CALIFORNIA BUDGET PROJECT

Updated January 15, 2013

Governor Proposes Balanced Budget Highlighted by New Revenues, Investments in Education, and Expanded Health Coverage

On Thursday, January 10, Governor Jerry Brown released his proposed 2013-14 spending plan, projecting a balanced budget for the upcoming fiscal year. The Governor proposes to increase General Fund spending by 5 percent, from $93 billion in 2012-13 to $97.7 billion in 2013-14. The Governor's proposed budget includes increased funding levels for K-12 schools and higher education and calls for the expansion of Medi-Cal, the state's health care program for low-income families, as part of the state's implementation of federal health care reform. The Governor's proposal also includes a $1 billion reserve and pays down $4.2 billion in budget-related debt.

The proposed budget includes a 2013-14 total of $56.2 billion in spending on K-12 schools and community colleges under the Proposition 98 guarantee; this represents an increase of $2.7 billion over the revised 2012-13 funding level of $53.5 billion and is up from $47.3 billion in 2011-12. These increases are largely due to additions in General Fund revenues resulting from voter approval of Propositions 30 and 39 in November 2012 that boost the state's minimum funding obligation for schools and community colleges. The Governor's proposed budget includes $13.2 billion in General Fund spending for higher education – including community colleges, the California State University and University of California systems, and the California Student Aid Commission. This is part of $25.8 billion in total spending on higher education, a 5.3 percent increase over the 2012-13 spending level.

The Governor also proposes to adopt the expansion of Medi-Cal envisioned by federal health care reform, extending eligibility to low-income adults who are currently excluded. The Governor proposes two options for implementing the Medi-Cal expansion: a *state-based approach* that would build on the existing state-administered Medicaid program and managed care delivery system or a *county-based approach* that builds on the existing Low Income Health Program (LIHP), with counties serving as the lead entities responsible for the Medi-Cal expansion.

The proposed budget generally maintains last year's funding levels for two areas that have been subject to deep spending cuts in recent years: the California Work Opportunity and Responsibility to Kids (CalWORKs) Program and child care. The Governor proposes an increase of $142.8 million in state support for CalWORKs to assist counties as they implement significant programmatic changes adopted in 2012.

The Governor's proposed 2013-14 budget includes $4.2 billion to repay budget-related debt, including $1.9 billion to partially restore previously deferred payments to schools and community colleges. Debt

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repayment in 2013-14 is part of a proposed multiyear effort to decrease the state's budget-related debt from $35 billion in 2010-11 to less than $5 billion by 2016-17. State debt at the end of the current (2012-13) fiscal year is projected to be just under $28 billion.

The Governor's proposed spending plan calls for creating a $1 billion reserve by realizing $1 billion in budget savings from a combination of suspending mandates; extending a health care-related tax and fee; using 2012-13 funds appropriated above the Proposition 98 minimum guarantee to prepay obligations to schools; and continuing to use state highway account revenues to pay debt service on transportation bonds.

The following update summarizes the key provisions of the Governor's proposed budget. As additional details become available, the California Budget Project (CBP) will update this document. The CBP also will prepare in-depth analyses of major proposals contained in the budget over the upcoming days and weeks. Please check the CBP website (www.cbp.org) for refinements and additions to this analysis as more information becomes available. The Governor's budget documents are available online at http://www.ebudget.ca.gov/.

Governor's Spending Plan Includes New Revenues Approved by California Voters

The Governor's proposed budget includes more than $7 billion for 2013-14 in new revenues resulting from voter approval of Proposition 30 and Proposition 39 at the statewide election in November 2012.

Proposition 30 imposes three new tax rates on very-high-income Californians – married taxpayers earning $500,000 or above – and increases the state's sales tax rate by one-quarter cent on a temporary basis. The higher income tax rates apply to 2012 through 2018; the higher sales tax rate applies to 2013 through 2016.

