CALIFORNIA BUDGET PROJECT

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Amid an Improving Fiscal Outlook, the Governor's May Revision Prioritizes Paying Down Debt and Saving for a Rainy Day Over Reinvesting in Essential Public Systems

Released on May 13, Governor Jerry Brown's May Revision to his proposed 2014-15 budget continues to prioritize paying down debt and saving for a rainy day over reinvesting in a variety of core public systems and services that were battered by years of cuts. The Governor's proposal reduces budgetary debt (the so-called "Wall of Debt") by more than $11 billion in 2014-15 and includes a new plan to begin paying down unfunded liabilities in the California State Teachers' Retirement System (CalSTRS). The May Revision also includes a $1.6 billion transfer to the state's existing rainy day fund, the Budget Stabilization Account (BSA). In addition, the May Revision reflects significant progress in expanding Medi-Cal coverage as part of California's full implementation of health care reform, which will be supported by $15 billion in additional federal funding in 2014-15. Yet despite increased state revenues and an improving fiscal outlook, the Governor's revised spending plan fails to reinvest in vital programs and services that are operating at severely diminished levels of funding in the aftermath of the Great Recession – including child care and preschool programs, the CalWORKs welfare-to-work program, and the California State University and University of California. At the same time, the Governor's spending plan would continue the persistent trend of higher state corrections spending.

With poverty rates and long-term unemployment still high, widening income inequality, and a safety net severely weakened by years of funding cuts, the Governor's proposal presents a false choice between fiscal responsibility and reinvestment in California's future. Higher revenues, coupled with improved economic projections in the Governor's proposal that "present few near-term risks," provide an opportunity for policymakers to strike a balance among paying down debts and liabilities, saving for a rainy day, and ensuring that the state's budget is working for California families and communities still struggling to make ends meet in the aftermath of the worst economic downturn in generations.

The following sections offer an overview of economic and revenue projections provided in the May Revision, highlight key changes and new policy proposals in the revised budget, and discuss the issues they raise for the state budget debate. The CBP will release additional commentary and analysis in the coming days and weeks.

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May Revision Projects Higher Revenues

The May Revision projects $2.4 billion more in General Fund revenues over the three-year "budget window" from 2012-13 to 2014-15 relative to the projections included in the Governor's January budget proposal. The revised projections primarily reflect stronger growth in personal income tax (PIT) receipts, the state's largest source of General Fund revenues. PIT receipts are now projected to be substantially higher in 2013-14, in particular, due to higher-than-anticipated rates of withholding early in calendar year 2014. PIT withholding revenues are remitted by employers based on workers' earnings, which include certain types of bonuses. Unexpectedly high withholding rates may reflect an increase in annual bonuses paid to employees earlier this year. Neither the Administration nor the Legislative Analyst's Office expects these withholding rates to continue for the remainder of 2014. Higher PIT receipts also reflect higher-than-expected growth in net partnership and dividend income, which the Administration believes partly results from taxpayers shifting income from 2013 to 2012 due to federal income tax changes. In addition to higher PIT receipts, the May Revision's stronger revenue forecast reflects higher corporation tax (CT) receipts, which are projected to be up by nearly $700 million relative to the January forecast but which are partially offset by lower sales and use tax (SUT) receipts.

May Revision Forecasts a Slowly Improving Economy

The state's improving revenue outlook is partly a reflection of an economy that is slowly recovering from the worst economic downturn in generations.

The May Revision's forecast has California's economy slightly outpacing previous projections. The Administration forecasts that the state's unemployment rate will fall to 6.9 percent in 2015, which is below the 7.3 percent unemployment rate projected in January.

Despite this modestly improved labor market outlook, the May Revision's economic forecast shows that growth is still slow and deep challenges remain. For one, California's poverty rate remains high (see text box on page 3). Moreover, California's annual unemployment rate is not expected to return to its pre-recession level (4.9 percent in 2006) until at least 2018, and weak and uneven economic growth means that many workers have not seen robust wage gains. Low- and mid-wage workers earned significantly less in 2013 than before the recession began, after adjusting for inflation, and the Administration warns that continued weakness in this recovery along with widening inequality could hinder future economic growth.

