Various Departments and Issues

This section provides budget information for various departments, statewide expenditures, and regarding local governernments.

Redevelopment Agencies

Chapter 5, Statutes of 2011 (ABx1 26), eliminated redevelopment agencies (RDAs) and designated local organized successor agencies tasked with retiring the former RDAs' outstanding debts and other legal obligations.

The California Redevelopment Association and other entities challenged ABx1 26 before the California Supreme Court in the case *California Redevelopment Association et al. v. Matosantos et al*. In a ruling released on December 29, 2011, the Court upheld ABx1 26. In accordance with the Court's order, RDAs were dissolved on February 1, 2012. Revenues that would have been directed to the former RDAs are now provided to the successor agencies to pay the debts of the former RDAs, and to make the "pass-through" payments to which affected taxing entities were entitled before the RDAs were dissolved. The revenues remaining after debt service and pass-through payments are distributed as property taxes to cities, counties, school and community college districts, and special districts under existing law.

Elimination of RDAs will provide additional property tax funding for education, yielding a General Fund savings by reducing the state's funding obligation under Proposition 98. The May Revision reflects an estimate that approximately $818 million in additional

property tax revenue will be received by K-14 schools in 2011-12 as a result of ABx1 26, which is down from the $1.05 billion that was estimated in the Governor's Budget. The May Revision estimates $991 million in additional property tax revenue will be received by K-14 schools in 2012-13, which is down from the $1.08 billion estimated in the Governor's Budget. The revised estimates are based on a sample of payments reviewed by the Department of Finance and updated property tax information.

Beginning in 2012-13, the May Revision proposes that K-14 schools be allowed to retain 1 percent of the property tax annually received pursuant to ABx1 26 above the Proposition 98 guarantee. This equates to approximately $10 million in 2012-13.

ABx1 26 requires that former RDA assets not otherwise encumbered or reserved for legally authorized purposes be distributed to the affected taxing entities in the same manner as property tax revenues but provides no deadlines for distribution.

Proposal to Balance the Budget:

- The May Revision proposes legislation that creates a framework for successor agencies to transfer cash assets not obligated or reserved for legally authorized purposes to cities, counties, special districts, and K-14 schools in 2012-13. These funds will be allocated consistent with the State Constitution. The May Revision estimates that $2 billion will flow to K-14 schools and offset the state's Proposition 98 General Fund obligation. The May Revision estimates this amount will flow to schools over two years, with $1.4 billion received in 2012-13 and $600 million received in 2013-14. The May Revision proposes that K-14 schools be authorized to retain an additional 5 percent of the amount received (or $105 million) above the Proposition 98 guarantee for discretionary purposes.

Department of Food and Agriculture

The California Department of Food and Agriculture (CDFA) protects the safety and quality of the food supply and promotes California's agricultural industry. The May Revision includes approximately $62.5 million General Fund for a number of programs, such as agricultural plant and animal health, pest prevention, and food safety services.

Proposal to Balance the Budget:

- *Reduce General Fund Support*—A permanent, unallocated reduction of $2.5 million. This builds on the $31 million General Fund reduction already adopted, which

primarily affects various programs relating to border control stations, pest prevention, and food safety activities. The CDFA will collaborate with its stakeholders to prioritize its resources in determining which programs will be reduced to achieve the additional $2.5 million savings.

Department of Justice

As chief law officer of the state, the Attorney General has the responsibility to see that the laws of California are uniformly and adequately enforced. This responsibility is fulfilled through the diverse programs of the Department of Justice (DOJ).

Proposals to Balance the Budget:

- *National Mortgage Settlement Proceeds*—The National Mortgage Settlement stipulates that California will receive $410.6 million in discretionary funds for administrative costs and to support programs that benefit California homeowners affected by the mortgage and foreclosure crisis and other consumers.
  The May Revision proposes trailer bill language to support the following programs:
  - $41.1 million paid as a civil penalty into the Unfair Competition Law Fund to offset the costs of various DOJ programs.
  - $44.9 million to support the DOJ's Public Rights and Law Enforcement programs relating to public protection and consumer fraud enforcement and litigation.
  - $8.2 million for the Department of Fair Employment and Housing's ongoing efforts to prevent and eliminate unlawful discrimination in housing and the prosecution of violations under the Fair Employment and Housing Act.
  - $198 million to offset General Fund costs for housing bond debt service for those programs funded with Proposition 46 and Proposition 1C housing bonds that assist homeowners.
  - The remaining $118.4 million will be reserved for similar uses in 2013-14.
- *DNA Identification Fund*—A decrease of $10 million General Fund through the elimination of the General Fund transfer to the DNA Identification Fund. The May Revision proposes to replace this funding by increasing the penalty assessment by $1 for every $10 of base fine. Revenues to the DNA Identification Fund have not come in as projected; therefore, these changes are necessary to

ensure the DNA and regional forensic laboratories are able to continue performing critical public safety work.

