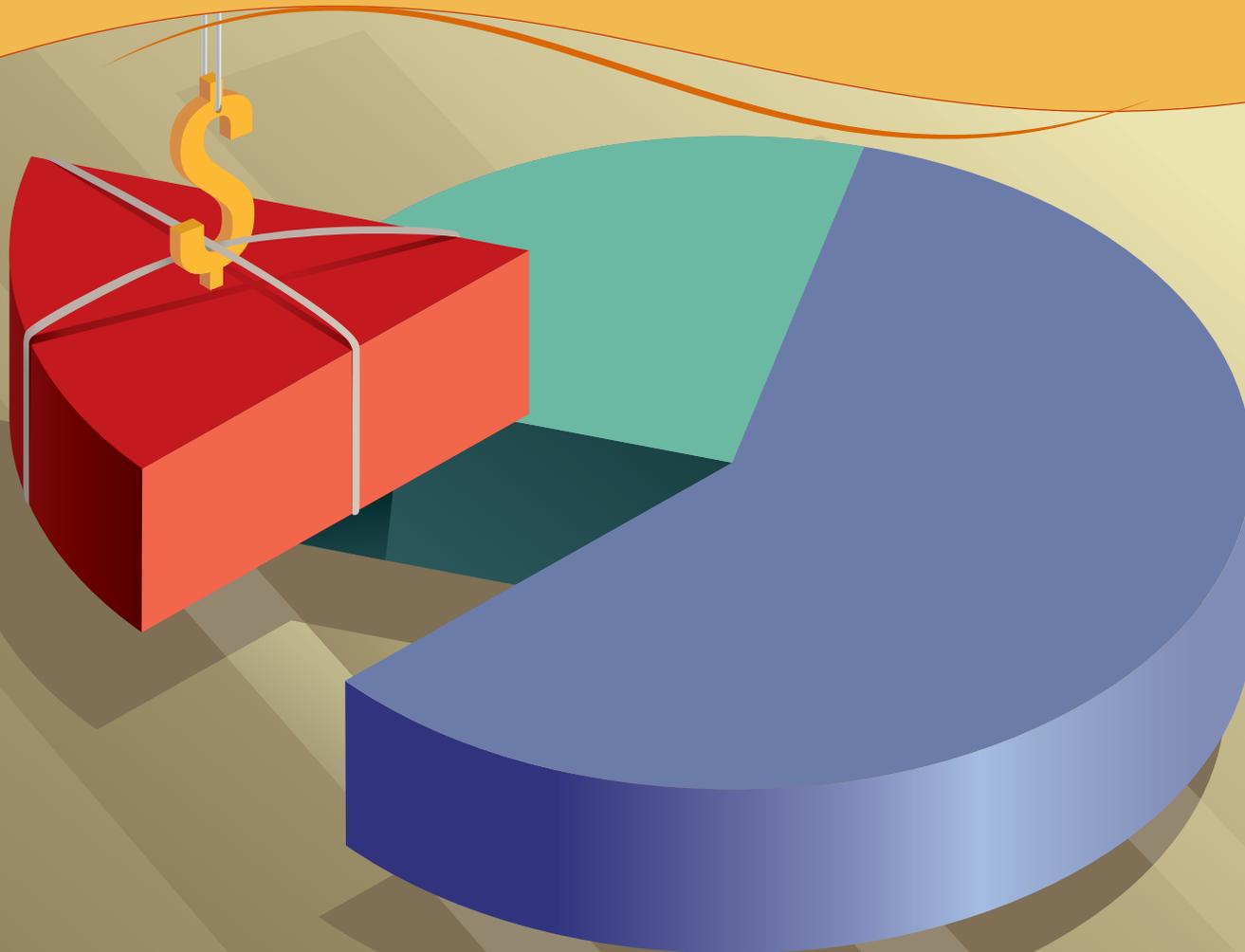


The 2013-14 Budget:

California Spending Plan



MAC TAYLOR • LEGISLATIVE ANALYST • JULY 2013

THE 2013-14 BUDGET: CALIFORNIA SPENDING PLAN

CONTENTS

Chapter 1

Key Features of the 2013-14 Budget Package

Budget Overview	5
Evolution of the Budget	7

Chapter 2

Major Expenditure and Other Budget Actions

Proposition 98	11
The Minimum Guarantee	11
Major Spending Changes	13
Child Care	24
Higher Education	26
Health	33
Human Services	45
Judiciary and Criminal Justice	51
Resources and Environmental Protection	56
Resources Programs	56
Environmental Protection Programs	58
Transportation	60
Other Major Provisions	63

CHAPTER 1

KEY FEATURES OF THE 2013-14 BUDGET PACKAGE

This publication summarizes California's 2013-14 spending plan, including legislative and gubernatorial action through July 29, 2013. Our

office will release a final version of this publication in fall 2013 that will reflect budget-related actions taken through the end of the legislative session.

