

**AGENDA****ASSEMBLY BUDGET SUBCOMMITTEE NO. 4 STATE ADMINISTRATION****ASSEMBLYMEMBER ADRIN NAZARIAN, CHAIR****WEDNESDAY, MAY 18, 2016  
1:30 P.M. - STATE CAPITOL, ROOM 126**

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## VOTE-ONLY CALENDAR

### 0750 LIEUTENANT GOVERNOR

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#### VOTE-ONLY ISSUE 1: MAY REVISION SUPPORT INCREASE

The May Revision proposes a \$9,000 increase to the Lieutenant Governor's Office due to increased operational and personnel costs.

#### BACKGROUND

The May Revision proposes a \$9,000 increase to the Lieutenant Governor's Office due to increased operational and personnel costs. This increase represents less than a one percent increase to the office's \$1.4 million budget.

#### STAFF COMMENTS

This change appears technical in nature.

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**Staff Recommendation: Adopt May Revision Proposal.**

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### 8880 DEPARTMENT OF FINANCE

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#### VOTE-ONLY ISSUE 2: STATE ADMINISTRATION COST RECOVERY ACCOUNTING PROCESS TRAILER BILL LANGUAGE

The Governor's Budget requests trailer bill language to simplify cost recovery process for state administration costs.

#### BACKGROUND

The Governor's Budget requests trailer bill language to simplify cost recovery process for state administration costs. The State uses cost recover to fund central service agencies such as the Department of Finance, the State Treasurer, the State Controller, that provide budgeting, banking, accounting, payroll, and other services to all state departments. The proposed language would charge recovery at the fund level, rather than the current practice of doing so within each individual departmental appropriation. The Department of Finance comments that this approach will eliminate extra steps in the budgeting and accounting process, but achieve the same results.

**STAFF COMMENTS**

With the implementation of Fi\$Cal, this new approach to capturing administrative costs is simpler and more straightforward than the prior practice.

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**Staff Recommendation: Adopt Trailer Bill Language**

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**VOTE-ONLY ISSUE 3: GENERAL OBLIGATION BOND DEBT SERVICE FOR 2015-16**

The May Revision revises debt service costs estimates for the current year budget.

**BACKGROUND**

The May Revision reflects lower than projected General Obligation Bond Debt Service levels by \$63.9 million (\$34.7 million General Fund) in the current year, due to lower amounts of new bond issuances, increased premium on Spring bond sales, and lower debt service costs. Total General Obligation bonds debt services costs are projected to be \$6.6 billion (\$4.8 billion General Fund) in 2015-16.

**STAFF COMMENTS**

This change is a technical adjustment.

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**Staff Recommendation: Adopt May Revision proposal.**

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**0500 GOVERNOR'S OFFICE**

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**VOTE-ONLY ISSUE 4: FUNDING FOR THE DIRECTOR OF IMMIGRANT INTEGRATION**

The May Revision requests \$200,000 to fund the Director of Immigrant Integration at the Governor's Office.

**BACKGROUND**

The May Revision proposes \$200,000 to fund the Statewide Director of Immigration Integration. The director of was appointed in March of 2016.

**STAFF COMMENTS**

The Director of Immigrant Integration was established as part of the 2015 budget process and funding this proposal is consistent with the prior action of the Legislature.

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**Staff Recommendation: Adopt May Revision proposal.**

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**9620 CASH MANAGEMENT AND BUDGETARY LOANS**

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**VOTE-ONLY ISSUE 5: CASH MANAGEMENT AND BUDGETARY LOANS**

The May Revision reduces Cash Management and Budgetary Loan interest by \$18 million.

**BACKGROUND**

The May Revision reduces Cash Management and Budgetary Loan interest by \$18 million. The reduction in interest is a result of fewer budgetary loans being repaid in the 2016-17 than projected in January.

**STAFF COMMENTS**

This adjustment reflects the reduction in debt payments in the May Revision resulting from a lowering of the projected Proposition 2 required debt service reduction. This technical adjustment may need to be further adjusted to conform to any actions taken as part of the Assembly's budget package.

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**Staff Recommendation: Adopt May Revision, Conforming to Final Package**

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**CONTROL SECTION 12.00****CONTROL SECTION 35.50**

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**VOTE-ONLY ISSUE 6: STATE APPROPRIATION LIMIT AND BUDGET STABILIZATION ACCOUNT ADJUSTMENTS**

The May Revision adjusts the State Appropriation Limit and the Budget Stabilization Account to reflect the underlying budget revenue and expenditure assumptions.