May Revision Fails to Reinvest in an Array of Key Human Services That Underwent Deep Cuts in Recent Years

Even after several years of economic recovery following the Great Recession, many Californians are still facing serious economic hardship in the aftermath of the downturn (see text box on page 3). Yet despite a substantially improved state revenue outlook, the May Revision – like the Governor's January proposal – calls for no major reinvestment in many human services programs that assist individuals and families in making ends meet and attaining financial security. Specifically, the May Revision:

- **Does not restore child care or State Preschool Program slots lost in recent years**. Since 2007-08, policymakers have cut total annual funding for subsidized child care and preschool by nearly 40 percent, resulting in the elimination of nearly one-quarter – or roughly 110,000 – of all child care and preschool "slots." Despite calls from some legislators and advocates for reinvestment, the May Revision maintains funding levels for child care and preschool programs that are well below pre-recession levels.

With One in Four Californians Living in Poverty, Investing in a Strong Safety Net Is Especially Critical

Although California is one of wealthiest states in the nation, it has the highest poverty rate of all states. Nearly one-quarter of California residents (23.8 percent) lived in poverty between 2010 and 2012, on average. This figure is based on the Census Bureau's Supplemental Poverty Measure, which more accurately estimates economic well-being than does the official poverty rate because it better accounts for the cost of basic necessities and also factors in a broader array of economic resources available to families and individuals.

California's high poverty rate partly reflects the economic hardship brought about by the Great Recession. Many Californians lost their jobs, had their hours of work scaled back, or saw their earnings erode, while deep budget cuts left the state's social safety net ill-equipped to respond to the increased need. Consequently, poverty rose substantially, particularly among children. Furthermore, children were more likely than adults to fall into "deep poverty," meaning that their families' annual incomes slipped below *half* the federal poverty line – less than $11,642 for a family of four. About one in 10 of the state's children (10.2 percent) lived in deep poverty in 2012, up from 6.6 percent in 2007. The deep poverty rate for adults increased by only half as much – from 4.6 percent to 6.5 percent – during this period.

A strong social safety net is a vital tool for reducing hardship and in particular lifting children and seniors out of deep poverty. Without major safety-net programs such as CalWORKs, CalFresh, and SSI/SSP – as well as tax credits targeted to low-income families, such as the federal Earned Income Tax Credit (EITC) – the share of California's children living in deep poverty would *triple*, and the share of seniors living in deep poverty would *double*, according to the Public Policy Institute of California. Moreover, the safety net kept poverty from rising even higher as a result of the downturn. Specifically, the safety net prevented nearly 4 million Californians, including 1 million children, from falling into poverty between 2009 and 2011, according to the Center on Budget and Policy Priorities.

Although greater support for safety-net programs could further reduce economic hardship, the Governor's May Revision does not include major reinvestments in these programs. CalWORKs cash grants would remain below the deep poverty cut-off of 50 percent of the federal poverty line and the maximum SSI/SSP grant for individuals would remain at just 90 percent of the poverty line under the Governor's revised spending plan. In addition, the May Revision provides no significant increases in funding for California's child care programs.

Investing in low-income families today would not only improve opportunities for their children, but would also contribute to a stronger future for all Californians. Research suggests that low-income children's academic achievement improves when their families receive boosts to their incomes through public programs or tax credits, and some studies suggest that these gains translate into better outcomes, such as higher earnings and less need for public assistance, when children reach adulthood.

- **Reflects the recent CalWORKs grant increase, but does not restore the cost-of-living adjustment (COLA).** State policymakers made deep cuts to the California Work Opportunity and Responsibility to Kids (CalWORKs) Program in recent years, including reducing the level of cash assistance and eliminating the COLA. This trend was reversed in 2013-14 with a 5 percent CalWORKs grant increase taking effect in March 2014. Yet even with this increase, CalWORKs cash grants remain below the deep poverty cut-off of 50 percent of the poverty line and are more than $50 per month below the 2008-09 level. Moreover, the Governor does not propose to use General Fund dollars in 2014-15 to further increase CalWORKs grant levels or reinstate the COLA.

- **Leaves SSI/SSP grants unchanged, with no COLA.** State support for the Supplemental Security Income/State Supplementary Payment (SSI/SSP) Program – funded with both federal (SSI) and state (SSP) dollars – has been reduced in recent years. State policymakers eliminated the annual COLA in 2010-11 and cut the state's SSP portion of the grant. The current SSI/SSP grant for individuals is $30 below the level in effect five years ago and is equal to just 90 percent of the poverty line. Consistent with the Governor's January proposal, the May Revision does not call for reinstating the COLA or increasing SSI/SSP grants in 2014-15.

