



HIGHLIGHTS OF GOVERNOR'S PROPOSED 2015-2016 BUDGET

JANUARY 9, 2015

Dr. Shirley Weber

CHAIR, ASSEMBLY BUDGET COMMITTEE

TABLE OF CONTENTS

Overview	2
K-12 Education.....	3
Child Care	5
Higher Education.....	6
Work Force Development	9
Transportation	10
Human Services.....	11
Health Care Services	14
Natural Resources and Environmental Protection	17
Public Safety	20
General Government.....	23
Local Government.....	26
Infrastructure	29
Revenues.....	30
Summary of Charts.....	32

OVERVIEW

On January 9th the Governor released his proposed budget for 2015-16. As expected, the budget proposal reflects a brighter revenue picture, which has yielded increased General Fund revenue and an operating surplus for next year.

Overall the Governor's budget forecasts \$114.8 billion in available General Fund resources; this includes a \$1.4 billion balance projected at the end of 2014-15, and \$113.4 billion in budget year revenues.

The Governor proposes \$113.3 billion in General Fund expenditures; this includes \$66.3 billion in non-Prop 98 expenditures and \$47 billion in Prop 98 expenditures.

This budget reflects the success of the first year of the implementation Proposition 2, the new Rainy Day fund measure that was first proposed by the Assembly last year. The Governor projects the Rainy Day Fund to grow from 1.6 billion to \$2.8 billion, an increase of \$1.2 billion. In addition, pursuant to the provisions of Proposition 2, \$1.2 billion of State debts are repaid.

Under the Governor's proposed budget, there are \$3.3 billion in total reserves, this includes \$534 million in the regular reserve, and \$2.8 billion in the Budget Stabilization Account (the existing, Proposition 2 Rainy Day Fund).

The Governor's budget proposals, as well the Assembly proposals and others, will be fully vetted through the Budget Subcommittee process, which will commence with the Committee's first hearing on January 15th and continue with Subcommittee hearings next month.

We hope this document helps provide an initial understanding of the Governor's proposed budget.

K-12 EDUCATION

K-12 Education

- Provides an overall Proposition 98 level, including state and local property tax revenue, of \$65.7 billion for the 2015-16 Fiscal Year. Ongoing Proposition 98 K-12 per-pupil expenditures are projected to be \$9,667 in 2015-16, an increase of \$306 over 2014-15. Proposition 98 funding is determined by the "Test 2" formula for 2015-16.

Specific K-12 Education adjustments:

- Eliminates the remaining \$992 million in payment deferrals to K-14 schools.
- Provides an additional \$4 billion for the third year of implementing the Local Control Funding Formula (LCFF), in order to help schools reach their target funding level.
- Dedicates \$500 million in Proposition 98 General Fund for the Adult Education Block Grant. Proposes funding to be allocated directly to K-12 school districts in 2015-16, however, in future years funding will be allocated through consortiums based on regional needs.
- Includes \$250 million in one-time Proposition 98 funding in each of the next three years for a transitional Career Technical Education Incentive Grant Program for school districts, County Offices of Education and charter schools.
- Provides recommendations for designing a new school facilities program. These recommendations include:
 - Expand local funding capacity by increasing the assessed valuation caps for specific bond measures and total caps on local bonded indebtedness.
 - Restructure the current developer fees by creating one uniform developer fee level for all districts, subject to local negotiations.
 - Provide more flexibility around the use of funds put aside for routine maintenance.
 - Target state funding for those districts that are unable to issue local bonds to meet student needs or pressing health and safety needs. State funds would also establish a sliding scale to determine the state's share of costs.
 - Increase funding for the Charter School Facility Grant Program to assist charter schools in paying for rent and lease expenditures.

- Dedicates \$1.1 billion in one-time Proposition 98 funding for school districts, charter schools and County Offices of Education to further implement the Common Core State Standards, while also counting these funds to offset any mandate reimbursement claims for these local educational agencies.
- Provides \$100 million in one-time Proposition 98 funding to assist schools that lack sufficient internet connectivity and technology infrastructure.

Other Proposals and Adjustments:

- Dedicates a total of \$10 million in non-Proposition 98 General Fund over a two year period in order to improve the quality and effectiveness of teacher preparation programs within the Commission on Teacher Credentialing.
- Allocates \$368 million in energy efficiency projects through funds available from Proposition 39. Provides \$320.1 million to K-12 schools, and \$39.6 million to community colleges for energy efficiency project grants. Provides \$5.3 million to the Conservation Corps for continued technical assistance to K-12 schools, and \$3 million to the Workforce Investment Board for job training.
- Dedicates \$273.4 million in one-time Proposition 98 funding for the Emergency Repair Program, eliminating the state's remaining obligation under the *Williams* settlement.
- Provides \$71.1 million for a 1.58 percent cost-of-living adjustment for categorical programs outside the Local Control Funding Formula.
- Includes \$14.8 million in Proposition 98 funding and \$18.8 million in non-Proposition 98 funding to support the 4,000 additional State Preschool slots established in the 2014-15 Budget.