**BACKGROUND**

The Budget Act contains two control sections that describe the underlying revenue and expenditure assumptions for purposes of compliance with the State Appropriations Limit and the Budget Stabilization Account. The May Revision adjusts both amounts to reflect the Governor's revised budget projections.

**STAFF COMMENTS**

These values should be automatically adjusted in the budget bill to reflect the assumptions contained in the final budget package adopted by the Assembly.

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**Staff Recommendation: Adopt May Revision, Conforming to Final Package**

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**9800 EMPLOYEE COMPENSATION AND CONTROL SECTION 3.61**

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**VOTE- ONLY ISSUE 7: AUGMENTATION FOR EMPLOYEE COMPENSATION AND CONTROL SECTION 3.61**

This May Revision proposes technical changes to reflect the following:

- Increased enrollment in health and dental plans,
- Updated employment information for salary increases previously provided in the Governor's Budget,
- Revised pay increases for Judges,
- Updated costs related to the salary survey estimates for the California Highway Patrol,
- Salary increases and benefit changes for state employees of the Judicial Branch and Commission on Judicial Performance, including justices and trial court judges
- Increases to salaries and revised benefits recently negotiated with Correctional Officers (BU 6) and Scientists (BU 10)
- Pay increases related to minimum wage changes
- Retention incentives for the Department of Developmental Services facilities in Fairview, Sonoma, and Porterville

Additionally, this proposal includes changes to Control Section 3.61.

**BACKGROUND**

The amendments to Control Section 3.61 reflects additional employer contributions for prefunding other post employment benefits based the recent agreement with BU 6. In 2016-17, the state will match Correctional Officer employee contributions of 1.3 percent effective July 1, 2016.

The Judicial Council has agreed to adopt the Administration's retiree health prefunding strategies. Therefore, state employees of the Judicial Branch will also begin making contributions toward prefunding other post employment benefits. In 2016-17, the state will match Judicial Branch state employees contributions of 1.5 percent effective July 1, 2016.

Additionally, Control Section 3.61 will be updated to the following:

- Item 9800-001-0001, Augmentation of employee compensation, increased by \$314,073,000;
- Item 9800-001-0494, Augmentation for Employee Compensation payable from other unallocated special funds, increased by \$32,345,000; and
- Item 9800-001-0988, Augmentation for Employee Compensation payable from other unallocated nongovernmental cost funds, increased by \$15,931,000.

#### STAFF COMMENTS

The figures included are estimated health and dental premium rates, and the final health and dental rates are not expected to be adopted by the California Public Employees' Retirement System Board until June 2016.

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**Staff Recommendation: Adopt May Revision, conforming to the final Board figures.**

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## 7900 CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

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### VOTE-ONLY ISSUE 8: CALPERS ADMINISTRATIVE BUDGET ADJUSTMENTS

The May Revision proposes adjustment to seven items in the California Public Employees' Retirement System's (CalPERS) administrative budget and an increase of 39 positions, based on the 2016-17 CalPERS budget approved during the April 18, 2016, board meeting. The changes reflect a reduction of \$16,264,000 primarily driven by higher than anticipated position vacancies and lower than anticipated outside counsel and third party investment management fees.

#### BACKGROUND

- Item 7900-003-0830, CalPERS board administrative costs paid by the Public Employees Retirement Fund, decreased by \$26,442,000;
- Item 7900-015-0815, CalPERS board administrative costs paid by Judges' Retirement Fund, increased by \$515,000;
- Item 7900-015-0820, CalPERS board administrative costs paid by Legislators' Retirement Fund, increased by \$117,000;
- Item 7900-015-0830, CalPERS board administrative costs paid by the Public Employees Fund, increased by \$510,000;
- Item 7900-015-0833, CalPERS board administrative costs paid by the Annuitants' Health Care Coverage Fund, increased by \$1,526,000;

- Item 7900-015-0849, CalPERS board administrative costs paid by the Replacement Benefit Custodial Fund, increased by \$7,000; and
- Item 7900-015-0884, CalPERS board administrative costs paid by the Judges' Retirement System II Fund, increased by \$615,000.

**STAFF COMMENTS**

Staff has no concerns with this proposal.

