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Chief Executive Officer

May 14, 2014

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From: William T Fujioka
Chief Executive Officer

STATE BUDGET - ANALYSIS OF THE GOVERNOR'S FY 2014-15 MAY REVISION

OVERVIEW

On May 13, 2014, Governor Jerry Brown released his $156.2 billion May Revision to the FY 2014-15 January Proposed Budget, which provides $107.8 billion in State General Fund expenditures and $2.6 billion in total reserves, which includes $1.0 billion for the regular budget reserve, and proposes making an additional $1.6 billion payment for the Proposition 58 Budget Stabilization Account/Rainy Day Fund. The Administration reports that State revenues are expected to increase by $2.4 billion above the January projections; however, added costs for the Medi-Cal expansion, emergency drought assistance, the In-Home Supportive Services Program, State pension obligations and other programs have increased by essentially the same amount.

STATE GENERAL FUND EXPENDITURES				
	FY 2013-14	**FY 2014-15**	**Dollar Variance**	**Percentage Variance**
Total Resources Available	$104.6 billion	$109.2 billion	$4.6 billion	4.4%
Total Expenditures	$100.7 billion	$107.8 billion	$7.1 billion	7.0%
Fund Balance	$3.9 billion	$1.5 billion	-$2.5 billion	--
Budget Stabilization/ Rainy Day Fund	$0.0 billion	$2.6 billion	$2.6 billion	100%

In releasing the May Revision, the Governor noted that despite achieving a balanced budget, a number of major risks remain that threaten the State's fiscal stability. The Administration stressed that the May Revision maintains the Governor's principles to pay down debt and reduce long-term liabilities, and includes a plan to shore up the California State Teachers' Retirement System. Further, the recent agreement between the Governor and the Legislative leaders to create a Rainy Day Fund will help the State minimize future boom and bust cycles. **Most importantly, the FY 2014-15 May Revision contains no significant reductions to County-administered programs.**

The May Revision contains major proposals in the following areas:

- State Debt Reduction - directs $11.0 billion to repay State debt with the goal of fully paying down the budget borrowing by FY 2017-18, **which includes an additional $100.0 million in FY 2014-15 to pay cities and counties for pre-2004 deferred mandates;**

- Rainy Day Fund - seeks voter approval on the November 2014 ballot of a Constitutional Amendment to strengthen the existing Rainy Day Fund structure by tightening rules on when deposits are made and when withdrawals are allowable;

- Additional Funding for the Medi-Cal Expansion - directs $1.2 billion in new State General Fund spending to provide Medi-Cal coverage for an additional 1.4 million persons. The Administration estimates that Medi-Cal enrollment will rise from 7.9 million persons, before the January 1, 2014 implementation, to 11.5 million persons in FY 2014-15;

- Teacher Pensions - sets forth a plan of shared responsibilities with the State, school districts and teachers to shore up the California State Teachers' Retirement System which would increase current contribution rates gradually over time from 19.3 percent to 35.7 percent with the goal of eliminating unfunded liability for teacher pensions in approximately 30 years.

Estimated County Impact

Based on a preliminary analysis of the information available at this time, it appears that the County will not experience a significant loss of funding or program reductions from any of the May Revision proposals.

This office is currently working with affected departments and will keep the Board advised of any potential impact on the County once additional details of the Governor's Budget are released.

Attachment I provides a summary of the May Revision proposals of interest to the County.

Key Elements of the Governor's Budget of Interest to the County

Medi-Cal Expansion - County Indigent Savings. The May Revision proposes to redirect $724.9 million statewide in 1991 Health Realignment funding from counties to the State attributable to potential county indigent health care savings due to the implementation of the Medi-Cal expansion under the Federal Affordable Care Act. The Administration indicates that this amount is based on the methodologies contained in AB 85 (Chapter 24, Statutes of 2013), which modified the distribution of 1991 Health Realignment funding to capture and redirect county savings. The May Revision decreases the estimated FY 2014-15 redirection amount from $900.0 million to $724.9 million in FY 2014-15. The May Revision also retains the redirection of $300.0 million statewide for FY 2013-14. The Governor notes that the FY 2013-14 and FY 2014-15 estimated redirections are interim calculations, and a final reconciliation for FY 2013-14 will take place no later than January 2016.