Proposition 39 requires multistate corporations to use the "single sales factor" method of apportionment in calculating their taxable income. The measure ends the state's practice of allowing these firms to minimize their California corporate income taxes by choosing the more favorable of two methods for determining their income subject to tax.

The Governor's budget projects $7.2 billion in General Fund revenue in 2013-14 from Propositions 30 and 39 combined.

Revenue changes in the Governor's proposed budget include:

- An increase in General Fund personal income tax revenues of 1.8 percent from 2012-13 to 2013-14, including revenues generated from Proposition 30;
- An increase in General Fund sales and use tax revenues of 12.5 percent from 2012-13 to 2013-14, including revenues generated from Proposition 30;
- An increase in corporation tax revenues of 20.5 percent from 2012-13 to 2013-14, including revenues generated from Proposition 39;
- An increase in General Fund revenues of $50 million in 2013-14 attributable to new regulations proposed for the state's Enterprise Zone Program; and
- An increase in insurance tax revenues resulting from proposed permanent reauthorization of the gross premiums tax on Medi-Cal managed care plans and extension of the Hospital Quality Assurance Fee through 2016.

Economic Outlook: Growth Expected, but Considerable Uncertainty Remains

The revenue projections in the Governor's proposed budget reflect an economic forecast of "modest to steady growth over the next five years." The Governor's forecast estimates that the gross domestic product (GDP) – the value of all goods and services produced – will increase at an average annual rate of 2.7 percent, a "slightly slower rate than normal for an economic expansion."

The Governor's proposed budget also points to an economy that has "gathered momentum" as a result of improving real estate conditions, job growth, and consumer attitudes. The median sales price of existing single-family homes for the first 10 months of 2012 increased 9 percent over the same period in 2011, and the pace of existing home sales also increased. The relatively slow pace of California's economic recovery has meant weaker growth in employment coming out of the Great Recession. Still, the state gained an average of 21,200 jobs per month in the first 11 months of 2012, and the Administration's forecast projects nonfarm employment to grow 2.1 percent in 2013, 2.4 percent in 2014, and 2.5 percent in 2015, recovering jobs lost during the recession by the second quarter of 2015. A continuing bright spot for California is total wages and salaries, the largest source of income for the state's personal income tax. The Administration's economic forecast projects wages and salaries to increase by 4.6 percent in 2013 and 5.7 percent in 2014.

However, the Governor's proposed budget notes a number of risks to the economic outlook, including federal fiscal challenges, rising health care costs, and economic factors beyond the state's control.

California Work Opportunity and Responsibility to Kids (CalWORKs) Program

The CalWORKs Program provides cash assistance for 1.1 million low-income children while helping parents find jobs and overcome barriers to employment. In recent years, state policymakers have made deep cuts to CalWORKs in order to help close budget shortfalls, including reducing General Fund spending on CalWORKs by $469 million in the current fiscal year. Other significant cuts adopted include scaling back the CalWORKs time limit for parents from 60 months to 24 months, lowering maximum grants by 12 percent (a reduction of $85 per month for a family of three compared to the 2008 level), and cutting funding that counties use to provide welfare-to-work services and child care.

The Governor's proposed 2013-14 budget generally maintains the cuts that were made in previous years without further reducing funding. The Governor proposes an increase of $142.8 million General Fund to support counties in enhancing CalWORKs employment services. Annual funding for this purpose had been reduced by more than $375 million from 2009-10 through 2011-12. The proposed funding increase is intended to help implement a significant program change that took effect January 1, 2013: a 24-month limit on the amount of time CalWORKs parents can access the full array of welfare-to-work activities available under state law before being required to meet less flexible federal work participation requirements.