CHILD CARE

- Provides an increase of \$33.5 million General Fund to reflect the full-year costs of updating the Regional Market Rate as outlined in the 2014 Budget.
- Supports a 1.58% Cost of Living Adjustment, or \$9.2 million General Fund, to capped child care programs.
- Decreases support for CalWORKS Stage 2 child care by \$11.6 million General Fund to reflect decreased caseload. Total base cost for Stage 2 is \$348.6 million.
- Increases support for CalWORKS Stage 3 child care by \$38.6 million General Fund to reflect an increased caseload. Total base cost for Stage 3 is \$263.5 million.
- Decreases federal funding in 2015-16 by \$14.9 million to reflect a reduction of available carryover funding. Total federal funding for child care is \$565.2 million.

HIGHER EDUCATION

All Segments

- Provides funding increases for the University of California, California State University and community colleges with the expectation that all three segments meet these administration goals:
 - Maintain affordability by holding tuition and fees flat at 2011-12 levels;
 - Decrease the time it takes students to graduate;
 - Increase the number of students who complete programs;
 - Improve the transfer of community college students to four-year colleges and universities.

University of California

- Provides a 4% increase in state support for the UC's base budget, or \$119.5 million General Fund. This increase will only be provided if the University does not raise tuition in 2015-16 and does not increase out-of-state and foreign enrollment.
- Creates a committee, staffed by the Department of Finance and the UC Office of the President, to reduce the University's cost structure. The committee will specifically look at University cost drivers, undergraduate access, improve time-to-degree and degree completion, review the role of research, and explore the use of technology in education.

California State University

- Provides a 4% increase in state support for the CSU's base budget, or \$119.5 million General Fund. This increase will only be provided if the University does not raise tuition in 2015-16 and does not increase out-of-state and foreign enrollment.
- Provides \$25 million General Fund for CSU campuses that implement programs that lead to more timely degree completion for students.
- Shifts funding for the Center for California Studies into CSU's main General Fund appropriation.
- Transfers property related to the recently closed Lanterman Developmental Center to California State Polytechnic University, Pomona. The property will be used for academic programs but CSU stipulates that state funds will not be used to operate, maintain or develop this property.

California Community Colleges

- Increases support for student success programs by \$200 million Proposition 98 General Fund, including \$100 million to increase orientation, assessment, placement, counseling and other planning services, and \$100 million to close achievement gaps and access between underrepresented groups and their peers as identified in local student equity plans.
- Provides \$125 million Proposition 98 General Fund to increase base allocation funding in recognition of increased operating expenses, retirement benefit costs, professional development costs, efforts to convert part time to full-time faculty, and other general expenses.
- Calls for 2% enrollment growth and provides \$106.9 million Proposition 98 General Fund to support growth, and notes that this growth funding shall be distributed based on a new growth formula described in 2014 budget legislation.
- Provides \$92.4 million Proposition 98 General fund to support a 1.58% Cost of Living Adjustment.
- Provides \$500 million Proposition 98 General Fund to implement the Adult Education Block Grant.
- Expands apprenticeship programs and provides \$29.1 million for the programs, including \$15 million to create new apprenticeship projects that address emerging industries and unmet labor market demand.
- Supports the Career Technical Education Pathways Program by providing \$48 million in one-time Proposition 98 General Fund.
- Provides \$49 million Proposition 98 General fund to reflect increased rates for enhanced non-credit courses, as outlined in 2014 budget legislation.
- Provides \$353.3 million Proposition 98 General Fund to continue paying down outstanding mandate claims. The funding is intended to help colleges reduce debt, address deferred maintenance and other instructional equipment needs, and other one-time costs.
- Eliminates deferrals, consistent with the revenue trigger included in the 2014 Budget, by providing \$94.5 million Proposition 98 General Fund.

California Student Aid Commission

- Reflects increased participation in the Cal Grant program by providing an increase of \$68.9 million General Fund in 2014-15 and \$198.2 million General Fund in 2015-16. Of

this, \$48.3 million in 2014-15 and \$67 million in 2015-16 are attributable to the California Dream Act.

- Increases support for the Middle Class Scholarship program by \$45 million, as called for in 2013 budget legislation.
- Provides \$15 million General Fund to continue student outreach programs that were federally funded. Federal funding for both the Cal-SOAP and Cash for College programs is no longer available.
- Provides \$840,000 General Fund to modernize the Commission's information technology system.
- Increases the use of federal Temporary Assistance for Needy Families for the Cal Grant program by \$91 million, bringing the total TANF spending on Cal Grants to \$286.3 million in 2015-16.

WORKFORCE DEVELOPMENT

- Includes \$390.8 million in federal funding for the Workforce Investment Act. Of this, \$356.3 million is allocated to the 49 local workforce investment boards and \$34.5 million is for program oversight and state discretionary programs that address regional workforce needs and employment barriers for special programs. Discretionary funding is expected to increase and will be detailed in the May Revise.
- Other workforce development programs are detailed in other areas of this document and include:
 - \$500 million Proposition 98 General Fund for the Adult Education Block Grant;
 - \$250 million Proposition 98 General Fund for K-12 Career Technical Education;
 - \$29.1 million increase in Proposition 98 General Fund for K-12 and community college apprenticeship programs;
 - \$49 million increase in Proposition 98 General Fund to reflect increased rates for enhanced non credit courses at community colleges.