- **Maintains prior cuts to hours of care for IHSS consumers and retains the January proposal to prohibit IHSS providers from working overtime.** In July 2013, the total allowable hours of care under the In-Home Supportive Services (IHSS) Program were cut by 8 percent; this reduction is scheduled to scale back to 7 percent in 2014-15. In addition, the Governor's January proposal included a provision prohibiting providers from working overtime, thus requiring IHSS recipients who need more than 40 hours of care per week to hire an additional provider. The Governor's May Revision does not restore the total hours of care, and it also retains the prohibition on overtime hours.

May Revision Prioritizes Paying Down Debt and Liabilities and Proposes Plan for Addressing Unfunded Liabilities in the Teachers' Retirement System

The Governor's revised proposal calls for paying down the state's debts and liabilities, including budgetary debt (the Governor's so-called "Wall of Debt"), unfunded retirement liabilities, and other debts.

The May Revision continues to propose an accelerated schedule for paying down the state's budgetary debt. The Governor's revised proposal reduces budgetary debt to $14.8 billion in 2014-15, down from $26.2 billion in 2013-14, and eliminates budgetary debt altogether by the end of 2017-18. These reductions in debt include the elimination of deferred payments to schools and community colleges ($6.2 billion) and paying off deficit financing bonds that were approved by voters in 2004 ($3.9 billion).

The May Revision also includes an additional $100 million to pay down a portion of existing mandate reimbursement claims owed to local governments since 2004.

While the Governor's January budget proposal put off directly dealing with unfunded retirement liabilities, the May Revision includes a new plan to address unfunded liabilities in the California State Teachers' Retirement System (CalSTRS). CalSTRS is the state's second-largest pension system, serving more than 860,000 current, former, and retired public school teachers, community college instructors, and school administrators. Although legislation signed into law in 2012 will help reduce CalSTRS' long-term costs, recent estimates indicate that CalSTRS maintains an unfunded liability of more than $70 billion. This refers to the amount of funding needed, in addition to available assets, in order to provide pension benefits that are already earned but not yet provided to employees. If California does not take action to address this sizeable unfunded liability, CalSTRS is expected to deplete its assets in about 30 years.

The May Revision puts forth a plan to eliminate CalSTRS' unfunded liability by 2045-46. Specifically, the plan would:

- Increase CalSTRS member contributions from 8 percent to 10.25 percent of their pay, phased in over the next three years;

- More than double school district contributions from 8.25 percent to 19.1 percent of payroll, phased in over the next seven years; and

- Raise the state's contribution to the Defined Benefit Program from about 3 percent of payroll in 2013-14 to 6.3 percent of payroll in 2016-17 and subsequent years, while maintaining the state's current 2.5 percent contribution to the Supplemental Benefit Maintenance Account.

According to budget documents, the Administration's proposed increase in the state's contribution was chosen to reflect the amount needed to retire the unfunded liability CalSTRS would have had if retirement benefits and contributions had remained at their 1990 levels. In other words, the Administration is assuming that the state is not obligated to address increases in the unfunded liability attributable to changes after 1990.

The May Revision allocates $446 million in additional funding in 2014-15 to begin implementing this plan. This figure includes an increase of $59 million General Fund, reflecting the state's portion of increased CalSTRS contributions. The remainder would be paid by school districts and CalSTRS members, and these dollars would likely be paid from Proposition 98 funding allocated to schools.

May Revision Prioritizes Saving for a Rainy Day

The Governor's revised budget proposal prioritizes saving for a rainy day in two ways. First, the 2014-15 spending plan allocates 3 percent of General Fund revenues – totaling $3.2 billion – as required by the state's current rainy day fund, which was created by voter approval of Proposition 58 in 2004. Of these funds, $1.6 billion is used to pay off deficit financing bonds (more commonly known as "economic recovery bonds") as allowed by Proposition 58. The remaining $1.6 billion is transferred to the state's existing rainy day fund, the Budget Stabilization Account (BSA).