BUDGET OVERVIEW

Figure 1 displays state and federal spending in the *2013-14 Budget Act*.

Total State and Federal Funds Spending

The state spending plan assumes total budget expenditures of \$138.3 billion from the General Fund and special funds, an increase of 3 percent over 2012-13. This consists of \$96.3 billion from the General Fund and Education Protection Account created by Proposition 30 (2012), as well as \$42 billion from special funds. The budget estimates that spending from federal funds in 2013-14 will total \$87.6 billion, an increase of 7.7 percent over 2012-13. (Unless otherwise specified, figures in this publication generally reflect the administration's official scoring as of late June 2013.)

General Fund Revenues

Figure 2 (see next page) displays the key revenue assumptions underlying the *2013-14 Budget Act*.

Budget Projects Lower Revenues in

2013-14. The spending plan estimates General Fund and Education Protection Account revenues of \$97.1 billion in 2013-14, a decrease of 1.1 percent over 2012-13. The budget assumes that one-time state revenue associated with the 2012 Facebook initial public offering and decisions made by wealthy individuals to accelerate income from 2013 to 2012 due to changes in federal tax policy will inflate 2012-13 revenues, contributing to a year-over-year decline in 2013-14.

The Condition of the General Fund

Figure 3 (see next page) summarizes the estimated General Fund condition for 2012-13 and 2013-14.

Figure 1
Total State and Federal Fund Expenditures

(Dollars in Millions)

Fund Type	Revised		Enacted 2013-14	Change From 2012-13	
	2011-12	2012-13		Amount	Percent
General Fund ^a	\$86,404	\$95,665	\$96,281	\$617	0.6%
Special funds	33,853	38,656	42,022	3,366	8.7
Budget Totals	\$120,257	\$134,321	\$138,303	\$3,982	3.0%
Selected bond funds	\$6,104	\$12,261	\$6,997	-\$5,264	-42.9%
Federal funds	73,063	81,299	87,566	6,266	7.7

^a Includes Education Protection Account created by Proposition 30 (2012).

Figure 2
2013-14 Budget Act Revenue Assumptions

General Fund and Education Protection Account Combined (Dollars in Millions)

	2011-12 Estimated	2012-13 Estimated	2013-14 Enacted	Change From 2012-13	
				Amount	Percent
Personal income tax	\$54,261	\$63,901	\$60,827	-\$3,074	-4.8%
Sales and use tax	18,658	20,240	22,983	2,743	13.6
Corporation tax	7,233	7,509	8,508	999	13.3
Subtotals, "Big Three" taxes	(\$80,152)	(\$91,650)	(\$92,318)	(\$668)	(0.7%)
Insurance tax	\$2,165	\$2,156	\$2,200	\$44	2.0%
Other revenues	2,959	2,641	2,249	-392	-14.8
Transfers and loans	1,509	1,748	331	-1,416	-81.0
Totals	\$86,786	\$98,195	\$97,098	-\$1,096	-1.1%

Note: Department of Finance estimates, as incorporated into 2013-14 budget package.

2012-13 Projected to Be First Year Since 2007-08 to End With a Reserve. The administration's May Revision estimates of 2012-13 revenues were about \$2.3 billion higher than when the 2012-13 spending plan was adopted last year. As discussed in "Chapter 2," these higher revenues result in \$2.5 billion in additional expenditures under the Proposition 98 minimum funding guarantee for K-14 education. In addition, higher expenditures in other areas contributed to the estimated 2012-13 General Fund ending balance being about \$694 million lower than was assumed in the 2012-13 spending plan. Nevertheless, under the spending plan 2012-13 would end with

a \$254 million reserve, the first such year-end positive balance in the reserve since 2007-08.

2013-14 Projected to End With a \$1.1 Billion Reserve. The spending plan assumes General Fund and Education Protection Account revenues of \$97.1 billion and expenditures of \$96.3 billion. The resulting \$817 million operating surplus combined with the \$254 million positive ending balance for 2012-13 produce an estimated \$1.1 billion reserve for 2013-14.

Major Features of the 2013-14 Budget Plan

Contrary to recent years in which the state took actions to address multibillion dollar

budget shortfalls, the spending plan augments programmatic spending in a few areas. The major features of the spending plan are summarized below. These actions and others are described in more detail in "Chapter 2."

School Funding.

Major features of the Proposition 98 budget

Figure 3
General Fund Condition

General Fund and Education Protection Account Combined (Dollars in Millions)

	2012-13	2013-14	Percent Change
Prior-year balance	-\$1,658	\$872	
Revenues and transfers	98,195	97,098	-1.1%
Total resources available	\$96,537	\$97,970	
Total expenditures	\$95,665	\$96,281	0.6%
Fund balance	\$872	\$1,689	
Encumbrances	\$618	\$618	
Reserve	\$254	\$1,071	

Note: Department of Finance estimates.

include \$2.1 billion for a new formula to distribute funding amongst schools, \$1.25 billion in one-time funding to implement the Common Core State Standards, and \$4.3 billion in 2012-13 and 2013-14 combined to pay down deferrals to schools and community colleges.