Employment Development Department

The Employment Development Department (EDD) administers the Unemployment Insurance (UI), Disability Insurance, and Paid Family Leave programs and collects payroll taxes from employers, including the Personal Income Tax. The EDD connects job seekers with employers through a variety of job services programs and at one-stop service centers, and provides employment training programs through the Employment Training Panel and the Workforce Investment Act of 1998. To support the EDD, the Budget includes $18.4 billion ($334.3 million General Fund) and 9,953.5 positions.

Proposal to Balance the Budget:

- *Unemployment Interest Payment*—The Governor's Budget includes a loan of $417 million from the Unemployment Compensation Disability Fund (DI Fund) to the General Fund to pay for the UI interest to the federal government. Since the Governor's Budget, the federal government lowered the interest rate on funds borrowed, resulting in a decrease of $104.4 million in 2012-13 to reflect a reduction to the loan from the DI Fund to the General Fund.

Other Significant Adjustments:

- *Unemployment Insurance Benefits*—An Unemployment Fund increase of $895.7 million in fiscal year 2011-12 and an increase of $4.3 billion in 2012-13 for UI benefit payments, primarily because of the enactment of additional federal benefit extensions. With these adjustments, total benefit payments will be $16.4 billion in 2011-12 and $11.1 billion in anticipated benefits for 2012-13.
- *Unemployment Insurance Modernization Project*—An increase of $16.9 million ($11.6 million Contingent Fund and $5.3 million federal funds) and a redirection of $6.3 million UI Administration Fund in 2012-13 to provide continued support for the Unemployment Insurance Modernization Project.
- *Disability Insurance Automation Project*—An increase of $33.8 million Unemployment Compensation Disability Fund in 2012-13 to provide continued support for the Disability Insurance Automation Project.

State Appropriations Limit Calculation

2012-13 State Appropriations Limit Calculation—Pursuant to Article XIIIB of the California Constitution, the 2012-13 State Appropriations Limit (SAL) is estimated to be $84.452 billion. The revised limit is the result of applying the growth factor of 4.32 percent. The revised 2012-13 limit is $33 million below the $84.485 billion estimated in January. This decrease is due to changes in the following factors and shifts in financial responsibility

- Per Capita Personal Income
  - January Percentage Growth: 3.69%
  - May Revision Percentage Growth: 3.77%
- State Civilian Population
  - January Percentage Growth: 0.84%
  - May Revision Percentage Growth: 0.68%
- K-14 Average Daily Attendance
  - January Percentage Growth: 0.29%
  - May Revision Percentage Growth: 0.29%

For SAL purposes, per capita personal income is defined as calendar fourth quarter California personal income, as estimated by the US Bureau of Economic Analysis (BEA), divided by California civilian population, estimated by the California Department of Finance. Since BEA does not release its personal income estimate until April, the Department of Finance uses its own estimate for the Governor's Budget in January. The May Revision reflects the BEA's estimate of California personal income.

Debt Service

Budget Year Debt Service—General Fund debt service expenditures will decrease by $162.5 million, to a total of $5.2 billion. This is comprised of a decrease of $158 million for General Obligation debt service ($4.5 billion total) and a decrease of $4.5 million for lease revenue bonds ($741.1 million total). The decrease in General Fund costs reflects the proposed solution to use $92.1 million from a recent mortgage settlement

to offset targeted housing debt service costs and $65.9 million in savings related to workload adjustments. The workload savings can be mainly attributed to a smaller spring 2012 bond sale ($1.468 billion lower than projected), a slightly lower projected estimate for the fall 2012 bond sale, and savings related to refinancing previously issued bonds with lower-cost bonds. The decrease in the size of the spring 2012 bond sale was accomplished by using existing bond cash more efficiently. In an effort to minimize unnecessary costs, the Department of Finance will continue to work with departments to better manage bond cash and ensure additional bonds are issued only when necessary. Progress has already been made, as the balance of unspent bond proceeds available from previous bond sales has been reduced to approximately $7.3 billion, as of April 30, 2012, as compared to $9.5 billion, as of December 2011.

Current Year Debt Service — General Fund debt service expenditures will decrease by $172.8 million, for a total of $5.2 billion. This is comprised of a decrease of $159.2 million for General Obligation debt service ($4.5 billion total) and a decrease of $13.6 million for lease revenue bonds ($670.9 million total). The decrease in General Fund costs reflects the proposed solution to use $105.9 million from the mortgage settlement to offset targeted housing debt service costs (noted above) and $53.3 million in net savings related to various workload adjustments, including the use of $16.3 million in excess bond proceeds from various closed bond accounts to offset debt service.