As previously reported, the FY 2013-14 State Budget Act redirected $300.0 million statewide in 1991 Health Realignment funding from counties to the State. **The amount of funding redirected from Los Angeles County in FY 2013-14 is estimated to be $88.6 million.**

The Department of Health Services (DHS) reports that the May Revision proposal would redirect an estimated $238.0 million in 1991 Health Realignment funding from the County to the State in FY 2014-15. According to DHS, this amount is $75.0 million above the $163.0 million projection the Department anticipated the State would redirect from the County. DHS indicates that the State's estimate appears to overestimate County savings and County Medi-Cal revenues.

It is important to note that redirected 1991 Health Realignment funding is subject to a reconciliation and repayment process based on the County's actual savings and expenditures in 2017 as required by AB 85.

State Mandates. The May Revision includes $100.0 million in additional funding to repay a portion of the mandate deferrals owed to local governments since 2004. Of this amount, 73 percent will be allocated to reimburse counties. The State intends to eliminate its "Wall of Debt," which includes all unpaid costs to local governments, schools, and community colleges for unfunded State mandates, by the end of FY 2017-18. The County is owed approximately $180.0 million for mandate costs incurred prior to FY 2003-04. The $100.0 million in additional funding for FY 2014-15 is discretionary and may be used by local governments, including the County, to address

local priorities. **It is estimated that the County will receive approximately $16.8 million to $25.0 million of the $100.0 million payment in FY 2014-15.**

2011 Public Safety Realignment Funding. A component of the Federal three-judge panel's court order to reduce the State prison population by February 28, 2016, includes increased credit earnings for second strike inmates incarcerated in State prison for a non-violent, non-sex offense from 20.0 percent to 33.3 percent. Some of these offenders will be eligible for release to Post-Release Community Supervision (PRCS) administered by county probation departments. As a result, there will be a short-term increase to the statewide PRCS population estimated to be 216 offenders in FY 2013-14 and 819 offenders in FY 2014-15. The May Revision proposes to increase the funding allocation to county probation departments by $11.3 million statewide to address this population increase.

Jail Construction Funding. The May Revision does not contain any changes to the Governor's January Budget proposal to allocate $500.0 million to fund jail capacity expansion including the provision that preference be given to proposals from counties that utilize a pre-trial risk assessment tool to inform release decisions. <u>However, it is important to note that the Legislature is currently considering this proposal and it is likely to make changes during budget negotiations over the next month.</u>

Split Sentences. The May Revision does not contain any changes to the Governor's January Budget proposal to create the presumption of split sentences for offenders sentenced under the provisions of AB 109 (Chapter 15, Statutes of 2011). The Governor's proposal would create a tiered sentencing structure and unless the court finds that a split sentence in a particular case is not in the interests of justice, all sentences imposed under AB 109 would be presumed to be split sentences.

We will continue to keep you advised.

WTF:RA:
MR:VE:IGEA:gl

Attachments

c: All Department Heads
Legislative Strategist

Attachment I

Governor's FY 2014-15 May Revision

Health

Medi-Cal Expansion - County Indigent Savings. The May Revision proposes to redirect $724.9 million statewide in 1991 Health Realignment funding from counties to the State attributable to potential county indigent health care savings due to the implementation of the Medi-Cal expansion under the Federal Affordable Care Act. The Administration indicates that this amount is based on the methodologies contained in AB 85 (Chapter 24, Statutes of 2013), which modified the distribution of 1991 Health Realignment funding to capture and redirect county savings. The May Revision decreases the estimated FY 2014-15 redirection amount from $900.0 million to $724.9 million in FY 2014-15. The May Revision also retains the redirection of $300.0 million statewide for FY 2013-14. The Governor notes that the FY 2013-14 and FY 2014-15 estimated redirections are interim calculations, and a final reconciliation for FY 2013-14 will take place no later than January 2016.

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Social Services

In-Home Supportive Services (IHSS). The May Revision proposes an increase of $107.9 million in State General Fund dollars in FY 2013-14 and $134.4 million in FY 2014-15, primarily associated with increases in caseload, hours per case, and costs per hour under the IHSS program.

Additionally, the May Revision retains the Governor's January Budget proposal to prohibit IHSS providers from working overtime to control costs, which was in response to the U.S. Department of Labor's new regulations, effective January 1, 2015, that require overtime pay for domestic workers. As previously reported, **the Department of**

Public Social Services indicates that as long as the current IHSS Maintenance of Effort structure remains in place, there would be no direct impact to the County as a result of any IHSS provider overtime costs.