Medi-Cal Expansion. Legislation adopted in a special session implements a state-based plan to expand Medi-Cal. Specifically, the plan exercises an option pursuant to federal health care reform to expand eligibility for Medi-Cal to cover more than one million additional low-income adults who will become eligible for health care coverage on January 1, 2014.

Selected Restorations of Funding From Prior Year Program Cuts. The budget plan includes spending increases for a few programs that were cut or eliminated in recent years. The most significant of these actions provide a \$63 million ongoing augmentation for the judicial branch and a partial restoration of adult dental benefits under Medi-Cal (\$17 million, partial-year effect).

Other Program Augmentations. The spending plan also includes \$143 million in one-time funding

for mental health services infrastructure and provides enhanced mental health and substance use disorder services (\$67 million, partial-year effect). In addition, budget-related legislation augments California Work Opportunity and Responsibility to Kids (CalWORKs) grants by diverting revenue growth in the Local Revenue Fund created by 1991 realignment that otherwise would have increased funding for county health programs and other social services programs. This action is assumed to have no General Fund effect in 2013-14. The spending plan also creates a new financial aid program for certain students at the University of California and California State University beginning in the 2014-15 school year.

Changes to 1991 Realignment. The Medi-Cal expansion discussed above shifts much of the responsibility for providing indigents with health care from the counties to the state. To capture the savings that counties are expected to experience under the expansion, the budget redirects funding from 1991 realignment to the benefit of the General Fund. The spending plan assumes the state savings to be \$300 million in 2013-14.

EVOLUTION OF THE BUDGET

The Governor signed the *2013-14 Budget Act* on June 27, 2013. As of the release of this preliminary publication, the budget was accompanied by 29 budget-related trailer bills. The budget and related bills enacted to date are listed in Figure 4 (see next page). As discussed above, we will release a final version of this publication in fall 2013 that will reflect budget-related actions taken through the end of the legislative session.

Significant Operating Surpluses Estimated to Produce \$1 Billion Reserve. On January 10, 2013, the Governor released his 2013-14 budget proposal, which included General Fund and Education

Protection Account revenues of \$98.5 billion and expenditures of \$97.7 billion. The administration estimated that a \$2.4 billion operating surplus in 2012-13 would be sufficient to erase the \$2.2 billion 2011-12 deficit. The administration also projected that the resulting \$167 million ending balance for 2012-13 and a \$851 million operating surplus in 2013-14 would produce a \$1 billion reserve at the end of 2013-14.

Governor's May Revision Revenue Estimates Increase Slightly. The administration's revenue estimates at the May Revision grew by \$749 million for 2011-12, 2012-13, and 2013-14 combined. (This

total excludes a \$500 million loan to the General Fund from cap-and-trade revenues, which is booked on the revenue side of the state budget.) The May Revision contained a few major proposals, the most noteworthy of which realigned some fiscal responsibilities for CalWORKs, CalWORKs-related child care, and CalFresh from the state to counties. That proposal was estimated to achieve \$300 million in General Fund savings in 2013-14, growing to \$1.3 billion in savings by 2015-16.

Legislature Passes Budget Package. Our office’s May 2013 revenue forecast projected considerably higher revenues than did the administration’s May revenue forecast. Specifically, we estimated about \$3.2 billion higher General Fund and Education Protection Account revenues across 2011-12, 2012-13, and 2013-14 combined. The most significant difference in our forecasts was our higher assumed level of capital gains and resulting personal income tax revenues in 2013-14. During

hearings in late May, the budget committees in the Senate and Assembly adopted our office’s revenue estimates. After negotiations with the Governor, however, the Legislature passed a budget package that incorporated the administration’s lower revenue estimates. As discussed in “Chapter 2,” that package included a modified version of the administration’s realignment proposal that did not affect CalWORKs-related child care or CalFresh.

