

Summary of Governor's May Revision for 2013-14 and *LAO Analysis of May Revision*

Statewide

1. Governor's May Revised Budget Plan:

- \$96.4 billion expenditure plan (\$1.3 billion lower than the Governor's January Proposal)
- \$1.1 billion in reserve (slightly higher than the January Proposal)
- Personal Income Tax collections increased in 2012-13 partially due to taxpayer's shifting income from 2013 to 2012 to minimize federal capital gains
- Due to lower wage forecasts of sales, use and corporation tax revenue estimates, overall revenue estimates are lowered by \$1.3 billion to \$97.2 billion in 2013-14

LAO Analysis: The LAO projects \$3.2 billion higher than the Governor's projections for 2011-12, 2012-13, and 2013-14 combined, primarily due to increase in capital gains-related tax revenues.

2. Due to federal actions the short-term economic outlook has been revised downward:

- The 2% payroll tax reduction was not assumed in the governor's Budget economic forecast
- The forecast of personal income growth in 2013 has been cut in half (4.3% to 2.2%)

LAO Analysis: The LAO believes that while the state's fiscal condition has improved, the Legislature should be cautious. Legislatures should begin to address building reserves in times of healthy revenue growth, prioritize spending, and pay off debts (address budgetary and retirement liabilities).

3. Changes in Proposition 98 funding for community colleges and K-12:

- Additional funding of about \$3.0 billion in 2012-13, rises to \$56.5 billion
- Decreases funding of about \$1.0 billion in 2013-14, to about \$55.3 billion

LAO Analysis: The LAO states that current maintenance factor policy means that although education sees a benefit from the increase in tax revenue the rest of the budget sees very little benefit. LAO suggests an alternative interpretation of the maintenance factor policy. This revised interpretation would give the legislature the ability to pay down the wall of debt, fund retirement liabilities and create a larger reserve.

4. Governor's May Revision Proposals:

- In recent years, the May Revision typically included numerous proposals to mitigate the state's significant budget problems. This year the May Revision contains very few such proposals.

LAO Analysis: With the improved fiscal outlook this is a perfect time to begin addressing the wall of debt and retirement liabilities. Furthermore, given the various risks to the economic outlook and state's budgetary volatility, creating a larger budget reserve is a necessary priority.

California State University

1. The Governors May Revision continues to propose an additional \$125.1 million in state funding for the California State University and also maintains reinstating \$125 million that was cut from last year's budget.
2. The Governor's May Revision re-emphasizes the multi-year stable funding plan through 2016-17
3. The Governor continues to include freezing tuition levels from 2013-14 through 2016-17

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4. Student success remains a major priority in the Governors May Revision including:
 - Improving graduation rates
 - Increasing the number of transfer students from community colleges
 - Increasing the number of degrees completed, particularly by low-income students
 - Reducing the cost per degree
5. The proposed cap on the number of unit's student can take while receiving a state General Fund subsidy **has been removed.**

For More Information:

Summary of Governor's Budget and May Revised for 2013-14

<http://www.ebudget.ca.gov/>

LAO Analysis of May Revision

<http://www.lao.ca.gov/laoapp/main.aspx>

Summary of the Governor's January Proposal for 2013-14 for the CSU (January 10, 2013)

1. **Increase State Support for Higher Education for the next four years** - *5% funding increase for the first two fiscal years and 4% in the latter two fiscal years for CSU & UC*
The Governor expects each higher education segment to achieve certain performance objectives like time-to-degree, continue to provide high-quality instruction while maintaining a lower cost of instruction, provide more online education courses, improve transfer rates, and improve graduation rates.
2. **No Tuition and Fee Increases for the next four years** - *CSU & UC expected to maintain current tuition and fee levels through 2016-17*
3. **No Enrollment Targets** - *CSU & UC will have discretion in determining how many students to serve*
4. **Cap the Number of Units the State subsidizes** - *Students taking units in excess of the cap would be required to pay the full cost of instruction*
5. **Fund On-Line courses** - *Provide \$10M each to CSU & UC and \$17M to CCC to expand the number of online courses*
6. **Retirement Costs** - *Freeze state appropriation funding for retirement costs based on 2012-13 payroll costs, segments to bear any additional retirement costs above 2012-13 levels*
7. **Incorporate General Obligation & Debt Service Payments to University Budgets** - *Provide one-time augmentation; CSU & UC will be responsible for future general obligation & debt service payments*
8. **Health Care Costs** - *Provide CSU statutory authority to negotiate health care benefit costs (80/20 model)*