CalWORKs. As previously reported, the Governor's January Budget proposal implemented the 5 percent grant increase for CalWORKs families approved as part of the FY 2013-14 State Budget Act, and proposed to provide $6.3 million in State General Fund dollars in FY 2014-15 to maintain this grant level. According to the May Revision, based on the revised caseload and updated revenue projections to the Child Poverty and Family Supplemental Support Subaccount, which was established to fund the CalWORKs grant increases, additional State General Fund dollars are needed to fund the grant increase in FY 2014-15. The May Revision includes $13.0 million statewide for this purpose, which is a $6.8 million increase from the Governor's January Budget proposal.

In addition, the May Revision retains the Governor's January Budget proposal to create a Parent and Child Engagement Demonstration Pilot Program for low-income families who have multiple barriers of entry into the workforce, and do not have access to licensed child care, or who fall into CalWORKs sanction status. The proposal would create a six-county, 2,000-family pilot project, which would cost $9.9 million in State General Fund dollars in FY 2014-15, assuming March 2015 enrollment of the first cohort of families, and $115.4 million in State General Fund over three years.

CalFresh. The May Revision includes a $20.7 million increase for the administration of an additional 134,000 CalFresh Program households statewide by June 2015, as a result of the implementation of the Federal Affordable Care Act. The revised FY 2014-15 total number of CalFresh households is 279,000 statewide.

Additionally, the May Revision proposes a $10.5 million increase in State General Fund dollars in FY 2014-15 to provide for the continuation of the Heat and Eat program in California, which enables low-income households to receive an estimated $62.00 a month in Federal-funded Supplemental Nutrition Assistance Program (SNAP) benefits, formerly known as Food Stamps. This proposed increase would allow the State to comply with a new requirement under the Federal Farm Bill (P.L. 113-79), which was signed into law on February 7, 2014, that a household receive a Low Income Home Energy Assistance Program (or similar energy assistance) payment over $20.00 a year to trigger a standard utility allowance that is deducted from the household's income, resulting in a larger SNAP benefit.

This office is working with the Department of Public Social Services to determine any potential County impact from the above proposals.

Community Care Licensing. The May Revision retains the Governor's January Budget proposal to provide $7.5 million and 71.5 new positions statewide for quality enhancement and program improvement in Community Care Licensing investigations and enforcement, which would be funded, in part, by a proposed 10 percent increase in

licensing fees. The budget proposal is in response to a number of high-profile incidents at child and adult residential care facilities licensed by the State.

***Katie A.* Settlement and Administrative Costs.** The May Revision proposes a total amount of $2.0 million, including $1.0 million in State General Fund dollars and the balance through reimbursements, as a placeholder for potential county administrative costs associated with semi-annual progress report requirements under the *Katie A. v. Bonta* settlement agreement. The settlement concerns the improvement of mental health and supportive services for children and youth in, or at imminent risk of placement in, foster care in California. Specifically, the proposed $1.0 million amount would include $600,000 in State General Fund dollars under the California Department of Health Care Services budget and $400,000 under the California Department of Social Services budget. According to the May Revision, the use of this funding is subject to further discussion between the Administration and counties to determine if overall *Katie A.* costs have increased. **This office is working with the Department of Children and Family Services to determine any potential County impact of this proposal.**

Child Care and Development Programs. The May Revision includes the following changes to the Governor's January Budget proposals:

- CalWORKs Stage 1 Child Care: a $25.1 million increase as a result of a higher caseload projection for FY 2014-15.

- CalWORKs Stage 2 and Stage 3 Child Care: a $14.6 million total increase to account for changes in the cost-per-case and caseloads in both programs.

- Non-CalWORKs Programs Child Care: a net decrease of $15.4 million to reflect a decrease of $15.9 million originally authorized to backfill Federal sequestration cuts, which did not occur, and an increase of $481,000 due to an increase in the 0 to 4 year old population.

- State Preschool: an increase of $356,000 to Proposition 98 State General Fund dollars to account for an increase in the 0 to 4 year old population.