Legislature Restores Funding for Public Records Act Mandate. The Legislature also sent several budget-related bills to the Governor in late June and early July. These included bills that addressed issues related to the California Public Records Act and

Figure 4
2013-14 Budget and Budget-Related Legislation

Bill Number	Chapter	Subject
AB 110 ^a	20	<i>2013-14 Budget Act</i>
AB 74	21	Human services
AB 75	22	Transfer of DADP programs to DHCS and DPH
AB 82	23	Health
AB 85	24	1991 realignment, CalWORKs grants
AB 86	48	K-12 education and child care
AB 89	25	Developmental services
AB 92	26	State government
AB 93	69	Enterprise zones
AB 94	50	Higher education
AB 97	47	K-12 local control funding formula
AB 98	27	Seismic safety commission
AB 113	3	<i>Amendments to the 2012-13 Budget Act</i>
SB 67	4	IHSS
SB 68	5	<i>Amendments to 2012-13 Budget Act</i>
SB 71	28	State government
SB 73	29	Proposition 39 implementation
SB 74	30	Corrections
SB 75	31	Court fees
SB 76	32	Public safety
SB 78	33	Tax on managed care organizations
SB 82	34	Mental health wellness act
SB 85	35	Transportation
SB 89	36	<i>Augmentations to the 2012-13 Budget Act</i>
SB 90 ^a	70	Economic development
SB 91	49	<i>Amendments to AB 97</i>
SB 94	37	Medi-Cal managed care, IHSS, and CCI
ABX1 1 ^a	3	Medi-Cal ACA implementation
SBX1 1 ^a	4	Medi-Cal ACA implementation

^a AB 110 authored by Assembly Member Blumenfield. SB 90 authored by Senator Galgiani. ABX1 1 authored by Speaker Pérez. SBX1 1 authored by Senator Hernandez. All other budget-related legislation was introduced by the Budget Committee in either the Assembly or the Senate.

DADP = Department of Alcohol and Drug Programs; DHCS = Department of Health Care Services; DPH = Department of Public Health; IHSS = In-Home Supportive Services; CCI = Coordinated Care Initiative; ACA = Patient Protection and Affordable Care Act.

Local Agency Ethics mandates. In addition, the Legislature passed AB 93 to phase out Enterprise Zones over several years and replace them with: (1) a partial sales tax exemption for purchases of certain manufacturing equipment, (2) a narrowly focused hiring tax credit, and (3) a program to provide tax credits to select businesses on a case-by-case basis.

Budget Package Signed by Governor. The final budget package was signed by the Governor on June 27, 2013. Notably, aside from one action to correct a technical error in the Franchise Tax Board budget, the Governor did not use his line-item veto authority to reduce or eliminate non-Proposition 98 General Fund spending. The Governor did, however, reduce spending from other funds by \$5.6 million.

THE 2013-14 BUDGET: CALIFORNIA SPENDING PLAN

HIGHER EDUCATION

Large General Fund Increase but Smaller Overall Increase. The budget provides a total of \$18.2 billion in support for higher education in 2013-14—a 4 percent increase from 2012-13. Of this amount, \$10.9 billion is state General Fund, \$3.6 billion is tuition and fee revenue, \$2.3 billion is local property tax revenue, and \$1.3 billion is from other sources. As Figure 7 shows, General Fund support increases \$1 billion from 2012-13. Of this amount, \$249 million is associated with fund swaps whereas \$765 million reflects an augmentation. Regarding tuition and fees, the amount paid by students is projected to decline slightly in 2013-14 as the amount covered by existing financial aid programs grows. Revenue from local property taxes is expected to increase modestly at the community colleges whereas funding from other sources is expected to decline notably, primarily due to a \$262 million reduction in federal TANF funding for Cal Grants. Below, we discuss the major components of the budget package for the University of California (UC), Hastings College of the Law (Hastings), CSU, CCC, and the California Student Aid Commission (CSAC).

UC, CSU, and Hastings

Provides \$2.8 Billion in General Fund Support for UC. The budget provides UC with \$2.8 billion in General Fund support—an increase of \$467 million from 2012-13. Of this increase, \$200 million reflects a shift of funds used for paying general obligation bond debt service from a separate budget item to UC’s support item (with no corresponding increase in state costs or total UC support and capital funding). The remainder consists of various augmentations, including a \$125 million increase linked with a prior-year budget agreement that the university hold tuition levels flat in 2012-13, a \$125 million (5 percent) base

augmentation for 2013-14, a \$9 million increase for lease-revenue debt service, and a \$6 million increase for retiree health benefits. In addition to state support, UC expects to receive roughly \$2.5 billion in student tuition payments. (The Cal Grant Program will pay about \$760 million of this amount on behalf of students.)

Provides \$2.6 Billion in General Fund Support for CSU. For CSU, the budget provides \$2.6 billion in General Fund support—an increase of \$304 million from 2012-13. This increase consists of various augmentations, including \$125 million for holding tuition flat in 2012-13, a \$125 million (6 percent) base augmentation for 2013-14, an \$18 million increase for lease-revenue debt service, and a \$34 million increase in health care costs for retired annuitants. In addition to its General Fund support, CSU expects to receive about \$1.9 billion in student tuition payments. (The Cal Grant Program will pay about \$430 million of this amount on behalf of students.)