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**Staff Recommendation: Adopt May Revision proposal.**

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**VOTE-ONLY ISSUE 9: CONTROL SECTION 3.60 RETIREMENT RATE ADJUSTMENTS**

The May Revision includes an amendment to budget bill Control Section 3.60 to capture reductions in state retirement contribution rates adopted by the California Public Employees' Retirement System (CalPERS) Board on April 18, 2016.

**BACKGROUND**

The revised budget bill language is the result of new hires entering the system under lower benefit formulas pursuant to the Public Employees' Pension Reform Act of 2013, and greater than expected contributions to the system.

The newly adopted state employer contribution rates result in total state costs of \$452,835,000, a decrease of \$89,806,000 from the \$542,641,000 included in the 2016-17 Governor's Budget. Of the \$89,806,000 decrease, the General Fund is \$49,952,000, special funds are \$32,784,000, and other nongovernmental cost funds are \$14,070,000.

Additionally, it is proposed that CalPERS' fourth quarter deferral be reduced by \$7,006,000 General Fund from the Governor's budget to reflect changes in retirement rates.

The net effect of these changes on the General Fund is a decrease of \$35,946,000 in 2016-17 compared to the Governor's Budget.

**STAFF COMMENTS**

Staff has no concerns with this proposal.

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**Staff Recommendation: Adopt May Revision proposal and revised budget bill language.**

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**7920 CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM**

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**VOTE-ONLY ISSUE 10: CALSTRS RETIREMENT SYSTEM REVISED CREDIBLE COMPENSATION**

The May Revision proposes a technical correction regarding the amount of General Fund contribution to CalSTRS based on the revision of the credible compensation.

**BACKGROUND**

The revision in the credible compensation results in an increase in funding \$4,571,000 reported by CalSTRS for fiscal year 2014-15. This increase consists of \$1,044,000 in defined benefit level, \$2,232,000 in the pre-1990 defined benefit level, and \$1,295,000 for supplemental benefit maintenance account.

**STAFF COMMENT**

Staff has no concerns with this proposal.

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**Staff Recommendation: Adopt May Revision proposal.**

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**7760 DEPARTMENT OF GENERAL SERVICES**

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**VOTE-ONLY ISSUE 11: OFFICE OF PUBLIC SCHOOL CONSTRUCTION AND TECHNICAL AMENDMENT**

The Department of General Services proposes the following changes:

- Decrease the Office of Public School Construction by \$690,000 and 6 positions to align administrative resources with workload for the School Facilities Program.
- Decrease rental payments for the San Diego Office Building Replacement on lease-revenue bonds by \$943,000 due to refinancing of the original lease revenue bonds.

**BACKGROUND**

According to DGS, the workload for the School Facilities Program is declining. Bond authority is running out and the only programs which are still active are the Seismic Mitigation Program, Facility Hardship (health and safety), and the Charter School Facilities Program. The criteria for the Facility Hardship and Seismic Programs are such that not many districts are eligible and applications are not frequent. For the Charter School Facilities Program, the pool of applicants is small, and much of the

application processing has already occurred. While there is still workload in closing out projects, that workload goes to audit staff. The positions being eliminated are for the non-audit staff.

Currently, some positions that are proposed to be eliminated are vacant. Any staff that currently fill these positions will be redirected to other vacancies within the department on July 1.

**STAFF COMMENT**

Staff has no concerns with this proposal.

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**Staff Recommendation: Adopt May Revision proposal.**

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**8885 COMMISSION ON STATE MANDATES**

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**VOTE-ONLY ISSUE 12: MANDATE TO BE FUNDED**

The May Revision proposes to authorize the funding of \$626,000 to fund the new mandate of Post-Election Manual Tally.

**BACKGROUND**

On July 24, 2015, the Commission on State Mandates adopted a statewide cost estimate (SCE) that for the Post-Election Manual Tally. The SCE for this mandate totals \$625,288 for one-time costs incurred between October 20, 2008 through November 28, 2008. There are no ongoing annual costs.

**STAFF COMMENT**

Staff has no concerns with this proposal.

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**Staff Recommendation: Adopt May Revision proposal.**

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**3100 CALIFORNIA SCIENCE CENTER**

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**VOTE-ONLY ISSUE 13: OFFICE OF EXPOSITION PARK MANAGEMENT INCREASE PARKING AND LANDSCAPING CONTRACTED SERVICES**

The Office of Exposition Park Management (OEPM) requests \$515,000 from the Exposition Park Improvement Fund for the anticipated increase in parking (\$335,000 ongoing) and landscaping (\$180,000 one-time) contracted services. Since entering into a contract with University of Southern California (USC) in 2013, Exposition Park's parking and landscaping contractors have had to increase services not previously covered within their original contracts.