- Child Care and Development Funds: $24.4 million increase in Federal funds in FY 2014-15, reflecting an increase in ongoing base Federal funds of $17.3 million and an additional $7.1 million in one-time funds from FY 2013-14.

Public Safety

2011 Public Safety Realignment Funding. A component of the Federal three-judge panel's court order to reduce the State prison population by February 28, 2016 includes increased credit earnings for second strikers incarcerated in State prison for a non-violent, non-sex offense from 20 percent to 33.3 percent. Some of these offenders will be eligible for release to Post Release Community Supervision (PRCS) administered by county probation departments. As a result, there will be a short-term increase in the

PRCS population estimated to be 216 in FY 2013-14 and 819 in FY 2014-15. The May Revision proposes to increase the funding allocation to county probation departments by $11.3 million to address this population increase.

Prison Population Reduction and Recidivism Reduction Fund. To comply with the three-judge panel's population reduction order, the State enacted SB 105 (Chapter 310, Statutes of 2013) which appropriated $315.0 million to reduce the prison population and created the Recidivism Reduction Fund into which funds not used for needed capacity are to be deposited. As a result of the extension of the population reduction deadline to February 28, 2016, the May Revision proposes an augmentation of the Recidivism Reduction Fund by $9.9 million for a total amount of $91.0 million for FY 2014-15. The May Revision also proposes to allocate this increase to fund $865,000 for a planning grant for the California Leadership Academy and an additional $9.0 million for community-based reentry programs.

In addition, the May Revision proposes total funding of $49.0 million for local reentry programs which would target the mental health State prison population who are within six to 12 months of release from State prison. Reentry facilities funded with these monies would offer therapeutic environments to house inmates being released to both parole and PRCS and would provide case management, employment, housing and other social services support.

Trial Court Funding. The May Revision proposes to increase the allocation for trial court operations from $100.0 million to $160.0 million. This allocation will cover trial court retiree costs, court workload obligations and to address trial court revenues generated by court fees. In addition, the May Revision indicates that the Administration will propose an additional five percent increase for trial court funding in the FY 2015-16 State Budget.

City Law Enforcement Grants. The May Revision includes a proposed $12.5 million augmentation to the grants provided to city law enforcement agencies to fund front line law enforcement. The total grant amount available would be $40.0 million for FY 2014-15.

Other Public Safety Proposals

- **Jail Construction Funding.** The May Revision does not contain any changes to the Governor's January Budget proposal to allocate $500.0 million to fund jail capacity expansion including the provision that preference be given to proposals from counties that utilize a pre-trial risk assessment tool to inform release decisions. However, it is important to note that the Legislature is considering this proposal and may amend the proposal during budget negotiations over the next month.

- **Split Sentences.** The May Revision does not contain any changes to the Governor's January Budget proposal to create the presumption of split sentences

for offenders sentenced under the provisions of AB 109 (Chapter 15, Statutes of 2011). The Governor's proposal would create a tiered sentencing structure under which sentences would be split as follows:

- For sentences of less than three years, the split would be determined at the court's discretion;
- For sentences of at least three years but not more than eight years, at least one year of the sentence would be served under mandatory supervision in the community; and
- For sentences longer than eight years, the split would be not more than one-third of the total sentence.

Unless the court finds that a split sentence in a particular case is not in the interest of justice, all sentences imposed under AB 109 would be presumed to be split.

- **Long Term Jail Sentences.** Trailer bill language, released the day after the May Revision, outlines the Governor's January Budget proposal to address long county jail sentences of over 10 years imposed as a result of AB 109. The proposal would allow counties to contract with the California Department of Corrections and Rehabilitation to house any inmate currently sentenced under the provisions of AB 109 to county jail for 10 years or longer that includes a non-suspended period of custody of at least nine years or longer for a contract rate not to exceed $1.00 per year.

- **Alternative Custody for Female Inmates.** Trailer bill language, released the day after the May Revision, would authorize a sheriff to implement a voluntary alternative custody program for female inmates sentenced to a county jail under the provisions of provisions of AB 109. Eligible female inmates must not have a current conviction for a serious or violent offense or a current or previous conviction for a sex offense. Female inmates that have been assessed by the sheriff to pose a high risk to commit a violent offense or that have a history of escape from a facility are not eligible for the program. Allowable alternative custody programs in which eligible female inmates could be placed include home detention, residential drug or treatment programs, transitional care facilities or a mental health clinic or treatment facility.