Provides \$8.4 Million in General Fund Support for Hastings. The budget provides Hastings with \$8.4 million in General Fund support—an increase of \$511,000 (6.5 percent) from 2012-13. Of this amount, \$56,000 is intended to cover increased retiree health care costs. Hastings has discretion in deciding how to use the remaining funding. In addition to state support, Hastings expects to receive \$34 million in 2013-14 from student tuition payments.

Provides Base Augmentations. As discussed above, the budget provides base increases of \$125.1 million each for UC and CSU. (The administration derived the dollar increase based on UC’s budget, with the amount representing a 5 percent increase for UC and a 6 percent increase for CSU.) Though the increases are largely

unallocated, \$15 million of UC's augmentation is for the new UC Riverside School of Medicine, which will begin serving students in 2013-14.

(The Governor proposed to set aside \$10 million of each university's base increase for improving the availability of courses through technology.

Figure 7
Higher Education Core Funding

(Dollars in Millions)

	2011-12	2012-13	2013-14	Change From 2012-13	
				Amount	Percent
University of California					
General Fund	\$2,272	\$2,377	\$2,844 ^a	\$467	20%
Net tuition ^b	2,506	2,428	2,471	43	2
Other UC core funds	388	441	385	-55	-13
Lottery	30	37	37	—	—
Subtotals	(\$5,196)	(\$5,283)	(\$5,738)	(\$455)	(9%)
California State University					
General Fund ^c	\$2,000	\$2,304	\$2,607	\$304	13%
Net tuition ^b	1,948	1,885	1,909	24	1
Lottery	42	56	56	—	—
Subtotals	(\$3,990)	(\$4,245)	(\$4,572)	(\$327)	(8%)
California Community Colleges					
General Fund	\$3,512	\$3,817	\$3,860	\$43	1%
Local property tax	1,977	2,251	2,291	40	2
Fees	361	419	426	7	2
Lottery	197	186	186	—	—
Subtotals	(\$6,047)	(\$6,672)	(\$6,762)	(\$90)	(1%)
Hastings College of the Law					
Net tuition ^b	\$34	\$35	\$34	-\$1	-3%
General Fund	7	8	8	1	7
Subtotals ^d	(\$41)	(\$43)	(\$42)	(\$-1)	(-2%)
California Student Aid Commission					
General Fund	\$1,471	\$708	\$1,039	\$331	47%
Student Loan Operating Fund	62	85	98	13	16%
TANF funds	—	804	542	-262	-33%
Subtotals	(\$1,533)	(\$1,596)	(\$1,679)	(\$82)	(5%)
General Obligation Bond Debt Service					
	\$666	\$696	\$564	-\$132	-19%
Totals^e	\$16,490	\$17,460	\$18,164	\$704	4%
General Fund	\$9,928	\$9,910	\$10,923	\$1,014	10%
Net tuition/fees ^e	3,866	3,691	3,646	-45	-1
Local property tax	1,977	2,251	2,291	40	2
Other	450	1,329	1,025	-304	-23
Lottery	269	279	279	—	—

^a Includes \$200 million in general obligation bond debt service previously reflected in a separate item.

^b Reflects tuition after discounts provided through institutional financial aid programs from all sources.

^c Beginning in 2012-13, includes health benefit costs for CSU retired annuitants.

^d Embedded in the subtotals each year is about \$200,000 from Lottery funds.

^e To avoid double counting, excludes UC and CSU tuition paid on behalf of students from Cal Grants. These payments appear in both UC/CSU net tuition and California Student Aid Commission General Fund.

TANF = Temporary Assistance for Needy Families.

Though the Governor ultimately vetoed this provision, the universities indicate they will honor the administration’s intent for these funds as detailed in the nearby box.)

Requires Annual Report on Specified Performance Measures. The budget package establishes a new requirement for UC and CSU to report annually, beginning on March 1, 2014, on a number of performance outcomes. Among other metrics, the universities are required to report on graduation rates, spending per degree, and

the number of transfer and low-income students enrolled. See Figure 8 (see page 30) for a full list of specified performance measures.

Requires Biennial Reports on Cost of Education. In addition to annual performance reports, the budget requires biennial reports from UC and CSU, beginning in 2014, on the costs of education. The reports are to identify the costs of undergraduate education, graduate academic education, professional education, and research. For all four areas, costs are to be disaggregated

UC and CSU Technology Initiatives

Both the University of California (UC) and California State University (CSU) will use a portion of their base funding increase to improve course availability through technology, as described below.

UC to Develop New Innovative Learning Technology Initiative. The goal of the initiative is to help undergraduates enroll in the courses they need to satisfy degree requirements and graduate in a timely manner. The UC plans to spread \$10 million across the following components.