TRANSPORTATION

- Contains references to existing stakeholder processes to identify funding sources to address existing funding gaps in road maintenance and other transportation needs. There is no budget proposal associated with this discussion.
- Implements SB 1077 (DeSaulnier) the Road Usage Charge Pilot Program with \$9.4 million in State Highway Account Funds. This pilot is to consider the feasibility of a mileage-based revenue collections system and will result in a report due in 2018.
- Proposes trailer bill language to allow the California Transportation Commission to convert existing high-occupancy vehicle lanes to toll lanes.

Caltrans

- Includes \$6.6 million State Highway Account Funds and 64 positions for additional transportation management systems.
- Proposes \$12 million of State Highway Account funds for new heavy duty equipment as part of an initiative of fleet greening of Caltrans vehicles.
- Proposes legislation to allow the State to "streamline" the relinquishment process, which transfers State roads to local jurisdictions.
- Includes \$3.4 million State Highway Account and 25 positions for Project Initiation Documents to support an addition \$800 million in various state and local transportation projects.
- Includes reference to a risk-based asset management system that will be utilized in the financial plan for maintenance and the 2016 SHOPP.
- References existing initiatives related to drought management, pavement management, and advance environmental mitigation.

HUMAN SERVICES

Department of Social Services

In-Home Supportive Services

- Restores the 7 percent across-the-board reduction in IHSS authorized hours of service, effective July 1, 2015, funded with resources generated through the Governor's Managed Care Organization (MCO) tax proposal. The cost to restore the 7 percent is estimated to be \$483.1 million in 2015-16. For additional information on the MCO tax, refer to the Department of Health Care Services (DHCS) section of this document.
- Funds the costs of the overtime changes in the IHSS program adopted as part of the 2014 Budget, pursuant to the revised federal Fair Labor Standards Act (FLSA) regulations. The costs associated with these changes are estimated at \$403.5 million (\$182.6 million General Fund) in 2014-15 and \$707.6 million (\$314.3 million General Fund) annually thereafter. In late December 2014, a federal district court ruled that a portion of the regulations exceeded the Department of Labor's authority and delayed the implementation of the regulations. Under state law, the state's implementation of overtime is also delayed pending further action by the federal court. This leaves the application of the new overtime state rules uncertain for the current year as of this writing.
- States the administration's commitment to the Coordinated Care Initiative (CCI), which involves the IHSS program, and states that IHSS will be incorporated into the managed care delivery system, along with a range of long-term services and supports. The Governor's Budget also raises questions about the cost-effectiveness of the CCI, covered further in the DHCS portion of this document, and expresses the intent to seek ways to improve participation and lower state costs.

Foster Care and Child Welfare

- Includes \$9.6 million (\$7 million General Fund) to begin implementing the Continuum of Care Reform (CCR), an effort directed by the Legislature in 2012 asking the Department of Social Services (DSS) to develop a report identifying recommendations to improve the foster care system. The report is being released with the Governor's Budget and contains 19 interdependent recommendations, two of which require action in 2015-16. These are (1) additional investments in foster care recruitment and retention and (2) increasing social worker capacity of foster family agencies to provide services in home-based family care placements. The CCR effort's intent is to develop the following: more preventive services to keep children safely in their homes, kinship guardian programs to

help increase long-term family care for children, extended foster care supports through age 20, and wraparound and increased mental health services to help support successful reunifications.

- Includes \$4 million General Fund to support an optional grant program for counties to report instances of suspected child abuse or neglect to local law enforcement agencies.

Community Care Licensing

- Includes \$3 million General Fund and 28.5 positions to address a backlog of complaint cases and expand training and technical assistance. The Governor proposes to, beginning in January 2017, have DSS increase inspection frequency to every three years for all facilities, every two years by 2018 for all facility types except child care, and annually by 2019 for adult day care and residential care facilities for the elderly. Ongoing staffing costs under this proposal would be approximately \$14 million.

CalFresh

- Includes \$9.2 million General Fund to provide a state-funded energy assistance subsidy for CalFresh recipients to comply with federal changes regarding the minimum energy assistance benefit that must be received by a household in order to access the standard utility allowance.

CalWORKs

- Provides additional General Fund of \$73.3 million to fund the grant increases of Maximum Aid Payments that will go into effect on April 1, 2015 pursuant to the 2014 Budget.
- Makes no additional significant changes in the CalWORKs program.

Supplemental Security Income/State Supplementary Payment

- Passes through the federal cost-of-living adjustment (COLA) for SSI/SSP recipients, 1.7 percent for 2015 and a projected 1.5 percent for 2016. These changes keep the SSI/SSP grant levels at their minimum as allowed under federal law for both couples and individuals in order to maintain eligibility for Medicaid funding. Effective January 2015, maximum grant levels are \$881 per month for an individual and \$1,483 per month for couples.
- Makes no significant changes in the SSI/SSP program.