**BACKGROUND**

The parking and landscaping contractors' workload has increased due to the augmented tenancy and activity in the park. Examples of additional activity include the amount of special events that have been initiated by USC since entering into a Non-Disturbance Agreement (NDA) to operate the Sports Arena and Coliseum properties. The additional events require the parking and landscaping contractors to assist with operations and maintenance as it relates to each of these events. The addition of new tenants such as the Los Angeles Football Club (LAFC) on a permanent basis and the National Football League (NFL) on a temporary basis will have a dramatic increase in the demand for services provided by both the parking operations and grounds and landscape contractor.

**STAFF COMMENT**

Staff has no concerns with this proposal.

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**Staff Recommendation: Adopt May Revision proposal.**

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## ITEMS TO BE HEARD

### 2240 DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

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#### ISSUE 1: HOUSING AND HOMELESSNESS INITIATIVE

The Department of Housing and Community Development (HCD) requests \$266.8 million in bond proceeds to be generated from the securitization of Proposition 63 (2004) funds and 10.4 positions to implement a competitive, multiyear, initiative to address the state's homelessness and affordable housing issues. This funding and accompanying trailer bill would enable HCD to expand housing opportunities for persons with serious mental illness who are homeless or at risk of homelessness by establishing and administering a three-part Mental Health Services Act-Supportive Housing (MHSA-SH) Program comprised of supportive housing, tenant-based rental assistance (TBRA), and direct technical assistance to localities that implement programs to address homelessness and housing instability among the target population.

Additionally, to facilitate streamlined housing production and increase housing supply, proposed legislation would authorize ministerial, "by-right" land use processes for multifamily, infill housing that includes an affordable housing component. Issue 2 of the agenda will concentrate on the "by-right" trailer bill language.

#### BACKGROUND

Historically, state funding for affordable housing and homelessness has been mostly limited to one-time General Fund appropriations, general obligation bond issuances, or use of property tax increment revenue from former Redevelopment Agencies.

The Housing and Emergency Shelter Trust Fund Act of 2002 (Proposition 46) and the Housing and Emergency Shelter Trust Fund Act of 2006 (Proposition 10) together provided \$4.95 billion in affordable housing and homelessness programs assisting in the creation of 67,000 new units.

Proposition 63 was passed by voters in 2004. The measure's principal purpose was to address serious mental illness among children, adults, and seniors, using prevention and early intervention services and supportive medical care. Proposition 63 funding has been used for a wide range of mental health related services, including homelessness mitigation, suicide prevention, and after-school programs. In May 2006, Governor Schwarzenegger signed Executive Order S-07-06 mandating establishment of the MHSA Housing program administered by the California Housing Finance Agency (CalHFA) with the stated goal of creating an additional 10,000 units of permanent supportive housing.

Other successful evidence-based homeless interventions have included the Multifamily Housing Program, Multifamily Housing Program-Supportive Housing, Emergency Solutions Grant Program, and CalWORKs Housing Support Program. These programs target the homeless, including chronic homeless

**May Revise Proposal.** The Governor's proposal would fund seven positions with General Funds in 2015. Implementation of this proposal is contingent upon receiving an allocation from the issuance of up to \$2 billion in bond debt. The source of bond repayment would be a portion of the tax revenues deposited into the Mental Health Services Act (MHSA) Fund, which receives a share of personal income tax collections pursuant to Proposition 63.

In concept, the expansion of housing opportunities for persons with serious mental illness who are homeless or at risk of homelessness may be accomplished through a new three-part MHSA-SH Program comprised of supportive housing, TBRA, and direct technical assistance to localities who implement programs to address homelessness and housing instability among the target population.

Staff will note, that at the time of this writing, there was no language to further evaluate the details of the proposal. However, because the proposal would propose a change to Proposition 63, there is a validation action that must occur.

A validation action is a court process in which the bond issuer goes to court before issuing the bonds to have the court confirm that they have valid authority to issue. If the court approves, or "validates" the issuance, then the issuer may move ahead with the issuance and the bond market has comfort that the bond issuance is valid. Also, once validated, no further actions can be taken to challenge the validity.