- **Course Development (\$4.6 Million to \$5.6 Million).** The UC plans to develop 150 online and hybrid courses over the next three years. These courses will be credit-bearing and meet general education or major requirements. The university will select the courses using a competitive process run through the Academic Senate.
- **Technological and Instructional Support (\$1 Million to \$2 Million).** The UC plans to make technological support available to faculty developing the hybrid and online courses. The UC also plans to fund teaching assistants to help students taking courses remotely.
- **Cross-Campus Registration and Course Catalog Database (\$3 Million).** The UC plans to develop a new data “hub” to support cross-campus registration. The UC also plans to develop a searchable database of the new courses.
- **Evaluation (\$0.4 Million).** The UC plans to collect data from students and faculty to determine the effectiveness of the new courses.

CSU to Focus on Reducing Bottlenecks and Improving Student Success. The CSU Chancellor’s Office plans to distribute \$17.2 million among its campuses to promote five objectives. (In addition to \$10 million for technology-specific activities, CSU plans to spend \$7.2 million specifically for the student success programs described below.) The amount allocated to each objective will depend on the proposals the Chancellor’s Office receives from campuses. The five objectives are:

- **Increasing Enrollment in Successful Online Courses.** Beginning fall 2013, CSU will expand enrollment in about two dozen existing, fully online courses. The courses,

by (1) Science, Technology, Engineering, and Mathematics (STEM) disciplines; (2) health sciences; and (3) all other disciplines. The first two reports, in 2014 and 2016, may reflect systemwide costs. Two subsequent reports must include campus-by-campus costs. The reporting requirement sunsets on January 1, 2021, following the fourth report.

Sets No Enrollment Expectations. The budget act typically specifies the number of FTE students the state expects the universities to enroll. For 2013-14, the Legislature adopted budget language

stating its intent that the universities serve no fewer students in 2013-14 than in 2012-13. Accordingly, the language included enrollment targets of 211,499 FTE students for UC and 342,000 FTE students for CSU. The Governor, however, vetoed these provisions. In his veto message, the Governor stated that institutional performance, rather than enrollment, should drive university funding.

Expects No Tuition Increases. The administration expressed its intent that the universities not raise student tuition levels in

nominated by campuses and selected by the Chancellor's Office, are in high-demand subjects and have shown better completion rates and student learning outcomes. Students throughout the system will be able to enroll in these courses and receive credit at their home campuses. The Chancellor's Office will support the development of processes that streamline registration and transfer of course credits for students.

- **Replicating Successful Courses and Teaching Methods.** Through a review process, the Chancellor's Office selected several courses that showed improved student outcomes following changes in teaching methods and technology. The university plans to hold six associated summer institutes that will bring faculty who have successfully redesigned courses together with faculty from other campuses who are interested in adopting new approaches. Participating faculty (and their campus departments) must indicate that they intend to transform an existing course from face-to-face to online, hybrid, or technology-enhanced and offer the revised course in 2013-14.
- **Advancing Course Redesign.** Campuses will compete for funds to redesign 22 existing courses that are high-demand and have high failure rates systemwide. Redesigned courses will be piloted beginning in spring 2014. Successful approaches will be expanded and disseminated in future faculty institutes.
- **Implementing Student Success Programs.** The goal of this component is to improve overall student success and graduation rates and reduce disparities in these rates between under-represented students and other students. Campuses will compete for grants to implement various student success strategies such as developing or expanding summer bridge programs, freshman seminars and learning communities, writing-intensive courses, and undergraduate research opportunities.
- **Using Technology to Improve Student Advising.** Campuses will compete for funds to implement automated degree audits, e-advising, and other planning tools for students.

2013-14 and both UC and CSU have indicated they do not plan to increase tuition for resident students. Tuition rates for California resident undergraduates attending UC and CSU in 2013-14 are expected to remain at \$12,192 and \$5,476, respectively, for the third consecutive year. (The community colleges also plan to hold student fees flat in 2013-14—at \$46 per unit.)

Again Eliminates Earmarks. The Governor vetoed virtually all provisions in the *2012-13 Budget Act* that designated funding for specific purposes and did not include these spending requirements in his 2013-14 budget proposal. The Legislature restored a number of these provisions—most notably a \$25 million earmark for student outreach programs—and stated its expectation that the universities

continue supporting other programs—such as UC’s Subject Matter Projects for K-12 teachers—that previously were specified in budget act provisions. The Governor again vetoed the earmarking, citing a desire to give the universities greater flexibility (with the exception of funding for the Riverside Medical School) to manage their resources.

Changes CSU Retirement Funding Model.