Child Care and Development Programs

California's child care programs provide safe and affordable care that helps lower-income parents find and retain jobs. In addition, the state preschool program provides full- and part-day preschool for eligible three- and four-year-olds from lower-income families. State policymakers have repeatedly cut child care and development programs in recent years in order to help close budget shortfalls. Annual funding was reduced from $3.2 billion in 2008-09 to $2.2 billion in 2012-13, resulting in the elimination of 110,000 child care and development "slots" – about one-quarter of total slots funded through the state budget in 2008-09. The Legislature has also made a number of recent policy changes affecting child care and development programs, including reducing the maximum income at which families are eligible for child care and preschool and cutting payments for unlicensed child care providers, who typically provide care during nontraditional work hours, such as weeknights and weekends.

The Governor's proposed 2013-14 budget generally maintains the current level of funding for child care and preschool programs. The Governor's proposal announces the convening by the Department of Social Services of a stakeholder workgroup to assess the current structure of the state's subsidized child care system and consider "opportunities for streamlining and other improvements."

In-Home Supportive Services (IHSS) Program

IHSS helps more than 400,000 low-income seniors and people with disabilities live safely in their own homes, preventing the need for more costly out-of-home care. In recent years, state policymakers have repeatedly adopted cuts to IHSS, but many of these changes ultimately have not been implemented or have been stayed by the courts.

The Governor proposes to increase General Fund spending for IHSS by 6.5 percent over the 2012-13 budget agreement level. The proposal reflects funding increases in several areas, including a $59.1 million boost in funds due to the July expiration of a temporary 3.6 percent across-the-board reduction in authorized hours of service first implemented in January 2011.

However, the Governor also assumes the state will reduce spending by $113.2 million by implementing a 20 percent across-the-board reduction in recipient hours that was originally scheduled to take effect in January 2012 but has been challenged in court. The Governor assumes that the court's stay will be lifted and that implementation will occur on November 1, 2013, with exceptions for severely impaired IHSS recipients. The proposed budget also includes a $30.2 million reduction that reflects the recent elimination of IHSS access for recipients who lack a health certificate signed by a licensed health care professional.

Last year's budget agreement established the Coordinated Care Initiative (CCI), a demonstration project in eight counties in which individuals will be required to enroll in a Medi-Cal managed care plan to receive IHSS benefits. The Governor's proposed budget delays the implementation date of the CCI from March 2013 to September 2013.

Medi-Cal Program

The Medi-Cal Program is California's version of Medicaid, a federal-state health coverage program for low-income children, parents, seniors, and people with disabilities. Medi-Cal provides health care to approximately 8 million Californians and is a key component of the state's safety net for low-income families. Policymakers have made several reductions to Medi-Cal in recent years in order to help close state budget shortfalls, including eliminating dental care for adults.

As part of federal health care reform, states may expand their Medicaid programs in 2014 to low-income adults who currently are not eligible, with the federal government paying 100 percent of the cost for the first three years and no less than 90 percent of the cost thereafter. The Governor proposes to adopt the Medicaid expansion in California. However, he also argues that the expansion "will generate substantial savings" for counties, which currently provide health care to low-income, uninsured adults who do not qualify for Medi-Cal. As a result, the Governor proposes two options for implementing the Medicaid expansion in California:

- The *state-based approach* would enroll newly eligible Californians directly into Medi-Cal and provide the full range of Medi-Cal benefits to these new enrollees, with the exception of long-term care, which would not be part of the standard benefit package. Budget documents indicate that under this option, "the state would need to capture county savings and continue to use those funds to pay for health care coverage for this previously medically indigent population." Budget documents suggest that this could be accomplished by shifting to counties the "programmatic and fiscal responsibility for various human services programs, including subsidized child care."

- The *county-based approach* would build on the existing Low Income Health Program (LIHP), but would require counties to meet statewide eligibility and health benefit requirements. Most counties currently participate in the LIHP under a federal waiver that provides temporary federal dollars to help fund health coverage for low-income, uninsured adults. Under this option, which would require an additional federal waiver, "counties would act as the fiscal and operational entity responsible for" the Medi-Cal expansion.