Second, the May Revision highlights an agreement recently reached by the Governor and legislative leaders calling for a constitutional amendment to create a new rainy day fund. This proposed constitutional amendment would appear on the November 2014 ballot if approved by two-thirds of both houses of the Legislature. The amendment would:

- Base rainy day fund deposits on 1.5 percent of annual General Fund revenues. In addition, deposits would be required when capital gains revenues in a given year rise to more than 8 percent of General Fund tax revenues.

- Increase the maximum size of the rainy day fund from 5 percent to 10 percent of General Fund revenues.

- Require half of each year's deposits for the next 15 years to be used for paying down debts and liabilities.

- Allow for withdrawal of funds only in the case of a disaster or if General Fund spending remains below the highest level of spending from the prior three years, adjusted for changes in population and inflation. The proposal also would limit the maximum amount that could be withdrawn from the rainy day fund in the first year of a recession to one-half of the fund's balance.

- Create a Proposition 98 reserve, where increases in the state's Proposition 98 minimum funding guarantee for schools, under certain conditions, would be specifically set aside to help meet Proposition 98 state spending obligations in future years.

This constitutional amendment would supersede the state's current rainy day fund – the BSA created by Proposition 58 – and also would supersede ACA 4, a separate rainy day fund constitutional amendment that was passed by the Legislature in 2010 and had been scheduled to appear on the November 2014 ballot.

May Revision Projects Health Care Reform Will Increase Medi-Cal Enrollment by 2.7 Million, Boosting Federal Funding for the Program by More Than $15 Billion in 2014-15

Medi-Cal – California's Medicaid program – is a key source of health care coverage for low-income Californians. As part of federal health care reform, state policymakers made significant changes to Medi-Cal – effective January 2014 – that were aimed at significantly boosting enrollment in the program. In particular, the state expanded Medi-Cal to adults who were previously ineligible for the program and whose incomes are at or below 138 percent of the poverty line – $16,105 for an individual in 2014. (The federal government will pay the full cost for these newly eligible enrollees through 2016, phasing down to 90 percent of the cost in 2020 and beyond. The state and federal governments share the costs for other Medi-Cal enrollees.) In addition, state policymakers simplified Medi-Cal's complex program rules and created two new enrollment pathways: an "Express Lane" process targeted to adults who receive CalFresh food assistance but who are not yet enrolled in Medi-Cal, and a hospital-based option that allows Californians to temporarily enroll in Medi-Cal based on preliminary information that they provide when admitted to a hospital.

The May Revision projects substantially higher Medi-Cal enrollment due to health care reform than was anticipated in January, a change that reflects the previously unmet need for affordable health care coverage as well as the state's efforts in implementing the federal Affordable Care Act (ACA). Specifically, the May Revision projects that 2.7 million residents will be enrolled in Medi-Cal in 2014-15 due to California's full implementation of health care reform, 85 percent higher than the January estimate of 1.5 million ACA-related enrollees. In addition, the May Revision projects that California will receive $15.2 billion in federal funds in 2014-15 to support health care services for these additional enrollees – 15 times larger than the state's estimated cost of $1.0 billion. These dollars will flow to doctors, clinics, and other health care providers in communities throughout the state. The 2.7 million Californians projected to be enrolled in Medi-Cal in 2014-15 under health care reform fall into four categories:

- 1.6 million Californians are projected to be enrolled due to the program expansion – double the January estimate of 779,000. California is expected to receive $12.6 billion in federal funding in 2014-15 to support health care services for this population.

- 815,000 Californians are projected to be enrolled due to simplified program rules – 60 percent higher than the January estimate of 509,000. This group consists *entirely* of Californians who were eligible for Medi-Cal *prior to* the implementation of health care reform but who were not previously enrolled. Providing health care services to these *previously eligible* enrollees in 2014-15 is projected to cost $2.0 billion, of which the federal share is $1.1 billion and the state share is $900 million.

- 241,000 Californians (both newly and previously eligible) are projected to be enrolled through the new Express Lane enrollment pathway – 60 percent higher than the January estimate of 151,000. Providing health care services to these enrollees in 2014-15 is projected to cost $1.5 billion, of which the federal share is $1.4 billion and the state share is $60 million.

