

Summary of Governor's Budget – January 9, 2014

<http://www.ebudget.ca.gov/2014-15/pdf/BudgetSummary/FullBudgetSummary.pdf> (Governor's Budget Summary)

<http://www.ebudget.ca.gov/2014-15/pdf/BudgetSummary/HigherEducation.pdf> (Higher Education section)

State

1. The Governor's Budget proposes a \$106.8 billion spending plan (projected 8.5 percent spending growth), with a proposed \$2.3 billion reserve at the end of 2014-15. The proposed budget include aggressively retiring the state's "wall of debt", strengthen the rainy day fund (reserve), increase K-14 program spending, and increase programmatic investments concentrated in health, welfare, deferred maintenance, and higher education programs. Under current projections, the budget is expected to remain balanced in future years without the year-to-year gaps between spending and revenues.

Other highlights of the Governor's budget:

- Rainy Day Fund/Reserve: Constitution amendment to strengthen the rainy day fund (reserve) which calls for a reserve fund derived from capital gains and personal income tax – the largest source of the general fund revenues. In addition, a Prop 98 reserve fund would also be established to reduce the volatility of Prop 98 funding (K-12 funding).
 - Pay-Down Wall of Debt: The proposed budget dedicates \$11 billion to reduce the Wall of Debt in 2014-15 and maybe eliminated by 2017-18.
 - Education: Increase funding for K-12, \$4.5 billion for the Local Control Funding Formula; Community Colleges funding for enrollment growth, \$155 million, and \$200 million for student support; provide base augmentations to CSU and UC (\$142.2 million each); create \$50 million grant program for universities and community colleges to change service delivery; shift debt-service payment into CSU's budget; funds implementation of middle-class scholarship programs; increase in Cal Grant Funding.
 - Infrastructure: Deliver to the legislature a 5-year infrastructure plan; provide \$815 million in one-time funds for deferred maintenance; authorize \$500 million in lease-revenue bonds for jail construction.
 - Cap and Trade Spending Plan: Allocate \$850 million in cap-and-trade auction revenues to various programs; including \$250 million for construction of high-speed rail systems; and \$200 million for low-emission vehicle program.
 - Water: Provide funding for various water related programs.
 - Assumes that those most state employees will receive at least a 2% pay increase in 2014-15.
2. The Governor's tax initiative (Proposition 30) was premised on the need to reinvest in education. The combination of the capital gains surge and temporary Proposition 30 revenues continue to allow the Governor's budget to reinvest in, rather than cuts, education funding.
 - K-12 funding levels continue to increase in 2014-15, by \$6.3 billion, to \$61.6 billion.
 - Higher Education funding also continue to rise. The Budget provides five percent funding growth to the CSU and UC systems, and the Community College system will also receive increase funding for multiple purposes. The Budget provides stable funding growth over multiple years and should eliminate the need for further tuition increases.

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3. Fiscal Challenges: Despite the recent improvement in our budget situation, there remain a number of major risks and pressures that threaten the state's continuing fiscal stability. Thus, risks and uncertainties continue to remain with revenues, debt obligations and long-term liabilities.
 - Threat of Recession: The Budget assumes the continued modest economic expansion of the past couple of years. Yet, economic expansions do not last forever. While there are few signs of immediate contraction, another recession is inevitable. In addition, the Federal government still faces short and long-term fiscal issues, including the need to raise the country's debt ceiling in February.
 - Unfunded Liabilities: California will still need to address other long-term cost pressures, debts, and liabilities. Currently retirement related unfunded retirement liabilities total \$218 billion.
 - Capital Gains: The state has benefited from a modestly improved economy over the last few years – with markets performing better than expected, capital gain revenues are on upward trend, above normal years. However, capital gains are extremely volatile – history has shown spikes of upward and downward.
 - Proposition 30, Governor's Tax Initiative: The state must also develop a plan to ensure that the budget will remain balanced after the temporary sales (quarter-cent) tax expire at the end of 2016, and personal income tax rates on the state's wealthiest residents expire at the end of 2018.
 - Other court related decisions contribute to the risk and uncertainty of the budget such as prison population cap, redevelopment agencies, and health care costs.