The Governor makes a number of additional proposals related to the Medi-Cal Program. Specifically, the Governor proposes to:

- Extend a current fee on hospitals that is scheduled to expire on December 31, 2013, resulting in General Fund savings of $310 million. The fee provides funding for children's health coverage as well as supplemental payments for hospitals.
- Permanently reinstate a gross premiums tax on managed care plans that expired on July 1, 2012. Administration officials indicated on a January 10 briefing call that the tax would be reinstated retroactive to July 1, 2012, resulting in General Fund savings of $85.9 million in 2012-13 and $217.3 million in 2013-14. Revenues raised in 2011-12 would be used to help pay for the Healthy Families Program, while revenues raised in 2012-13 and beyond would be used to support health coverage for children, seniors, and people with disabilities enrolled in Medi-Cal as well as reimburse health plans for the cost of the tax, according to Administration officials on the briefing call.
- Implement unspecified "efficiencies" in Medi-Cal managed care in order to reduce General Fund spending by $135 million.
- Require Medi-Cal enrollees to select their health plans during an annual open enrollment period and remain in their chosen plans for a full year. This proposal would reduce General Fund spending by $1 million in 2013-14 and each year thereafter.
- Delay the implementation of a new Coordinated Care Initiative (CCI) approved as part of the 2012-13 budget agreement. Under the CCI, Medi-Cal beneficiaries in eight counties who are also enrolled in Medicare ("dual eligibles") will receive their health care services and supports through a single health plan. The CCI will also require dual eligibles in these same eight counties to enroll in managed care plans for their Medi-Cal benefits. The Governor proposes to begin implementing the CCI in September 2013. In contrast, the 2012-13 budget agreement assumed that implementation would begin in March 2013. Budget documents estimate that the changes required by the CCI will reduce General Fund spending by $170.7 million in 2013-14, rising to $523.3 million annually.

In addition, the Governor assumes that payments to doctors and other Medi-Cal providers will be reduced by up to 10 percent as required by legislation enacted in 2011, resulting in a General Fund spending reduction of $488.4 million in 2013-14. The provider payment cuts were approved by the federal government, but have not yet been implemented due to pending litigation. However, Administration officials indicated on the January 10 briefing call that this reduction would not apply to rates paid to primary care doctors, who will receive increased fees in 2013 and 2014 as required by the federal health care reform law.

Proposition 98

Proposition 98 constitutionally guarantees a minimum level of funding for K-12 schools, community colleges, and the state preschool program. State policymakers reduced Proposition 98 spending from $56.6 billion to $47.3 billion between 2007-08 and 2011-12 – a drop of 16.4 percent. In response, many K-12 school districts reduced their days of instruction, eliminated programs, and laid off teachers while community colleges reduced enrollment and increased fees.

The Governor's proposed budget assumes a total 2013-14 Proposition 98 funding level of $56.2 billion, a $2.7 billion increase over the revised 2012-13 Proposition 98 funding level of $53.5 billion. Because increases in state General Fund revenues tend to boost the Proposition 98 guarantee, voter approval of Proposition 30 in November 2012 boosts the state's minimum funding obligation for schools and community colleges. The Governor's proposed budget also assumes a $526 million increase in the 2013-14 Proposition 98 guarantee due to the passage of Proposition 39, which was also approved by voters in November. The Governor proposes to transfer $450 million of 2013-14 Proposition 39 revenue into a special fund, as required by the measure, to pay for energy efficiency projects – $400.5 million for K-12 schools and $49.5 million for community colleges – which would count toward the state's Proposition 98 spending obligation. The Governor's proposed budget estimates the 2012-13 Proposition 98 guarantee will be $162.8 million below the 2012-13 Proposition 98 funding level and proposes to use this amount to pay for obligations owed to schools under the *California Teachers Association v. Schwarzenegger* settlement agreement.