- 32,000 Californians (both newly and previously eligible) are projected to be enrolled through the new hospital-based option, the same estimate reported in January. Providing health care services to these enrollees in 2014-15 is projected to cost $98 million, of which the federal share is $79 million and the state share is $19 million.

In addition to projecting higher ACA-related Medi-Cal enrollment, the May Revision:

- **Maintains a 10 percent cut to payments for certain Medi-Cal providers.** This provider payment reduction is projected to reduce state spending by $227.4 million in 2014-15 and result in an equivalent loss of federal Medicaid funds. The Administration began implementing this cut in September 2013, with the reduction being retroactive to June 2011. However, some providers have been exempted from the cut, and in January the Governor indicated the state would "forgive" the *retroactive* portion of the cut for certain providers and services, including physicians and clinics, certain high-cost drugs, and dental services. Yet, even with this partial rollback, the remaining cut could discourage some doctors and other health care providers from participating in Medi-Cal even as enrollment rises, thus potentially impeding access to care for millions of Californians.

- **Assumes that the amount of funds shifted from county health care services to the state will be *lower* in 2014-15 than projected in January.** Since 1991, counties have used state special fund dollars to provide health care to uninsured, low-income residents. Beginning in 2013-14, state policymakers permanently shifted a significant share of these funds back to the state, with these dollars used to offset part of the state's cost for CalWORKs and thereby generate ongoing General Fund savings. (The size of this shift is expected to vary each year based on a number of factors.) This fund shift was based on the assumption that counties no longer need all of these dollars as many low-income adults newly enroll in Medi-Cal under the program expansion. The May Revision continues to assume that $300 million will be shifted from counties to the state in 2013-14. However, the Administration has reduced its estimate of the size of the shift in 2014-15 from $900 million to $725 million – a drop of $175 million. As a result, state *special fund* support for CalWORKs in 2014-15 will decline by $175 million, while state *General Fund* support will increase by the same amount, with no net impact on overall state funding for the program.

Administration Proposes CalFresh Policies Intended to Boost Access to Food Assistance

The May Revision includes two proposals intended to promote low-income families' access to the Supplemental Nutrition Assistance Program (SNAP), known as CalFresh in California. Specifically, the May Revision:

- **Preserves the state's current "Heat and Eat" option that boosts CalFresh assistance for many households with utility expenses.** Recent federal changes to SNAP impose restrictions on state Heat and Eat policies, which enhance SNAP assistance for families who also participate in the Low-Income Home Energy Assistance Program (LIHEAP). The Governor's revised proposal boosts state funding for LIHEAP by $10.5 million in 2014-15 in order to allow California to continue drawing down federal funding for the Heat and Eat option under the new restrictions.

- **Expands "categorical eligibility" to include all households with gross incomes up to 200 percent of the poverty line and high expenses.** Categorical eligibility is a simplified enrollment process intended to boost participation in CalFresh by working families with low incomes and high expenses. State policymakers recently expanded categorical eligibility to include households with a member who is enrolled in or eligible for Medi-Cal. The May Revision proposes to further expand categorical eligibility to all households with gross incomes up to 200 percent of the poverty line in order to simplify implementation. The *net* income eligibility limit for CalFresh, which reflects deductions of certain expenses, would remain at 100 percent of the poverty line.

Revised Revenue Estimates Result in Changes to the Minimum Funding Level for Schools and Community Colleges

Approved by voters in 1988, Proposition 98 constitutionally guarantees a minimum level of funding for K-12 schools, community colleges, and the State Preschool Program. The May Revision assumes a Proposition 98 funding level of

$57.8 billion in 2012-13, $58.3 billion in 2013-14, and $60.9 billion in 2014-15 – a net increase of $242 million over this three-year period. Because changes in state General Fund revenues tend to affect the Proposition 98 guarantee, the Proposition 98 funding levels included in the May Revision largely reflect changes in revenue estimates compared to the Governor's budget proposal in January. The Proposition 98 funding level for 2012-13 is $547 million below the $58.3 billion assumed in the Governor's January budget proposal, primarily reflecting lower General Fund revenues than the Governor assumed in January. The Proposition 98 funding level for 2013-14 is $1.489 billion above the $56.8 billion assumed in the Governor's January proposal, reflecting an increase in estimated General Fund revenue as well as growth in enrollment. The Proposition 98 funding level for 2014-15 is $700 million below the $61.6 billion assumed in the Governor's January budget proposal. This drop reflects slower year-over-year growth in General Fund revenue than had been anticipated as well as a decrease in local property tax revenue compared to that estimated by the Governor in January. The May Revision maintains the Governor's January proposals to eliminate outstanding obligations to K-12 school districts and community colleges, and to increase funding for the state's new education funding formula.

