

# California State Budget 2013-14



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## INTRODUCTION

The 2013 Budget Act reflects California's most stable fiscal footing in well over a decade. With the tough spending cuts enacted over the past two years and new temporary revenues provided by the passage of Proposition 30, the state's budget is projected to remain balanced for the foreseeable future. However, substantial risks, uncertainties, and liabilities remain.

The Budget overhauls the state's system of K-12 education finance—creating a more just allocation of resources and providing expanded flexibility. It also reinvests in the state's universities and increases their affordability. The Budget implements an affordable and sustainable path for the expansion of coverage under federal health care reform. The Budget also makes targeted investments—dental care, mental health, and middle class scholarships—while maintaining structural balance into the future. Overall, it also preserves the state's safety net, encourages job growth, and pays down debt.

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## REINVESTING IN EDUCATION

With the passage of Proposition 30, the Budget reinvests in, rather than cuts, education funding. From 2011-12 through 2016-17, the Proposition 98 minimum funding guarantee will increase from \$47.2 billion to \$67.1 billion, an increase of about \$20 billion.

## INTRODUCTION

For K-12 schools, funding levels will increase by \$1,045 per student through 2013-14 and by \$2,835 per student through 2016-17.

The Budget begins to correct historical inequities in school district funding by adopting a new allocation formula and dedicating \$2.1 billion in new funding beginning in 2013-14. By committing new funding to districts serving English language learners, students from low-income families, and foster youth, the formula ensures that the students most in need of help have an equal opportunity for a quality education.

This new funding will be coupled with strong accountability. It will allow communities to govern their schools locally—but provide authority to county offices of education and the state to assist if districts fail to improve. Districts will be required to improve outcomes for all students, and specifically for English learners, students from low-income families, and foster youth. Independent audits and county and state oversight will make sure this occurs.

As shown in Figure INT-01, the 2013 Budget increases funding for higher education by between \$1,649 and \$2,491 per student through 2016-17. In addition, a new financial aid program for middle class families will begin next year.

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Figure INT-01  
**Budget Increases Funding Per Student**

	<b>2011-12</b>	<b>2016-17</b>	<b>Funding Increase</b>
K-12 Education	\$7,175	\$10,010	\$2,835
Community Colleges	\$4,893	\$6,542	\$1,649
California State University	\$5,860	\$7,803	\$1,943
University of California	\$10,630	\$13,121	\$2,491

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## EXPANDING HEALTH CARE

Medi-Cal currently serves more than one out of every five Californians. Federal health care reform will significantly expand this coverage. The Budget moves forward with a state-based approach to the optional expansion of care allowed under federal law. This expansion will significantly increase health care coverage, improve access to mental health services, expand substance use disorder treatment, and bring in new federal dollars. The law, however, also comes with costs, risks, and uncertainties.

The state currently dedicates about \$1.5 billion annually to counties for health care, primarily for services for indigent adults—many of the same people who will move to Medi-Cal under the new law. Over time, as the state takes on more responsibility for health care, funding previously provided to counties for indigent health will be shifted to fund human services programs. To ensure adequate funding remains at the county level for safety net services, dollars will be redirected based on a county-by-county formula.

## A BALANCED BUDGET PLAN, BUT RISKS REMAIN

The Budget represents a multiyear plan that is balanced, maintains a \$1.1 billion reserve, and pays down budgetary debt. The state's recent budget challenges have been exacerbated by the Wall of Debt—an unprecedented level of debts, deferrals, and budgetary obligations accumulated over the prior decade. The Budget dedicates billions to repay this budgetary borrowing. Moving forward, continuing to pay down the Wall of Debt is key to increasing the state's fiscal capacity. In 2011, the level of outstanding budgetary borrowing totaled \$35 billion. As shown in Figure INT-02, the debt will be reduced to less than \$27 billion this year. Under the Budget's projections, it will be reduced to below \$5 billion by the end of 2016-17.

Figure INT-02  
**Budget Plan Would Reduce Wall of Debt to Less than \$5 Billion**  
 (Dollars in Billions)

	End of 2010-11 <sup>1/</sup>	End of 2012-13 <sup>2/</sup>	End of 2016-17 <sup>2/</sup>
Deferred payments to schools and community colleges	\$10.4	\$6.4	\$0.0
Economic Recovery Bonds	7.1	5.2	0.0
Loans from Special Funds	5.1	4.6	0.5
Unpaid costs to local governments, schools and community colleges for state mandates	4.3	4.9	3.1
Underfunding of Proposition 98	3.0	2.4	0.0
Borrowing from local government (Proposition 1A)	1.9	0.0	0.0
Deferred Medi-Cal Costs	1.2	2.0	1.1
Deferral of state payroll costs from June to July	0.8	0.7	0.0
Deferred payments to CalPERS	0.5	0.4	0.0
Borrowing from transportation funds (Proposition 42)	0.4	0.3	0.0
<b>Total</b>	<b>\$34.7</b>	<b>\$26.9</b>	<b>\$4.7</b>

<sup>1/</sup> As of 2011-12 May Revision

<sup>2/</sup> As of 2013 Budget Act

## INTRODUCTION

The budget remains balanced only by a narrow margin. The pace of the economic and revenue recovery is still uncertain, and California needs to address other liabilities that have been created over many decades. Eliminating the liabilities will take many years and constrain the state's capacity to make other investments.

Only by continuing to exercise fiscal discipline can the state avoid repeating the boom and bust cycles of the last decade.