K-12 Education

The Governor proposes to:

- Provide $1.8 billion in 2013-14 to partially restore previously deferred revenue limit payments to school districts and County Offices of Education (COE), reducing the state's payment deferrals to K-12 education to $5.6 billion. Revenue limits provide general purpose funding for schools.
- Provide approximately $1.6 billion for school districts and charter schools, and $28.2 million for COEs, in 2013-14 to create a "Local Control Funding Formula," similar to the weighted pupil funding formula he proposed last year. The Governor's proposal would eliminate the majority of programs currently earmarked for specific purposes – so-called "categorical" programs – consolidate funding with state general purpose revenues, and establish a new education funding formula that would be phased in during a period of seven years. Several programs would be excluded from consolidation within the new funding formula, including special education, the After School Education and Safety Program, and child nutrition. Funding for the Targeted Instructional Improvement Block Grant and the Home-to-School Transportation programs would also remain outside the new funding formula, and school districts could use funding for these programs for any purpose. Other major components of the Governor's proposed new education funding formula would:

    - Distribute dollars to school districts through a base revenue limit funding grant per average daily attendance (ADA) and would provide a supplemental grant to school districts, equal to 35 percent of the base grant, based on their proportion of English language learners and students who are eligible for free and reduced-price meals. The Governor's proposal would provide an additional grant for school districts in which English language learners and economically disadvantaged students exceed 50 percent of the total student population. This concentration grant would be equal to 35 percent of the base revenue limit funding grant for each English language learner and student eligible for free and reduced-price meals. Both the supplemental and concentration grants could be used "for any purpose that benefits the students generating the funding." However, school districts would receive supplemental and concentration grants for English language learners for no more than five years.
    - Adjust the base revenue limit funding grant for the costs of different grade spans and then multiply that amount by ADA. The Governor proposes to include current funding for career technical education in a grade span adjustment for grades nine through 12 and provide a K-3 grade span adjustment linked to a maximum class size of 24 students per teacher once the new funding formula has been fully implemented. However,

the Governor's proposed budget states that the maximum class size ratio for K-3 "may be exceeded if agreed to at the local level."
  - Require school districts to adopt a District Plan for Student Achievement that would address how dollars received from the new state funding formula would be used.

- Increase revenue limit payments to school districts and COEs by $526.6 million in 2012-13 and by $608.6 million in 2013-14 due to lower projected local property tax revenues.
- Increase revenue limit funding for school districts and COEs by $304.4 million in 2012-13 and by $2.8 million in 2013-14 due to projected changes in ADA.
- Increase K-12 mandate block grant funding by $100 million for costs associated with the Graduation Requirements and Behavioral Intervention Plan programs.
- Shift $92 million in Proposition 98 funding and $12.4 million in Charter School Revolving Loan Fund dollars to the California School Finance Authority (CSFA) to reflect the proposed realignment of the Charter School Facility Grant Program and the Charter School Revolving Loan Program from the California Department of Education to the CSFA. The Governor also proposes to make other changes related to charter schools, including expanding the Charter School Facility Grant Program to include eligibility for nonclassroom-based charter schools and modifying the funding determination process for nonclassroom-based charter schools.
- Fund a 1.65 percent cost-of-living adjustment ($62.8 million) for several categorical programs that would remain outside of the Governor's proposed new education funding formula, including special education, child nutrition, and American Indian Education Centers.
- Increase funding for charter schools by $48.5 million and for special education by $3.6 million for projected ADA growth.
- Shift $15.7 million and responsibility for the Apprenticeship Program from school districts to community colleges. The Governor proposes this shift as part of a larger proposal to make community colleges responsible for the coordination of adult education at the regional and statewide levels.
- Provide $9.7 million in one-time Proposition 98 Reversion Account funds for the Emergency Repair Program.
- Eliminate school districts' minimum contribution requirement for routine maintenance as well as the required district set-aside for deferred maintenance contributions.
- Allow school districts to use the proceeds from the sale of surplus property for any one-time general fund purpose.
- Make statutory changes that would enable school districts to offer online courses that do not require the simultaneous participation of all students and instructors through an independent study agreement.