General Government

State Mandates. The May Revision includes $100.0 million in additional funding to repay a portion of the mandate deferrals owed to local governments since 2004. Of this amount, 73 percent will be allocated to reimburse counties. As previously reported, the State intends to eliminate its "Wall of Debt," which includes all unpaid costs to local governments, schools, and community colleges for unfunded State mandates, by the end of FY 2017-18. The County is owed approximately $180.0 million for mandate

costs incurred prior to FY 2003-04. The $100.0 million in additional funding for FY 2014-15 is discretionary and may be used by local governments, including the County, to address local priorities. **It is estimated that the County will receive approximately $16.8 million to $25.0 million of the $100.0 million payment in FY 2014-15.**

State-County Assessors' Partnership Agreement Program. The May Revision proposes several changes to the three-year pilot grant program proposed in the Governor's January Budget. The pilot program, which would be funded at $7.5 million per year and administered by the California Department of Finance, would fund nine county assessors' offices throughout the State to enhance local property tax assessment efforts in a mix of urban, suburban and rural counties. The changes proposed to the three-year pilot grant program in the May Revision, include:

- Clarifying that program grant funds may be used to assess and reassess business personal property and real property;
- Providing more flexibility in the distribution of program grant funds to enable, for example, funds not claimed by assessors' offices in larger counties to be used to fund the participation of additional assessors' offices in smaller counties; and
- Allowing program grant funds to be used for information technology systems that can assist assessors' offices in reassessing property to its appropriate value.

Redevelopment

The May Revision notes that with the elimination of 400 redevelopment agencies in 2012, approximately $620.0 million was returned to cities, $875.0 million to counties, and $310.0 million to special districts in FYs 2011-12 and 2012-13 combined. The May Revision anticipates that cities will receive an additional $541.0 million in general purpose revenues in FY 2013-14 and FY 2014-15 combined, with counties receiving $662.0 million and special districts $209.0 million.

Additionally, the May Revision estimates Proposition 98 State General Fund savings of $1.1 billion in FY 2013-14 and $811.0 million in FY 2014-15, with ongoing State General Fund savings of approximately $700.0 million annually by FY 2016-17.

The May Revision also reports that the State has prevailed in several key court decisions regarding the dissolution of redevelopment agencies that threatened the loss of billions of dollars for core public services.

Economic Development

The Governor's January Budget included proposed legislation to provide greater flexibility to infrastructure financing districts (IFDs) for cities and counties that had received a Finding of Completion from the Department of Finance (demonstrating they have remitted all unencumbered cash assets of their former redevelopment agencies (RDAs) to the affected taxing entities); complied with all State Controller's Office RDA-

related audit findings; and concluded all outstanding legal issues concerning their former RDA with the State. Specifically, the proposal would expand the types of projects that an IFD could fund, lower the voter-approval requirement to 55 percent, allow IFDs to overlap with former RDA project areas, maintain the current prohibition on the diversion of property tax revenues from K-14 schools, and maintain the requirement that entities seeking to establish an IFD gain the approval of taxing entities that would contribute their property tax revenue to the IFD.

Based on feedback received since the Governor's January Budget Proposal, the May Revision proposes the following changes to the Governor's IFD proposal:

- Establishes Enhanced IFDs as a stand-alone provision in statute to allow cities and counties that have not resolved their outstanding RDA-related issues to participate in the current IFD program, which will continue in existence without modification;

- Clarifies that monies received by cities and counties pursuant to the Vehicle License Fee Swap may be securitized to fund Enhanced IFD projects;

- Clarifies that entities participating in an Enhanced IFD may seek voter approval, pursuant to existing statutory and constitutional requirements, to levy new fees or assessments to support projects identified in an Enhanced IFD project plan;

- Establishes affordable housing projects as projects of community-wide significance that an Enhanced IFD may fund;

- Clarifies that Enhanced IFDs must replace any low- or moderate-income housing that is removed as part of a project plan, as is required under current IFD law; and

- Specifies that any affordable housing created or replaced as part of an Enhanced IFD project plan must include long-term affordability covenants of 55 years for rental units and 45 years for owner-occupied units.

The Governor's proposal would not change existing law which requires that entities seeking to establish an IFD <u>obtain approval</u> of the county, city, or special districts that would contribute their property tax revenue to the IFD.