Department of Developmental Services

- Includes \$21.4 million (\$11.6 million General Fund) and 179.5 positions for costs related to the ongoing implementation of Program Improvement Plans (PIPs) at the Sonoma, Fairview, and Porterville Developmental Centers. The PIPs address federal licensing and certification issues that have resulted in the loss of significant federal funding of at least \$33 million in 2014-15 and \$43 million in 2015-16.
- Proposes \$9 million General Fund and 92.3 positions in 2014-15 and \$18.1 million General Fund and 184.5 positions in 2015-16 to increase the Porterville Secure Treatment Program by 32 beds by the end of 2014-15. The Governor states that the new beds are needed to accommodate the increasing number of clients who need to be restored to competency in order to stand trial.

HEALTH SERVICES

Department of Health Care Services

Medi-Cal

- Includes a General Fund offset of \$803 million in 2014-15 and \$1.1 billion in 2015-16 from proposed reforms to the Managed Care Organization Tax, to comply with federal law, and to use a portion of this revenue to fund restoration of the 7 percent across-the-board reduction to authorized In-Home Supportive Services (IHSS) hours of service.
- Reauthorizes the Skilled Nursing Quality Assurance Fee for five years with annual rate increases of 3.62 percent beginning August 2015.
- Includes \$190 million (\$89 million General Fund) in 2014-15 and \$320 million (\$151 million General Fund) in 2015-16 for behavioral health treatment services for individuals with Autism Spectrum Disorder up to 21 years of age.
- Assumes \$130 million in annual General Fund costs associated with exemptions to Medi-Cal rate reductions approved through AB 97 (Chapter 3, Statutes of 2011, Budget trailer bill).
- Requires individuals in specified limited-benefit programs, such as Every Woman Counts and Genetically Handicapped Persons program, to seek comprehensive coverage through Covered California or Medi-Cal.
- Institutes an annual 90-day annual open enrollment period for Medi-Cal beneficiaries in managed care for General Fund savings of \$1.6 million in 2015-16.
- Expands the Pediatric Palliative Care pilot program to seven additional counties, assuming General Fund savings of \$1.4 million in 2015-16.
- Reserves \$300 million to account for the fiscal impact of new high-cost Hepatitis C drugs on Medi-Cal, the AIDS Drug Assistance Program, and State Prisons.

Health Care Reform Implementation

- Assumes an estimated 3.3 million additional people will enroll in Medi-Cal by the end of 2015-16, as a result of health care reform implementation.
- Includes \$2 billion (\$943.2 million General Fund) in 2015-16 to cover costs of the "mandatory Medi-Cal expansion," reflecting federally-required simplifications to eligibility, enrollment and retention rules.

- Assumes net costs of \$14.3 billion (federal funds) in 2015-16 for the "optional Medi-Cal expansion," reflecting the eligibility extension allowed under the Affordable Care Act and approved of by the Legislature and Governor, to adults without children and parent and caretaker relatives with incomes up to 138 percent of the federal poverty level.
- Provides an increase of \$150 million (\$48.8 million General Fund) in 2014-15 for county Medi-Cal administration.

Substance Use Disorder Treatment

- Assumes approval of a federal waiver for the delivery of substance use disorder treatment services.
- Extends the 21 positions and \$2.2 million (\$1.1 million General Fund) provided in the 2014 Budget Act for recertification efforts for fraud prevention.

Coordinated Care Initiative (CCI)

- Reflects significant changes to the CCI since its inception, including: 1) the exemption of more than 100,000 participants; 2) the delay of passive enrollment and the exclusion of Alameda county; 3) the reduction in the amount of Medicare and Medicaid savings the state may retain from 50 percent to approximately 25 percent; 4) federal allowance to use Managed Care Organization tax revenue to fund the CCI; 5) a significantly higher opt-out rate (69 percent) by participants than anticipated (33 percent); and 6) significantly higher In-Home Supportive Services (IHSS) costs due to federal regulations guaranteeing IHSS providers overtime compensation.
- Includes \$176.1 in General Fund savings from the CCI in 2015-16, primarily resulting from the MCO tax revenue, without which the CCI would result in General Fund costs of \$396.8 million. Declares that if the CCI does not eventually result in net savings to the state, it will cease operation in January 2017.

Department of Public Health

- Increases resources for the Licensing and Certification program in order to meet state and federal workload mandates. Specifically, includes \$21.8 million (special funds) and 237 positions for 2015-16, and augments the Los Angeles County contract with \$9.5 million (special funds) and \$378,000 for three new state positions to provide oversight in Los Angeles County.

Department of State Hospitals

- Provides increased resources of \$3.2 million (General Fund) and 14.4 limited-term positions to support a new involuntary medication authorization process for the Not Guilty by Reason of Insanity commitments in the State Hospitals. Proposes to use the

same medication authorization process used for Mentally Disordered Offenders and Sexually Violent Predators.

- Includes increased resources to address the substantial and growing Incompetent to Stand Trial (IST) waitlist, including: 1) \$8.6 million General Fund and 75.1 positions for 55 additional beds at Atascadero; 2) \$8.7 million General Fund and 74.6 positions for 50 new beds at Coalinga; and 3) \$1.9 million General Fund for plans to increase capacity at Metropolitan for 200 new IST beds and 32 skilled nursing facility beds. Estimates total project costs to be \$32 million with ongoing costs of \$48 million.

NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION**Climate Change**

- Proposes to continue to invest Cap and Trade auction proceeds in the existing portfolio of investments approved by the Legislature in the 2014-15 Budget (i.e., low carbon transportation, sustainable communities, energy efficiency, urban forests, and high-speed rail) with an additional \$1 billion of anticipated Cap and Trade revenues. One quarter of the investments will purportedly be targeted to benefit disadvantaged communities.
- Proposes to work with the Legislature and stakeholders to develop a midterm GHG emissions reduction target for 2030 that is consistent with a 2050 project for stabilizing climate change. Suggests that such a plan would include reductions in a number of key areas, including: Decarbonizing Electricity; Energy Efficiency for Existing Buildings; Cleaner Transportation Fuels and Reduced Vehicle Miles Traveled; Water and Space Heating; Natural and Working Lands; Short-Lived Climate Pollutants; Price on Carbon; Resilience.

Water Action Plan

- Proposes approximately \$1.7 billion in investments to continue to implement the Governor's Water Action Plan, a five-year roadmap towards sustainable water management. Proposed expenditures include:
 - **2014 Water Bond Implementation:** \$532.5 million to begin the first year of a multiyear Proposition 1 expenditure plan. Proposition 1, the voter-approved Water Quality, Supply, and Infrastructure Improvement Act of 2014, provides \$7.5 billion in general obligation bonds for water storage, water quality, flood protection, and watershed protection and restoration projects.
 - **Flood Protection:** \$1.1 billion for the Department of Water Resources (DWR) to support flood protection activities, which will appropriate all remaining Disaster Preparedness and Flood Prevention Bond Act (Proposition 1E), enacted by the voters in 2006. Because Proposition 1E specifies that these bond funds be available for appropriation until July 1, 2016, the Administration is seeking the enactment of legislation that appropriates these funds early in the legislative session prior to enactment of the Budget Act.
 - **Groundwater Management:** \$6 million from the General Fund for DWR to provide additional technical assistance to local agencies on the development of the groundwater sustainability plans.

- **Delta Plan Implementation:** \$6.7 million from the General Fund and \$2.6 million other funds for the Delta Stewardship Council to implement the Delta Science Plan, incorporate the Bay Delta Conservation Plan into the Delta Plan, and coordinate federal approval of the Delta Plan.

Emergency Drought Response

- Proposes, should existing drought conditions continue through next year, \$115 million (\$93.5 million General Fund) on a one-time basis to continue the critical drought response efforts, including:
 - \$59.4 million to continue firefighter surge capacity, retain seasonal firefighters beyond the budgeted fire season, provide additional defensible space inspectors, and enhance air attack capabilities to suppress wildfires during the 2015 fire season;
 - \$11.4 million to continue critical state operations activities such as fish rescues, hatchery operations, fish and wildlife monitoring, and responding to problems of human/wildlife conflict from animals seeking food and water;
 - \$11.6 million to continue to 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;
 - \$7 million to provide food assistance for communities most impacted by the drought; and
 - \$22.6 million to continue enforcement of drought-related water rights and water curtailment actions and provide grants for emergency drinking water projects;

Department of Parks and Recreation

- Proposes a one-time increase of \$16.8 million from the State Parks and Recreation Fund to continue existing service levels throughout the state park system.
- Provides \$20 million to the state park system as part of an overall \$125 million funding effort for various state agencies to address critical infrastructure deferred maintenance needs.

Department of Toxic Substances Control

- Proposes an increase of \$1.6 million from the Hazardous Waste Control Account and 16 positions to improve the effectiveness and timeliness of the Department's permitting process and reduce the backlog of permit applications.
- Proposes an increase of \$840,000 from the Toxic Substances Control Account and 6 positions to support pilot projects that address hazardous wastes generated in significant

quantities, posing the most significant public risks, and that disproportionately affect disadvantaged communities.

Department of Food and Agriculture

- Provides \$4.3 million from the General Fund for the California Animal Health and Food Safety Laboratory network.
- Provides \$3.1 million from the General Fund to assist with fair operations and improve the financial stability of smaller fairs statewide. Also includes a one-time allocation of \$7 million (General Fund) for deferred maintenance at California fairs.

Office of Emergency Services

- Provides \$10 million from the Regional Railroad Accident Preparedness and Immediate Response Fund to coordinate with local agencies to better prepare for, and respond to, emergencies involving hazardous materials transported by railroad tank cars. This funding will come from the reestablishment of a fee on hazardous materials transported by railroad tank cars throughout California.

PUBLIC SAFETY

California Department of Corrections and Rehabilitation

- Includes \$10.3 billion (\$10 billion General Fund) for the California Department of Corrections and Rehabilitation (CDCR) in 2015-16.

Population

- Assumes an adult inmate average daily population of 135,897 in 2014-15 (a decrease of 0.5 percent from the 2014 Budget Act projection). **Note: projection does not include expected decreases associated with the passage of Proposition 47.*
- Assumes an adult inmate average daily population of 137,002 in 2015-16 (an increase of 0.3 percent compared to the 2014 Budget Act projection). **Note: projection does not include expected decreases associated with the passage of Proposition 47.*
- Assumes an adult parole average daily population of 43,226 in 2014-15 (an increase of 3.2 percent from the 2014 Budget Act projection).
- Assumes an adult parole average daily population of 40,467 in 2015-16 (a decrease of 3.3 percent compared to the 2014 Budget Act projection).
- Assumes a Juvenile ward average daily population of 685 in 2014-15 (an increase of 29 wards compared to the 2014 Budget Act projection).
- Assumes a Juvenile ward average daily population of 709 in 2015-16 (an increase of 53 wards compared to the 2014 Budget Act projection).