Within K-12 education, the May Revision:

- **Maintains the Governor's proposal to eliminate $5.6 billion in outstanding debt owed to schools.** However, the May Revision accelerates repayment of previously deferred payments to school districts by providing an increase of $742.2 million in one-time Proposition 98 funding for 2012-13 and 2013-14 combined, and an offsetting decrease of $742.2 million in ongoing Proposition 98 funding for 2014-15.

- **Maintains the Governor's proposal to provide $4.5 billion to continue implementation of the state's new education funding formula.** Adopted as part of the 2013-14 budget agreement, the Local Control Funding Formula (LCFF) restructured the state's education finance system. The LCFF establishes a target funding level for each California school district, which reflects uniform base grants per student for four grade spans (kindergarten through 3rd; 4th through 6th; 7th and 8th; and 9th through 12th) and additional per student grants based on each district's number of English learners, foster youth, and students eligible for free or reduced-price meals (FRPM). The May Revision proposes to make it easier for schools that make free meals available to *all* students – under certain provisions of the National School Lunch Program – to determine student FRPM eligibility for the purpose of receiving LCFF grants.

- **Allocates $307 million from Proposition 39 revenues to K-12 school districts for energy efficiency project grants, a reduction of $9 million compared to the Governor's January proposal.** Proposition 39, the California Clean Energy Jobs Act approved by voters in November 2012, increased state corporate tax revenue by requiring multistate corporations to use the "single sales factor" method of apportionment in calculating their taxable income.

- **Provides an additional $26.7 million in one-time funding for the K-12 High Speed Network to support implementation of the Common Core State Standards (CCSS).** Computer-based tests are part of CCSS implementation. This one-time funding would be used to assess school districts' Internet connectivity and to provide grants to districts with the greatest need based on that assessment.

- **Revises the COLA for non-LCFF programs.** The May Revision funds a 0.85 percent COLA, down from 0.86 percent in the Governor's January budget, for several categorical programs that remain outside of the new education funding formula, including special education, child nutrition, and American Indian Education Centers.

Governor Increases Funding for Career Technical Education at California Community Colleges

The May Revision provides $50 million in one-time Proposition 98 funding to California Community Colleges (CCCs) in 2014-15 in an effort to improve student success in career technical education. The Governor's revised budget also promises, beginning in 2015-16, to increase the funding rate for career development and college preparation noncredit courses (also known as CDCP or enhanced noncredit courses) to equal the rate provided for credit courses.

In addition, the May Revision:

- **Maintains $200 million to "improve and expand student success programs and to strengthen efforts to assist underrepresented students."** This continues the Governor's proposal from January, which allocated $100 million for orientation, assessment, placement, counseling, and other education planning services, and targeted $100 million toward underrepresented student groups to close achievement gaps.

- **Includes $140.4 million in CCC apportionment funding, a $14.8 million reduction from the January proposal.** The decrease in apportionments – which provide general purpose funding for CCCs – is attributable to the Administration's assumption that CCC enrollment will increase by 2.75 percent, down from the 3 percent increase assumed in the Governor's January budget.

- **Revises the COLA.** The May Revision funds a 0.85 percent COLA, down from 0.86 percent in the Governor's January budget.

- **Provides $148 million in Proposition 98 funding for deferred maintenance.** This represents a $60.5 million increase compared to the Governor's January proposal. To receive this funding, CCCs will not be required to provide matching funds in 2014-15 as was originally proposed in January.

- **Rescinds a proposal to provide $87.5 million in Proposition 98 funding for replacement of instructional equipment.** This funding was part of the Governor's January proposal but is not included in the May Revision.