California Community Colleges

California's community colleges help prepare approximately 2.4 million full-time students to transfer to four-year institutions as well as achieve training and skills for immediate employment. State policymakers cut spending for community colleges by more than $900 million between 2007-08 and 2011-12, a reduction of more than 20 percent.

The Governor proposes to:

- Provide $300 million to create a new adult education block grant program within the community colleges. The Governor also proposes to shift $15.7 million and responsibility for the Apprenticeship Program from school districts to community colleges. The Governor would allocate funding from the new adult education block grant based on the number of students served and would only fund core instructional areas such as vocational education, English as a Second Language, and elementary and secondary education. The Governor's proposal would require students to pay the full cost of instruction for courses outside core instructional areas.

- Increase state funding for apportionments – the largest portion of community college funding – by $196.9 million.
- Provide $179 million to partially restore previously deferred apportionment funding, reducing the state's payment deferrals to community colleges to $622 million.
- Increase Proposition 98 General Fund allocations by $47.8 million in 2012-13 due to lower projected local property tax revenues and by $133.2 million in 2013-14 to reflect reduced property tax estimates.
- Increase funding by $16.9 million to raise the number of courses available to undergraduates through the use of technology.
- Reduce Proposition 98 General Fund allocations by $12.6 million to reflect revised estimates of student fee revenue.
- Change accounting practices to provide state funding based on completion of courses. Currently, the state provides funding based on the number of students enrolled at the 20-percent mark of the term. The Governor's proposal would be phased in during several years.
- Require students seeking a Board of Governors Fee Waiver to fill out an application for Federal Student Aid and include both parent and student income when determining eligibility.

California State University (CSU) and University of California (UC)

In recent years, deep cuts to General Fund spending for the UC and CSU systems have translated into large increases in tuition and fees. General Fund spending for the UC declined by 30.2 percent between 2007-08 and 2011-12. Systemwide tuition and fees increased by $5,556 during the same period. General Fund spending for the CSU declined by 32.6 percent between 2007-08 and 2011-12, while tuition and fees increased by $2,700 (an increase of 97 percent).

The Governor proposes to:

- Increase General Fund spending for the UC and CSU by 5 percent per year in 2013-14 and 2014-15 and by 4 percent per year in the following two years. The UC and CSU would be expected to use the annual funding increases to avoid tuition and fee hikes.

    - In 2013-14, this funding increase would equal $125.1 million each for the UC and CSU, and would be provided in addition to the $125 million General Fund that both the UC and CSU will receive for not increasing tuition and fees in 2012-13, as required by the 2012-13 budget agreement. For the Hastings College of the Law, the funding increase would equal $392,000.

- Provide funds to the UC and CSU to expand undergraduates' access to high-demand, foundational courses through the use of technology. An additional $10 million each to the UC and CSU, to be used for this purpose, is included in the annual funding increases outlined above.
- Limit the number of courses students can take if they receive Cal Grants or other state subsidies, in an effort to improve students' time-to-degree. Under the proposed budget, in the first two years, UC and CSU students would be required to pay the full cost of additional units after they exceeded 150 percent of standard units needed to complete most degrees. In later years, students would be required to pay the full cost of additional units beyond one additional year of coursework.
- Shift debt service costs – currently funded separately by the state – into the budgets of the UC, CSU, and Hastings. The proposal would require the Administration's approval for new UC and CSU capital expenditures and would limit the amount of the institutions' budgets that could be spent on capital projects.
- Change the state's current practice of annually adjusting funding for the CSU's employee retirement obligations, instead funding future retirement contributions based on the number of employees in 2012-13. If CSU added

employees or increased wages above 2012-13 levels, CSU would be responsible for assuming these costs in its operational budget. The proposal would also give CSU the authority to negotiate and set employee health care benefit rates.