Three Judge Panel Order to Reduce Prison Population

- Assumes California will meet the Federal Court's order to reduce the state's prison population to 141.5 percent of prison design capacity by February 28, 2015. If the February 28, 2015 benchmark is reached, the sole remaining population reduction benchmark will be 137.5 percent of prison design capacity by February 2016.
- Provides \$16 million (General Fund) in support of expected county probation workload increases associated with the implementation of new prison population reduction strategies.

Proposition 36 – Three-Strikes Reform (2012)

- Provides data, as of December 10, 2014, showing that 1,939 of the eligible inmate population has been either resentenced or released from prison pursuant to Proposition 36 (total eligible inmate population estimated to be 2,800).

Proposition 47 – Sentencing Reform (2014)

- Provides data, as of December 10, 2014, showing that 132 of the eligible inmate population has been either resentenced or released from prison pursuant to Proposition 47. Administration estimates suggest Proposition 47 will reduce CDCR's average daily population by roughly 1,900 inmates.

Infill Facilities

- Includes \$35.6 million (\$35.5 million General Fund) to activate three new infill facilities at existing prisons. This activation will add 2,376 new beds to California's prison design capacity figure by February 2016 and 1,266 new educational and vocational programming slots.

Recidivism Reduction Fund

- Includes \$15.6 million (Recidivism Reduction Fund) to further expand substance use disorder treatment inside CDCR facilities.

Local Law enforcement

SB 678 (Ch. 608, Statutes of 2009) – Community Corrections Performance Incentive Grants

- Includes \$125 million for county probation in support of continued efforts to reduce the number of offenders sent to state prison.

City Law Enforcement Grants

- Continues \$40 million (General Fund) allocation for front-line law enforcement activities.

Peace Officer's Training Fund/ Corrections Training fund

- Anticipates \$12 million in additional revenue for the Peace Officer's Training Fund and the Corrections Training fund based on a debt amnesty program targeted at individuals with past due court-ordered debt from fines associated with traffic infractions and specified misdemeanors. This 18 month amnesty program would be administered by the courts and counties and would provide a 50% discount for debt that was due prior to January 1, 2013.

JUDICIAL BRANCH

- Includes total funding of \$3.7 billion (\$1.7 billion General Fund) of which \$2.7 billion is provided for trial court operations.
- Augments allocation for trial court operations by \$90.1 million (General fund).
- Includes \$42.7 million (General fund) for trial court employee benefit costs.
- Includes \$19.8 million (General fund) based on lower projections for fine and penalty revenues.

Proposition 47 – Sentencing Reform (2014)

- Includes \$26.9 million (General fund) for projected workload increases associated with the reclassification of specified felonies to misdemeanors.

Court Ordered Debt

- See Peace Officer's Training Fund/ Corrections Training fund item in *Local Law Enforcement* section for additional details.

Dependency Council

- Commits to working with the Judicial Council to address excessive caseloads for attorneys who represent abused and neglected children and their parents in dependency cases.

GENERAL GOVERNMENT

Retiree Health Care Costs

- Includes nearly \$1.9 billion for retiree health care benefits for 2015-16.
- Proposes a plan to make health care costs more affordable to the state and ultimately its employees. The goals of the plan are to balance a sustainable benefit program with a competitive workforce, preserve retiree health benefits when the private sector is scaling back, maintain health plans, and continue the state's substantial support for employee health care. The main components address the following:
 - **Eliminate the Unfunded liability** – the budget calls for employees and employers to equally share in the prefunding of the normal costs of retiree health care, similar to the new pension-funding standard. The Administration will seek to phase in this critical, cost sharing as labor contracts come up for renewal.
 - **Balance benefits with costs** – Highlights the need to discuss the cost structure of these benefits
 - **Reserve benefits for career workers and family members** – beginning with newly hired workers, the plan would only extend subsidies for retiree health care to career employees who have accrued 15-25 years of services. Newly hired workers should not expect a higher subsidy for health care premiums in retirement than what they received during their working years.
 - **Increase transparency and accountability** – includes several measures to boost transparency and accountability.

Improving the State's Civil Services

- States that administrative efforts will be focused on updating and streamlining the state's job classification; modernizing recruitment, examination, and hiring practices; developing more robust employee management training programs; reforming probation policies; and improving employee and management evaluation processes. The administration will consult with stakeholders such as employee groups and the Legislature in this effort.

Employee Compensation

- Includes an additional \$500 million in 2015-16, for employee compensation and health care costs for active state employees. Included in these costs are collectively bargained salary increases for many state's rank-and-file employees and state managers and supervisors.

Teacher's Retirement

- Includes \$1.9 billion General Fund in 2014-15 for CalSTRS in alignment with the funding strategy included in the 2014 Budget.

State Employee's Retirement

- Includes \$5 billion in 2015-16 for state contributions to CalPERS for state pension costs.