<u>Environment & Natural Resources</u>

Emergency Drought Response. On January 17, 2014, the Governor declared a state of emergency because of the increasingly severe drought conditions. Subsequently, the Legislature enacted and the Governor signed SB 103 (Chapter 2, Statues of 2014), urgency legislation which appropriated $687.4 million to: 1) assist drought-impacted communities; 2) provide emergency financial assistance for housing and food for workers directly impacted by the drought; 3) secure emergency drinking water supplies, and; 4) promote the more efficient capture and management of water. On

April 25, 2014, the Governor issued a continued proclamation of drought emergency to enable regulatory streamlining that will allow urgent actions to be expedited, including voluntary water transfers, emergency drinking water projects, crucial habitat protection measures, and the purchase of essential equipment for fire suppression and drought response.

The May Revision proposes an additional $142.0 million in drought-related expenditures to reflect higher costs in firefighting, emergency response, enforcement, monitoring, wildlife preservation, food assistance, and other critical activities. These adjustments include: 1) an increase of $66.0 million to expand firefighter surge capacity, retain seasonal firefighters beyond the budgeted fire season, and enhance air attack capabilities to suppress wildfires; 2) an increase of $18.1 million to comprehensively assess current surface and groundwater conditions, expedite water transfers, provide technical guidance to local water agencies, and provide additional public outreach through the Save Our Water Campaign; and 3) an increase of $4.3 million to continue enforcement of drought-related water rights and water curtailment actions.

The Department of Public Works' Water Resources Branch reports that the increased funding proposed for drought relief is in accord with the drought relief funding package enacted earlier this year by SB 103 (Chapter 2, statutes of 2014), which includes $549.0 million from the accelerated expenditure of voter-approved bonds (Proposition 84 and Proposition 1E) for the California Department of Water Resources (DWR) to provide infrastructure grants for local and regional projects. However, DPW notes that DWR's guidelines require the California Environmental Quality Act documents to be completed or near completion in order for projects to receive grant funding, making many projects with large regional benefits, such as the Water Resources Branch's large water conservation projects, ineligible for these accelerated grants.

Groundwater Management. The Governor's January Budget proposed $2.9 million General Fund for the California Department of Water Resources to collect and update groundwater data and information, as well as $1.9 million in State General Funds for the State Water Resources Control Board to act as a backstop when local or regional agencies are unable or unwilling to sustainably manage groundwater basins. The May Revision proposes an increase of $2.5 million in FY 2014-15 and $5.0 million annually for the next four years to support sustainable local groundwater management efforts. This would include funding to: 1) assess the status of groundwater basins; 2) track development and implementation of groundwater monitoring programs by local agencies; and 3) review and assess groundwater plans developed by local agencies. Funding would also be provided for local and regional technical assistance, including guidance and tools for local and regional agencies related to: 1) collecting and reporting local groundwater data; 2) preparing and updating groundwater management plans; 3) assessing the status of local groundwater basins; 4) establishing appropriate and effective groundwater governance; 5) preparing local groundwater basin water budgets to determine sustainable yield; and 6) forming governance structures for managing groundwater basins.

Transportation

The May Revision includes minor changes to the Governor's January Budget proposal related to transportation. These revisions are related to Caltrans Capital Outlay and staffing. The May Revision maintains the Governor's proposal for early repayment of $340.0 million of prior transportation loans to the State General Fund. This loan repayment includes $100.0 million to local agencies for preservation of local streets and roads. The Department of Public Works indicates that it expects to receive approximately $11.2 million of supplemental gas tax revenues to the County Road Fund from this early repayment. These funds would be used for the repair, maintenance and preservation of streets and roads in the unincorporated areas. This additional revenue would partially offset the expected loss in gas tax revenues attributed to downward adjustment of the new gas tax rate and lower consumption of gasoline projected in FY 2014-15.