May Revision Continues Multiyear Plan for the CSU and the UC Consisting of Modest Funding Increases

The May Revision does not propose any significant changes to the multiyear plan, included in the 2013-14 budget agreement, that modestly increases General Fund support for the California State University (CSU) and the University of California (UC) in 2014-15 with the expectation that this additional funding would be used to avoid tuition and fee hikes. This comes at a time when direct General Fund spending on a per student basis at both CSU and UC remains near the lowest point in more than 30 years, after adjusting for inflation. Tuition and fees have also skyrocketed in recent decades, more than tripling at CSU and more than quadrupling at UC since 1990-91, after adjusting for inflation.

May Revision Maintains Increase in Corrections Spending

The May Revision modestly expands the Governor's January proposal of a $10 billion state corrections budget for 2014-15, excluding spending on infrastructure and corrections responsibilities transferred to counties in 2011. This is a net increase of $1.2 billion over the 2012-13 spending level, despite a declining statewide crime rate and an expected reduction in the prison population. The Governor's January budget proposal assumed the state would receive a two-year extension to comply with a federal court order to reduce the prison population to 137.5 percent of capacity, which equals about 113,700 people. The state prisons are designed to house approximately 82,700 people, but currently house over 116,000 people – roughly 141 percent of capacity. In February, the court granted the extension with a new deadline of February 28, 2016.

The court also instructed the state to immediately implement several population-reduction strategies and waived any state laws – such as statutes restricting use of time credits that allow people to reduce the time they spend incarcerated through demonstrating good behavior and engaging in rehabilitative programs – that impede the necessary reductions. These strategies will temporarily increase the number of people being released from prison by an estimated 1,035 in the next two years, expanding community supervision caseloads, for which the May Revision allocates $11.3 million. The May Revision also:

- **Increases funding for a range of rehabilitative activities intended to reduce recidivism.** The $91 million allocation increases spending in the January proposal by $9.9 million for activities that could include establishing reentry facilities and mental health services for people who are within one year of release from prison and expanding substance use disorder services in prisons.

- **Maintains plans to relieve overcrowding in county jails through a combination of sentencing changes and further jail construction.** The May Revision leaves various aspects of the January budget proposal in place, including increased use of "split sentencing" for lower-level offenders and requiring people who receive county jail sentences of longer than 10 years to serve their sentences in state prison. Additionally, the Administration would allocate $500 million to building county jail facilities. These funds would supplement approximately $1.7 billion the state has already allocated to jail construction since 2007.

Governor Revises Proposal to Expand the Use of Infrastructure Financing Districts for Local Economic Development

In January, the Governor proposed to expand Infrastructure Finance Districts (IFDs) to provide local governments with a viable tool to promote local economic development. This came after state actions in recent years made changes to two longstanding and widely used programs that had been intended to promote local economic development, including eliminating Redevelopment Agencies (RDAs) and replacing the Enterprise Zone Program with a new set of economic incentives. The Governor's budget proposal required that cities and counties seeking to establish an IFD first meet certain benchmarks related to the dissolution of RDAs, including fully paying off any amounts owed to cities, counties and/or school districts; complying with state audit findings; and finalizing all legal issues.

The May Revision includes several changes to the IFD proposal. Specifically, the May Revision:

- **Establishes "Enhanced Infrastructure Finance Districts."** Under the Governor's revised proposal, cities and counties that have *not* resolved their RDA-related matters also will be able to participate in the existing IFD program as Enhanced IFDs. This includes allowing Enhanced IFDs to seek a vote from the electorate to fund project plans.

- **Creates several standards regarding affordable housing.** The Governor proposes to include affordable housing as a type of project that Enhanced IFDs can fund. Under the Governor's revised proposal, new affordable housing created or replaced through an Enhanced IFD project plan must include long-term covenants guaranteeing affordability.

May Revision Includes Additional Funding for the State's Emergency Drought Response

The May Revision provides $142 million, including $121 million from the General Fund, to expand the state's response to severe statewide drought conditions. In March, the Governor signed legislation that provides $687 million in funding to assist drought-impacted communities and to improve the management of California's water supply. This includes $549 million from the accelerated expenditure of voter-approved bonds in order to provide grants for local and regional infrastructure projects. The May Revision's additional $142 million for 2014-15 would be distributed to various state departments, including $66.0 million to the Department of Forestry and Fire Protection to expand firefighter capacity and enhance firefighting abilities, $38.8 million to the Department of Fish and Wildlife to monitor and protect fish, and $18.1 to the Department of Water Resources to assess water conditions and manage water resources.