California Student Aid Commission

The Governor proposes to:

- Shift an additional $139.2 million in federal Temporary Assistance to Needy Families (TANF) funds to support Cal Grants, which would result in an equivalent amount of General Fund savings. The Governor's proposal would increase the total amount of TANF dollars spent on the Cal Grant program to $942.9 million in 2013-14.
- Increase funding for Cal Grants by $61 million in 2012-13 and by $161.1 million in 2013-14 to reflect increased program participation.
- Shift an additional $60 million from the Student Loan Operating Fund to support the Cal Grant program, reducing General Fund support for Cal Grants by an equivalent amount.

Corrections

The California Department of Corrections and Rehabilitation (CDCR) oversees approximately 119,000 inmates in 33 state prisons, along with roughly 3,700 inmates in 42 fire camps. CDCR also contracts with public and private agencies in California and other states to house more than 9,800 adult offenders. The number of state prison inmates has dropped steeply since 2011, largely due to the transfer – or "realignment" – of responsibility for low-level offenders from the state to the counties that began on October 1, 2011. While realignment has helped to reduce prison overcrowding, realignment alone is unlikely to allow the state to meet the prison population cap – 110,000 inmates as of June 27, 2013 – mandated by a 2009 federal court order.

The Governor proposes $8.8 billion in General Fund spending for CDCR in 2013-14, essentially the same level as provided in the current year. In addition, the Governor argues that further inmate reductions are unnecessary given recent state reforms and has requested that the federal court withdraw the requirement that the state reduce the prison population to 110,000 inmates by mid-2013.

Other Key Issues

The Governor's proposed 2013-14 budget addresses a number of additional issues in a range of policy areas. The Governor:

- Estimates that the elimination of redevelopment agencies (RDAs) in 2012 will result in Proposition 98 General Fund savings of $2.1 billion in 2012-13 and $1.1 billion in 2013-14.
- Proposes to continue using reserves and special fund dollars to offset reductions in General Fund spending for trial courts, including transferring $200 million from the Immediate and Critical Needs Account to support court operations in 2013-14. This shift would delay courthouse construction projects for up to one year. Reserves and fund balances used to offset General Fund cuts "will mostly be exhausted" in 2014-15, according to budget documents. The Administration suggests that this funding constraint will require trial courts "to make permanent changes to achieve roughly $200 million in savings needed to achieve structural balance."
- Proposes to continue suspension of all previously suspended state mandates, except for several related to law enforcement and property tax collection. According to budget documents, "many of the activities required by these mandates have become common practice and should not be mandated by the state." The Governor also proposes to suspend four mandates with recently determined cost estimates totaling $103.8 million and five

other mandates for which costs have not yet been determined. Budget documents note that these activities are best practices that local agencies should be providing "as a matter of course."

- Assumes expenditures of $200 million in 2012-13 and $400 million in 2013-14 from revenues either already received or expected to be received from "cap and trade" auctions organized by the Air Resources Board. These estimates are based on revenues received from the first auction on November 14, 2012. Current law requires the Administration to provide three-year investment plans for auction proceeds beginning with the 2013-14 May Revision, with 10 percent devoted to the "most impacted and disadvantaged communities to ensure the provision of economic and health benefits." Specific details of the investment plans will be developed after input is received through a stakeholder-engagement process. However, the Governor proposes focusing investment on transportation (including mass transit and high-speed rail), electricity and commercial/residential energy, water, and other sectors.
- Provides $502.1 million ($247 million General Fund) in 2013-14 to fund an increase in state employee compensation attributable to previously negotiated labor contracts. Budget documents note that the state government workforce has been reduced by more than 30,000 positions since 2010-11.
- Proposes to convene a series of meetings with key stakeholders, including business and labor, to develop a plan to return the Unemployment Insurance (UI) Fund to solvency. The state is projected to owe the federal government $10.2 billion by the end of 2013 for loans that have covered the imbalance between benefit payments and annual employer contributions since the state's UI Fund was exhausted in January 2009. The state has shifted dollars from a special fund in recent years in order to make interest payments on the federal loans, and budget documents indicate that the next interest payment – an estimated $291.2 million – is due in September 2013.