Employment Development Department

- Continues 594 positions at EDD that were added last year to improve the performance of processing UI claims. These positions are projected to cost \$39.7 million.
- Makes permanent the \$10 million one-time increase to the Employment Training Fund.
- Adjusts the estimated Unemployment Insurance caseload reflecting current economic trends. The budget projects a decrease of \$28 million in 2014-15 and an additional decrease in 2015-16 of \$260 million.
- Adjusts the estimated Disability Insurance caseload to reflecting current trends. The budget projects a decrease of \$103 million in 2014-15 and an additional increase in 2015-16 of \$278.3 million.
- Reflects an additional \$15.4 million of federal Workforce Investment Act funding that are now part of the "Governor's Discretionary Funds" due to the increase of federal allotment from 5 percent to 8.75 percent.
- Includes \$184.4 million General Fund for the interest payment associated with the loan of federal funds to the California Unemployment Insurance Trust Fund.

Department of Industrial Relations

- Includes \$4.4 million special funds and 27.5 positions to increase staffing for the Elevator Inspector program. This program provides safety inspections for all 108,000 elevators, ski lifts and amusement park rides. The budget also proposes a reduction to the fee and a fee holiday for some elevators due to the fund balance of the special fund that supports this program.

- Increases Occupational Safety and Health Inspections by adding 44 positions and \$4.6 million special funds to perform an estimated 1,400 additional annual workplace health and safety inspections.

Agriculture Labor Relations Board

- Provides a \$1.6 million General Funds and 13 positions to support the activities of the Agricultural Relations Board, including adding a satellite office in Northern California.

LOCAL GOVERNMENT

Redevelopment Agencies

- Anticipates that in 2014-15 combined, cities will receive an additional \$580 million, counties \$660 million, and special districts \$200 million in property tax revenue due to the elimination of RDAs.

Simplifying the Redevelopment Process

- States that the oversight of the dissolution process has progressed to a point where legislative changes can be considered.
- Proposes legislation through the budget process to transition the state away from the current detailed role in the RDA dissolution process with goals to do the following:
 - Minimize the potential erosion of property tax residuals being returned to the local affected taxing entities while creating a streamlined process.
 - Clarify and refine various provisions in statute to eliminate ambiguity, where appropriate and make the statutes operate more successfully for all parties.
 - Maintain the expeditious wind-down of the former RDA activities while adding new incentives for substantial compliance with the law.
- Proposes to address the following process changes:
 - Transition all successor agencies from a biannual ROPS process to an annual ROPS process beginning July 1, 2016, when the successor agencies transition to a countywide oversight board.
 - Establish a "last and final" ROPS process beginning September 2015. The Last and final ROPS will be available only to successor agencies that have a Finding of Completion, are in agreement with Finance on what items qualify for payment, and meet other conditions.

- Clarifies the following:
 - Former tax increment caps and RDA plan expirations do not apply for the purposes of paying approved enforceable obligations. One of the core principles of the dissolution process is that approved enforceable obligations will be paid. The clarification will confirm that funding will continue to flow until all approved enforceable obligations have been paid.
 - Reentered agreements that are not for the purpose of providing administrative support activities are not authorized or enforceable.
 - Litigation expenses associated with challenging dissolution determinations are not separate enforceable obligations, but rather are part of the administrative costs of the successor agency.
 - Contractual and statutory pass-through payments end upon termination of all of a successor agency's enforceable obligations.
 - Finance is exempt, as provided in existing law, from regulatory process.
 - County auditor-controllers' offices shall serve as staff for countywide oversight boards.

State Mandate Reimbursements

- Continues the suspension of most mandates not related to law enforcement or property taxes
- Discusses status of the Trigger Mechanism included in the 2014 Budget Act, which will be used at the 2015 May Revision. Estimates that the trigger mechanism most likely will result in a \$553 million payment toward pre-2014 mandate debt.
- Makes a one-time payment of \$9.6 million to fund the back costs local agencies accrued from 2001 to 2013 performing activities under the Public Records Act mandate. The Budget also provides \$218,000 to fund the Accounting for Local Revenue Realignments mandate which involves county administration of funding changes in 2003-04.
- Suspends the Interagency Child Abuse and Neglect Investigation Reports Mandate and creates a \$4 million optional grant program, administered by Department of Social Services, as a substitute funding mechanism for these activities.

Payment in Lieu of Taxes

- Provides \$644,000 General Fund for in-lieu fee payments to counties. This amount does not include funding for K-14 schools that are already kept whole through Prop. 98 guarantee.