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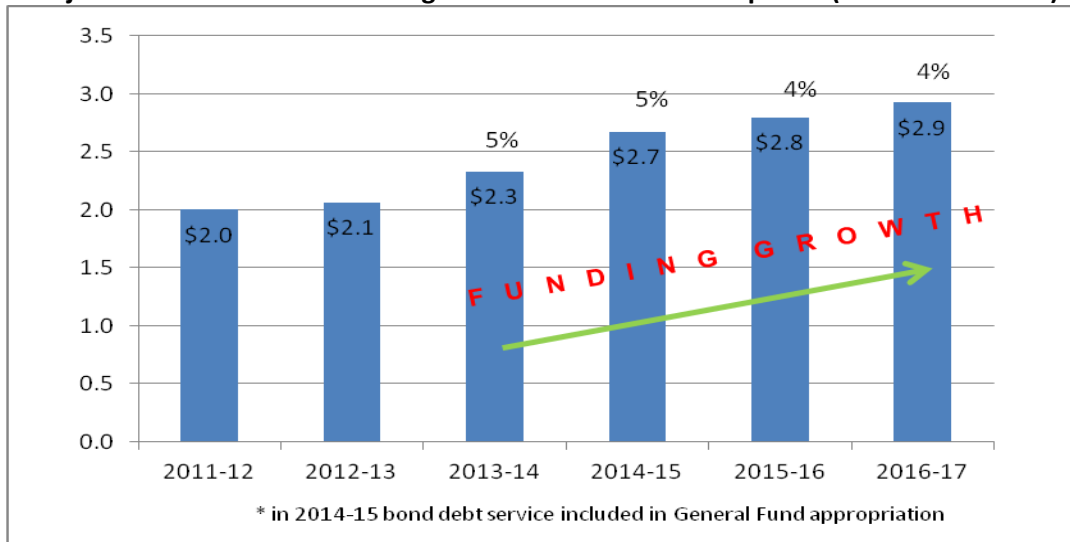
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California State University

1. CSU General Fund Budget increases from \$2.35 billion to \$2.70 billion or \$350.0 million for 2014-15.
 - The CSU will receive \$142.2 million as part of the second year of the Governor's long-term plan. Funding is consistent with the 2012 budget act with the passage of Proposition 30 and for not increasing tuition fees.

Projected CSU General Fund Budget with Governor's assumptions (Dollars in Billions)



- Currently, the state separately funds general obligation and lease revenue debt service for CSU capital improvement projects. The Governor's budget proposes to fold/incorporate general fund obligation and lease revenue bond debt service funding of \$296.7 million to its base budget. Any new CSU capital expenditures will be subject to approval to ensure the funds are used for academic facilities to address seismic and life safety needs, enrollment growth, modernization, or deferred maintenance. The CSU will also have to consider these expenditures in budget decision making, since there will be a limit on capital expenditures.
2. Additional budget proposals/ Awards for Innovation
 - The Administration proposes to use \$50 million in one-time General Fund for awards for Innovation in Higher Education Programs. Awards will be selected from UC, CSU or a community college. Incentive awards will recognize innovation that: (1) significantly increase number of individuals in the state who earn bachelor's degrees, (2) allow students to complete bachelor's degree in four years, (3) ease transfer through the state's education system, including by recognizing learning that has occurred across the state's education segments or elsewhere, (4) can have a statewide impact if expanded, (5) is likely to be implemented effectively.

The Governor proposes CSU and UC governing boards to adopt three-year sustainability plans by November 30, 2014. Each segment is expected to project expenditures for three years, from 2015-16 to 2017-18 and describe changes needed to ensure expenditures do not exceed available resources (based on General Fund and tuition assumptions provided by Dept of Finance). Each segment will also be required to project resident and non-resident enrollment for each of the three years and set performance targets for outcome measures approved in the 2013-14 Governor's Budget.