Other May Revisions Proposals of County Interest

State Rainy Day Fund. The May Revision notes that the recent agreement between the Administration and the Legislature to seek voter approval of a constitutional amendment would strengthen the existing Rainy Day Fund in November 2014. If approved by the voters, this proposal would:

- Make deposits into the Rainy Day Fund whenever capital gains revenues increase to more than eight percent of State General Fund tax revenues. Additionally, one and a half (1.5) percent of annual State General Fund revenues will be set aside each year;

- Set the maximum size of the Rainy Day Fund at 10 percent of revenues;

- Require half of each year's deposits for the next 15 years to be used for supplemental payments to the "Wall of Debt" or other long-term liabilities, after which, at least half of each year's deposit would be saved, with the remainder used for supplemental debt payments or savings;

- Withdraw funds only for disasters or if spending remains at or below the highest level of spending from the past three years, with the maximum withdrawal amount in the first year of a recession limited to half of the fund's balance;

- Require the State to provide a multiyear budget forecast to help manage the State's long-term finances; and

- Create a Proposition 98 reserve, whereby spikes in funding would be saved for future years to smooth school spending and minimize future cuts. The reserve would make no changes to the Proposition 98 calculations and would not begin to operate until the existing maintenance factor is fully paid off.

The May Revision also proposes to set aside $1.6 billion in State General Fund revenues in FY 2014-15 as savings in the existing Rainy Day Fund.

Unemployment Insurance Program. The May Revision includes an increase of $271.2 million to the State Unemployment Insurance (UI) Program, reflecting a $215.1 million increase in UI benefit payments, a $13.1 million decrease in interest owed on the Federal UI loan, and a $67.6 million increase in resources to administer the UI Program. The May Revision proposes to increase the staff and overtime resources of the UI Program administration in order to streamline the unemployment benefits claims process and eliminate the State's current backlog of claims.

The May Revision retains the Governor's January Budget proposal to address the State's UI Fund deficit, estimated at $6.8 billion, as part of the State's larger long-term liabilities. As previously reported, a potential solution may include the creation of a reserve by 2021, UI program reforms, and financial structural changes that would be phased-in to lessen impact on employers.

FY 2014-15 May Revision
2011 Public Safety Realignment Estimates

(Dollars in Millions)

	2012-13	2012-13 Growth	2013-14	2013-14 Growth	2014-15	2014-15 Growth
Law Enforcement Services	$1,942.6		$2,124.3		$2,071.8	
Trial Court Security Subaccount	496.4	11.6	508.0	6.8	514.8	20.3
Enhancing Law Enforcement Activities Subaccount[1]	489.9		489.9		489.9	7.2
Community Corrections Subaccount[2]	842.9	86.7	998.9	50.8	934.1	151.8
District Attorney and Public Defender Subaccount[2]	14.6	5.8	17.1	3.4	15.8	10.1
Juvenile Justice Subaccount	98.8	11.6	110.4	6.8	117.2	20.3
Youthful Offender Block Grant Special Account	*(93.4)*	*(11.0)*	*(104.3)*	*(6.4)*	*(110.7)*	*(19.2)*
Juvenile Reentry Grant Special Account	*(5.5)*	*(0.6)*	*(6.1)*	*(0.4)*	*(6.5)*	*(1.1)*
Growth, Law Enforcement Services	115.7	115.7	67.8	67.8	209.7	209.7
Mental Health [3]	1,120.6	10.7	1,120.6	6.3	1,120.6	18.8
Support Services	2,604.9		2,829.3		2,964.4	
Protective Services Subaccount	1,640.4	176.2	1,837.0	77.8	1,930.2	186.6
Behavioral Health Subaccount[4]	964.5	27.9	992.3	41.7	1,034.2	170.7
Women and Children's Residential Treatment Services	*(5.1)*		*(5.1)*		*(5.1)*	
Growth Support Services	214.8	214.8	125.8	125.8	376.1	376.1
Account Total and Growth	$5,998.6		$6,267.8		$6,742.6	
Revenue						
1.0625% Sales Tax	5,516.6		5,829.1		6,245.4	
Motor Vehicle License Fee	482.0		438.8		497.1	
Revenue Total	$5,998.6		$6,267.9		$6,742.5	

This chart reflects estimates of the 2011 Realignment subaccount and growth allocations based on current revenue forecasts and in accordance with the formulas outlined in Chapter 40, Statutes of 2012 (SB 1020).

[1] Allocation is capped at $489.9 million.

[2] 2012-13 and 2013-14 growth is not added to subsequent fiscal year's subaccount base allocations.

[3] Growth does not add to base.

[4] The Early and Periodic Screening, Diagnosis, and Treatment and Drug Medi-Cal programs within the Behavioral Health Subaccount do not yet have a permanent base.