Traditionally, the state has adjusted CSU’s budget to account for changes in its contributions to the California Public Employees’ Retirement System (CalPERS). Under the traditional model, CSU’s CalPERS contributions have been determined by multiplying its current payroll costs by its employer contribution rate. Starting in 2013-14, adjustments to CSU’s budget are to be based permanently on the

Figure 8
Performance Metrics for UC and CSU

Metric	Definition
CCC transfers	(1) Number of CCC transfers enrolled. (2) CCC transfers as a percent of undergraduate population.
Low-income students	(1) Number of Pell Grant recipients enrolled. (2) Pell Grant recipients as a percent of total student population.
Graduation rates ^a	(1) Four- and six-year graduation rates for freshmen entrants. (2) Two- and three-year graduation rates for CCC transfers. Both of these measures also calculated separately for low-income students.
Degree completions	Number of degrees awarded annually in total and for: (1) Freshman entrants. (2) Transfers. (3) Graduate students. (4) Low-income students.
First-year students on track to degree	Percentage of first-year undergraduates earning enough credits to graduate within four years.
Spending per degree	(1) Total core funding divided by total degrees. (2) Core funding for undergraduate education divided by total undergraduate degrees.
Units per degree	Average course units earned at graduation for: (1) Freshman entrants. (2) Transfers.
Degree completions in STEM fields	Number of STEM degrees awarded annually to: (1) Undergraduate students. (2) Graduate students. (3) Low-income students.

^a Six- and three-year graduation rates apply only for CSU.
STEM = Science, Technology, Engineering, and Mathematics.

university's 2013-14 payroll costs. Because 2013-14 payroll costs are permanently locked in as a base moving forward, CSU will have to fund retirement costs on any payroll above that level from its base budget appropriation. As a result, CSU will have a greater incentive to take into account retirement costs when it makes its initial hiring decisions.

Contains Intent Language Regarding UC Retirement Costs. The budget plan does not designate any funding for UC employer retirement costs, though the university expects these costs to increase by \$67 million in 2013-14. Budget trailer bill language states, however, that the absence of such an earmark does not imply legislative support for UC employees paying more toward retirement. In addition, trailer legislation requires UC to apply any reductions in annual debt-service costs achieved as part of a debt restructuring (as discussed further below) towards its pension costs, including its unfunded pension liabilities.

Authorizes New Capital Outlay Process for UC. As noted earlier, the budget plan shifts funds for existing debt service on UC capital outlay projects from a separate budget item to the university's main support appropriation. It does this as part of a new capital outlay process. Under the new process, UC may pledge its General Fund support appropriation (excluding the amounts necessary to repay existing debt service) to issue its own debt for capital projects involving academic facilities. In addition, the new process allows UC to restructure some of the state's outstanding debt on UC projects. The new process limits the university to spending at most 15 percent of its pledgeable General Fund on (1) debt service on new bonds for academic facilities, (2) pay-as-you-go academic-facility projects, and (3) existing state lease-revenue debt. In order to use the new authority, the university is required to submit certain information about its capital plans to the Legislature and DOF for review and approval.

Funds a Few Capital Outlay Projects.

The budget plan authorizes UC to construct a \$45.1 million classroom and academic office building at the Merced campus using the new capital outlay authority discussed above. In addition, the budget provides UC with (1) \$5 million from resources bond funds to replace a pier and wharf located at the Scripps Institution of Oceanography at the San Diego campus and (2) \$4.2 million in general obligation bond funding for the equipment phase of a science and engineering building located at the Merced campus. For CSU, the budget authorizes (1) \$76.5 million in lease-revenue bond funding to replace academic and classroom space found to be seismically unsafe at the Pomona campus, (2) \$5.9 million from general obligation bond funds for the equipment phases of five previously approved capital outlay projects, and (3) \$1.8 million from general obligation bond funds to upgrade the structural systems of the Dore Theatre at CSU Bakersfield to correct seismic deficiencies. (The budget also appropriates \$1.3 million in general obligation bond funding for the planning phases of a building renovation project at Solano Community College.)

Financial Aid

Provides \$1 Billion in General Fund Support for Cal Grants. The spending plan provides a total of \$1.7 billion for Cal Grants, including \$1 billion in General Fund support, \$542 million in federal TANF funds, and \$98 million from the Student Loan Operating Fund. This is an \$82 million (5 percent) overall spending increase for Cal Grants from 2012-13. Though General Fund spending increases by \$331 million from 2012-13 to 2013-14, a large part of this increase offsets a reduction in federal funding. Though virtually all state support for financial aid currently is for the Cal Grant program, the budget package creates a new state-supported financial aid program to be implemented

beginning in 2014-15. In addition, the budget protects two financial aid outreach programs from the potential loss of federal funding and makes two changes to CSAC operations. The components of the budget package are discussed below.

Creates New Financial Aid Program.