INFRASTRUCTURE

Deferred Maintenance

- Includes \$478 million (\$125 million General fund) for one-time investments. The General Fund Investments are as follows:
 - \$25 million California State University
 - \$25 million University of California
 - \$20 million Department of Parks and Recreation
 - \$15 million Department of Rehabilitation
 - \$7 million Department of State Hospitals
 - \$7 million Network of California Fairs
 - \$7 million Department of Developmental Services
 - \$5 million Department of General Services
 - \$3 million Office of Emergency Services
 - \$3 million State Special Schools
 - \$2 million Department of Forestry and Fire Protection
 - \$2 million California Military Department
 - \$2 million Department of Veterans Affairs
 - \$2 million Department of Food and Agriculture

REVENUES

Revenues

- Projects an overall revenue increase of \$4 billion above the 2014 Budget Act. Of this amount,
 - Revenue for 2013-14 has come in about \$500 million over forecast
 - Revenue for 2014-15 is forecast to be \$2.5 billion greater than the amount forecast in the 2014 Budget Act, and
 - Revenue for 2015-16 is forecast to be \$1 billion greater than the amount forecast in the 2014 Budget Act.
- Forecasts total General Fund Revenues to be \$108 billion in 2014-15, which is 2.4 percent higher than the forecast from the 2014 Budget Act.
- Forecasts total General Fund Revenues to be \$113.3 billion in 2015-16, which is about 1 percent higher than the forecast from the 2014 Budget Act.

Personal Income Tax

- Estimates personal income tax (PIT) revenues will increase in 2014-15 by 2.1 percent from \$70.2 billion to \$71.7 billion from what was assumed in the 2014 Budget Act.
- Estimates that PIT revenues will increase in 2015-16 to \$75.2 billion, 1 percent higher than what was assumed in the 2014 Budget Act.

Sales and Use Tax

- Projects sales and use tax (SUT) revenues will generate revenues of \$23.4 billion in 2014-15, and \$25.2 billion in 2015-16, which has been reduced by \$1.4 billion relative to the 2014 Budget Act.

Corporation Tax

- Estimates corporation tax will increase by 8.6 percent to \$9.6 billion in 2014-15.
- Estimates corporation tax will increase by 5.8 percent to \$10.2 billion in 2015-16.

Reserve

- Proposes a regular reserve is \$500 million.
- Includes the Proposition 2, Rainy Day Fund to be \$2.8 billion (an additional \$1.2 billion on top of what was deposited in 2014-15). Therefore, combined reserves of \$3.3 billion.

Infrastructure

Debt Service

- Estimates General Fund debt service expenditure increase by \$339 million (6 percent) to a total of \$6 billion over current-year expenditures. The projected increase in total General Fund debt is attributed to recent bond sales and the planned issuance of additional bonds over the next year.

• SUMMARY OF CHARTS

2015-16 General Fund Budget Summary

(in millions)

	2014-15	2015-16
Prior Year Balance	\$5,100	\$1,423
Revenues and Transfers	\$108,042	\$113,380
Total Resources Available	\$113,142	\$114,803
Non-Proposition 98 Expenditures	\$65,071	\$66,279
Proposition 98 Expenditures	\$46,648	\$47,019
Total Expenditures	\$111,719	\$113,298
Fund Balance	\$1,423	\$1,505
Reserve for Liquidation of Encumbrances	\$971	\$971
Special Fund for Economic Uncertainties	\$452	\$534
Budget Stabilization Account/Rainy Day Fund	\$1,606	\$2,826

General Fund Expenditures by Agency

(in millions)

	2014-15	2015-16	Change from Dollar Change	2014-15 Percent Change
Legislative, Judicial, Executive	\$3,007	\$3,131	\$124	4.1%
Business, Consumer Services & Housing	\$839	\$639	-\$200	-23.8%
Transportation	\$158	\$237	\$79	50.0%
Natural Resources	\$2,497	\$2,561	\$64	2.6%
Environmental Protection	\$78	\$68	-\$10	-12.8%
Health and Human Services	\$30,490	\$31,929	\$1,439	4.7%
Corrections and Rehabilitation	\$9,995	\$10,160	\$165	1.7%
K-12 Education	\$47,121	\$47,173	\$52	0.1%
Higher Education	\$12,947	\$14,063	\$1,116	8.6%
Labor and Workforce Development	\$282	\$265	-\$17	-6.0%
Governmental Operations	\$730	\$701	-\$29	-4.0%
General Government				
Non-Agency Departments	\$1,267	\$676	-\$591	-46.6%
Tax Relief/Local Government	\$446	\$444	-\$2	-0.4%
Statewide Expenditures	\$256	\$1,251	\$995	388.7%
Supplemental Economic Recovery Bond Payment	1,606	-	-\$1,606	100.0%
Total	\$111,719	\$113,298	\$1,579	1.4%

General Fund Revenue Sources

(in millions)

- Change from 2014-15

	2014-15	2015-16	Dollar Change	Percent Change
Personal Income Tax	\$71,699	\$75,213	\$3,514	4.9%
Sales and Use Tax	\$23,438	\$25,166	\$1,728	7.4%
Corporation Tax	\$9,618	\$10,173	\$555	5.8%
Insurance Tax	\$2,490	\$2,531	\$41	1.6%
Liquor Tax	\$367	\$374	\$7	1.9%
Cigarette Tax	\$84	\$82	-\$2	-2.4%
Motor Vehicle Fees	\$20	\$21	1	5.0%
Other	\$1,932	\$1,040	-\$892	-46.2%
Subtotal	\$109,648	\$114,600	\$4,952	4.5%
Transfer to the Budget Stabilization Account/Rainy Day Fund	-1,606	-1,220	-386	-24.0%
Total	\$108,042	\$113,380	\$5,338	4.9%
Total	\$111,719	\$113,298	\$1,579	1.4%