Significant Adjustment:

Enforcement and Licensing Resources—The Budget includes \$12.5 million special fund and 90 positions for enforcement workload and \$466,000 special fund and 11 positions for licensing workload. The increased workload is primarily driven by growth in DCA’s licensee populations resulting in increased enforcement case processing time and license application processing time. These additional resources are intended to reduce those processing times. In addition, the Budget requires DCA to report to the Legislature and the Department of Finance on the impact these additional resources have on reducing enforcement case processing time and license application processing time.

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Edmund G. Brown Jr.
Governor

June 20, 2014

State of California
Governor's Office

I object to the following appropriations contained in Senate Bill 852.

Item 0845-001-0217—For support of Department of Insurance. I reduce this item from \$182,664,000 to \$182,290,000 by reducing:

(2) 12-Consumer Protection from \$54,464,000 to \$54,090,000.

I am reducing the \$749,000 augmentation for implementation of federal mental health parity laws by \$374,000 from the Department of Insurance's Consumer Protection program. The augmentation that remains in the Budget will allow the Department to monitor health insurers' compliance with mental health parity laws and other insurance laws.

Item 2720-001-0044—For support of Department of the California Highway Patrol. I reduce this item from \$1,857,048,000 to \$1,856,348,000 by reducing:

(1) 10-Traffic Management from \$1,796,503,000 to \$1,795,803,000.

I am reducing the \$700,000 augmentation for a teen driver education and safety study. Teen driver education and safety are a high priority for my Administration, and the Transportation Agency is already working with the California Highway Patrol and the Department of Motor Vehicles to develop a comprehensive teen driver education program. Therefore, this increase is unnecessary.

I am deleting Provision 3 to conform to this action.

Item 3360-403-0033—For support of Energy Resources Conservation and Development Commission. I delete this item.

I am deleting this item. It was erroneously included in the Budget Bill. Item 3360-403 already transfers \$28 million from the Job Creation Fund to the State Energy Conservation Assistance Account. This action conforms to legislative intent.

Item 4150-001-0933—For support of Department of Managed Health Care. I reduce this item from \$60,640,000 to \$58,538,000 by reducing:

(1) 30-Health Plan Program from \$64,127,000 to \$62,025,000.

I am reducing the \$4,204,000 augmentation for implementation of federal mental health parity laws by \$2,102,000. The \$2,102,000 augmentation that remains in the Budget will help the Department in reviewing health plans' compliance with the federal law consistent with the Department's implementation plan. In the coming year, my Administration, through the Department of Managed Health Care, will review health plan filings, and identify any areas of concern and any additional resources needed to address them. The Budget also includes an augmentation that was included in the May Revision for clinical and actuarial contracts that will further help with initial implementation.

Item 4300-101-0001—For local assistance, Department of Developmental Services. I revise this item by deleting Provisions 5, 6, and 7.

I am deleting Provisions 5, 6, and 7; eliminating the appropriation that would require the Department of Developmental Services to spend funds to review and recommend an update of the core staffing formula for regional centers and rate-setting methodologies for community-based services and supports. This review would create significant workload and cost pressures within a restrictive timeframe. Instead, I am directing the Health and Human Services Agency to convene a task force to review both of these and other community issues that were identified in the Plan for the Future of Developmental Centers in California.

Item 6110-161-0890—For local assistance, Department of Education. I revise this item by deleting Provision 12.

These changes are technical in nature in order to conform to the Legislature's removal of related language in Item 6110-001-0890.

Item 9480-160-0062—For local assistance, Shared Revenues. I reduce this item from \$42,465,000 to \$31,502,000.

To correct a technical error in the Budget Bill, I am reducing this item by \$10,963,000. This technical veto is consistent with legislative action taken to approve the Highway User Tax Account loan repayment of \$100 million to cities and counties. The funds remaining in this item should be allocated by the Controller under Streets and Highways Code section 2104 for county roads.

Item 9490-165-0062—For local assistance, Shared Revenues. I reduce this item from \$27,439,000 to \$20,355,000.

To correct a technical error in the Budget Bill, I am reducing this item by \$7,084,000 to conform to the action I have taken in Item 9480-160-0062. The funds remaining in this item should be allocated by the Controller under Streets and Highways Code section 2107 and 2107.5 for city streets.

Item 9500-170-0062—For local assistance, Shared Revenues. I reduce this item from \$21,701,000 to \$16,099,000.

To correct a technical error in the Budget Bill, I am reducing this item by \$5,602,000 to conform to the action I have taken in Item 9480-160-0062. The funds remaining in this item should be allocated by the Controller under Streets and Highways Code section 2106 for county roads and city streets.

Item 9505-175-0062—For local assistance, Shared Revenues. I reduce this item from \$43,195,000 to \$32,044,000.

To correct a technical error in the Budget Bill, I am reducing this item by \$11,151,000 to conform to the action I have taken in Item 9480-160-0062. The funds remaining in this item should be

allocated by the Controller under Streets and Highways Code section 2105 for city streets and county roads and highways.

With the above deletions, revisions, and reductions, I hereby approve Senate Bill 852.

/s/ Edmund G. Brown Jr.

EDMUND G. BROWN JR.