The budget package creates the Middle Class Scholarship Program, a new financial aid program for certain UC and CSU students. The program is designed for undergraduate students who do not have at least 40 percent of their tuition covered by Cal Grants and other public financial aid programs. Specifically, students with family incomes up to \$100,000 qualify to have 40 percent of their tuition covered (when combined with all other public financial aid). The percent of tuition covered declines for students with family income between \$100,000 and \$150,000, such that a student with a family income of \$150,000 qualifies to have 10 percent of tuition covered. The program is to be phased in over four years, beginning in 2014-15, with awards in 2014-15 set at 35 percent of full award levels, followed by 50 percent, 75 percent, and 100 percent of full award levels the following three years. Budget legislation provides \$107 million for the program in 2014-15, \$152 million in 2015-16, and \$228 million in 2016-17, with funding for the program capped at \$305 million beginning in 2017-18. If the appropriation is insufficient to provide full awards to all eligible applicants, CSAC is to reduce award amounts proportionately. In addition, the budget package authorizes the Director of Finance to reduce the appropriation by about one-third if the May Revision projects a budget deficit for the next fiscal year. (For 2013-14, the budget provides \$250,000 to CSAC for associated startup costs and \$500,000 for outreach costs.)

No Contingency Funding for Outreach Programs. The federally funded College Access Challenge Grant provides \$15 million to (1) fund the Cash for College program and the California Student Opportunity and Access Program as well as (2) offset General Fund expenditures for the Assumption Program of Loans for Education. As a condition of receiving the federal grant, the state must provide support for higher education at a level that is at least equal to the average amount provided over the five preceding state fiscal years. Due to recent reductions in higher education funding, the state did not meet this requirement for 2012-13. The administration has requested a waiver of the requirement. The budget approved by the Legislature directed the Director of Finance to augment the CSAC appropriation to offset the loss of federal funds in the event the waiver is not granted. The Governor, however, vetoed this provision.

Transfers Support Services to CSAC. For about 15 years, several of CSAC's administrative support services have been provided by the agency administering the federal guaranteed student loan program in California—initially EdFund, and more recently ECMC (previously the Education Credit Management Corporation). These services include printing, warehouse, mailroom, courier, and information technology (IT) services. The agreement with ECMC is to terminate June 30. The budget provides \$610,000 and seven positions to transfer these services back to CSAC, effective July 1.

Creates Reimbursement Mechanism for CSAC to Provide Technical Assistance to Other States. Since enactment of the California Dream Act—Chapter 604, Statutes of 2011 (AB 131, Cedillo)—CSAC has developed an online application that mirrors the Free Application for Federal Student Aid (FAFSA)

for students who are unable to use the FAFSA due to their immigration status. Several other states have enacted legislation similar to the California Dream Act and are working to implement expanded aid eligibility. At least one state (Minnesota) has requested technical

assistance from CSAC for its initial Dream Act implementation. The budget package creates a mechanism for CSAC to provide assistance to other states and recover the costs of doing so by charging fees for services.

HEALTH

The spending plan provides \$20.7 billion from the General Fund for health programs. This is an increase of \$1.2 billion, or about 6 percent, compared to the revised 2012-13 spending level, as shown in Figure 9. The net increase reflects both increases in caseload and utilization of services, implementation of the Patient Protection and Affordable Care Act (ACA), also known as federal health care reform, and other health care initiatives. The major program-specific changes are summarized in Figure 10 (see next page) and discussed in more detail below.

Affordable Care Act

The spending plan includes several significant changes associated with implementation of the

ACA—also known as federal health care reform. Below, we describe some of the major ACA-related changes with significant effects on the state’s spending plan.

Expands Medi-Cal Eligibility to Include Adults Up to 133 Percent of the Federal Poverty Level (FPL). Beginning January 1, 2014, the ACA gives the state the option to expand Medi-Cal eligibility to include over one million adults with incomes up to 133 percent of the FPL who are currently ineligible—also known as the optional Medi-Cal expansion. (The FPL is currently \$23,550 in annual income for a family of four.) For three years, the federal government will pay 100 percent of the costs of health care services provided to the newly eligible population. Beginning January 1,

Figure 9
Major Health Programs and Departments—Spending Trends

General Fund (Dollars in Millions)

	2011-12	2012-13	2013-14	Change From 2012-13 to 2013-14	
				Amount	Percent
Medi-Cal—local assistance	\$15,156	\$14,928	\$16,094	\$1,166	7.8%
Department of Developmental Services	2,563	2,677	2,802	125	4.7
Department of State Hospitals	—	1,351	1,453	102	7.5
Department of Mental Health	1,329 ^a	—	—	—	—
Healthy Families Program—local assistance	271	163	20	-143	-87.7
Department of Public Health	125	131	114	-17	-13.0
Department of Alcohol and Drug Programs	37	34	—	-34	—
Other Department of Health Care Services programs	59	96	93	-3	-3.1
Emergency Medical Services Authority	7	7	7	—	—
All other health programs (including state support)	76	161	165	4	2.5
Totals	\$19,623	\$19,548	\$20,748	\$1,200	6.1%

^a Includes almost \$1.3 billion for support of state hospitals.