**MHSA-SH Program.** The main purposes of the program would be to:

- Reduce homelessness and chronic homelessness among persons with serious mental illness.
- Stabilize the most vulnerable persons experiencing homelessness and mental illness in affordable housing with ongoing supportive services.
- House this target population in integrated settings, consistent with community integration goals of the Americans with Disabilities Act and related federal policies.
- Maximize federal resources, including the use of four percent low-income housing tax credits to facilitate financing for larger-scale projects.
- Improve partnering with localities and housing authorities to leverage state capital funding with mainstream operational and services funding.

The program would provide capital and operating subsidies needed to provide permanent supportive housing to persons and families experiencing homelessness or at risk of being homeless. Local governments and other providers would be responsible for providing supportive services. The MHSA-SH Program would be used to leverage tax credits and other funding sources.

An additional program component would provide immediate access to housing for the target population through interim TBRA. This component would either enhance existing local programs or incentivize the creation of new, innovative local homelessness mitigation programs. The TBRA component would encourage local leveraging of other federal and state health care programs including the newly-created Whole Person Care pilot and Health Homes Initiative, overseen by the Department of Health Care Services. Funds may be provided as grants to counties to fund interim and medium to long-term rental assistance in interim or permanent housing.

Finally, a portion of the funds would be used to provide expert technical assistance to localities implementing TBRA and MHSA-SH activities, which can increase the impact of the state's investment and assist new participants and geographies in using the program. Some areas of the state, including rural areas, may struggle with meeting the basic requirements of the TBRA (e.g., point-in-time count of homeless persons, data system) or in delivering the most impactful activities (e.g., prioritizing the most vulnerable through coordinated entry, data driven performance evaluation).

#### **Placeholder Trailer Bill Language.**

This proposal includes placeholder trailer bill language that would establish a three-part Mental Health Services Act – Supportive Housing Program, which will be administered by the Department of Housing and Community Development, that is comprised of supportive housing, tenant-based rental assistance, and direct technical assistance to localities who implement programs to address homelessness and housing instability amount individuals who have mental health conditions.

#### **Budget Bill Language.**

2240-001-XXXX—For support of Department of Housing and Community Development, payable from the XXX Fund.....3,203,000

Schedule:

(1) 1665-Financial Assistance Program .....3,203,000

2240-101-XXXX—For local assistance, Department of Housing and Community Development, payable from the xxx Fund .....263,640,000

Schedule:

(1)1665-Financial Assistance Program .....263,640,000

Provisions:

1. The Director of Finance may authorize an increase in this appropriation, up to the total amount of proceeds available pursuant to statute (authorizing the bond issuance). Any approved increase shall correspond to the level of awards anticipated by the Department of Housing and Community Development. An approval of an augmentation may be authorized not sooner than 30 days after

notification is provided in writing to the Chairperson of the Joint Legislative Budget Committee and the chairpersons of the committees in each house of the Legislature that consider appropriations.

2. Notwithstanding Section 16304.1 of the Government Code, funds appropriated in this item shall be available for liquidation of encumbrances until June 30, 2022. The Director of Finance may authorize an extension of the liquidation period if it is determined that an extension is needed to facilitate a project's completion. An approval may be authorized not sooner than 30 days after notification is provided in writing to the Chairperson of the Joint Legislative Budget Committee and the chairpersons of the committees in each house of the Legislature that consider appropriations.
3. Notwithstanding any other provision of law, funds appropriated by this item may be available for encumbrance until June 30, 2018.

<b>STAFF COMMENTS</b>
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The need to provide additional funding for homelessness is apparent throughout our California cities. The concept of the approach included in this BCP and trailer bill language takes a step forward to addressing the problem.

Since there is no actual language for this program, it is difficult to determine how and where the resources will be allocated statewide. Additionally, if approved, the proposal would have to successfully navigate the validation process before being implemented.

With that said, the program concept aims to address a problem that persists in California and provides a dedicated revenue source to address the issue of homelessness. In order to advance the conversation on the Housing and Homelessness initiative, staff would recommend adopting placeholder trailer bill language to move the conversation on the proposal forward.

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**Staff Recommendation: Support the concept of proposal and adopt placeholder trailer bill language to move the conversation forward on this item.**

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**ISSUE 2: STREAMLINING AFFORDABLE HOUSING APPROVALS TRAILER BILL LANGUAGE**

The May Revision proposes Trailer Bill Language that proposes a "By-Right" process for developments with Affordable Housing Units.

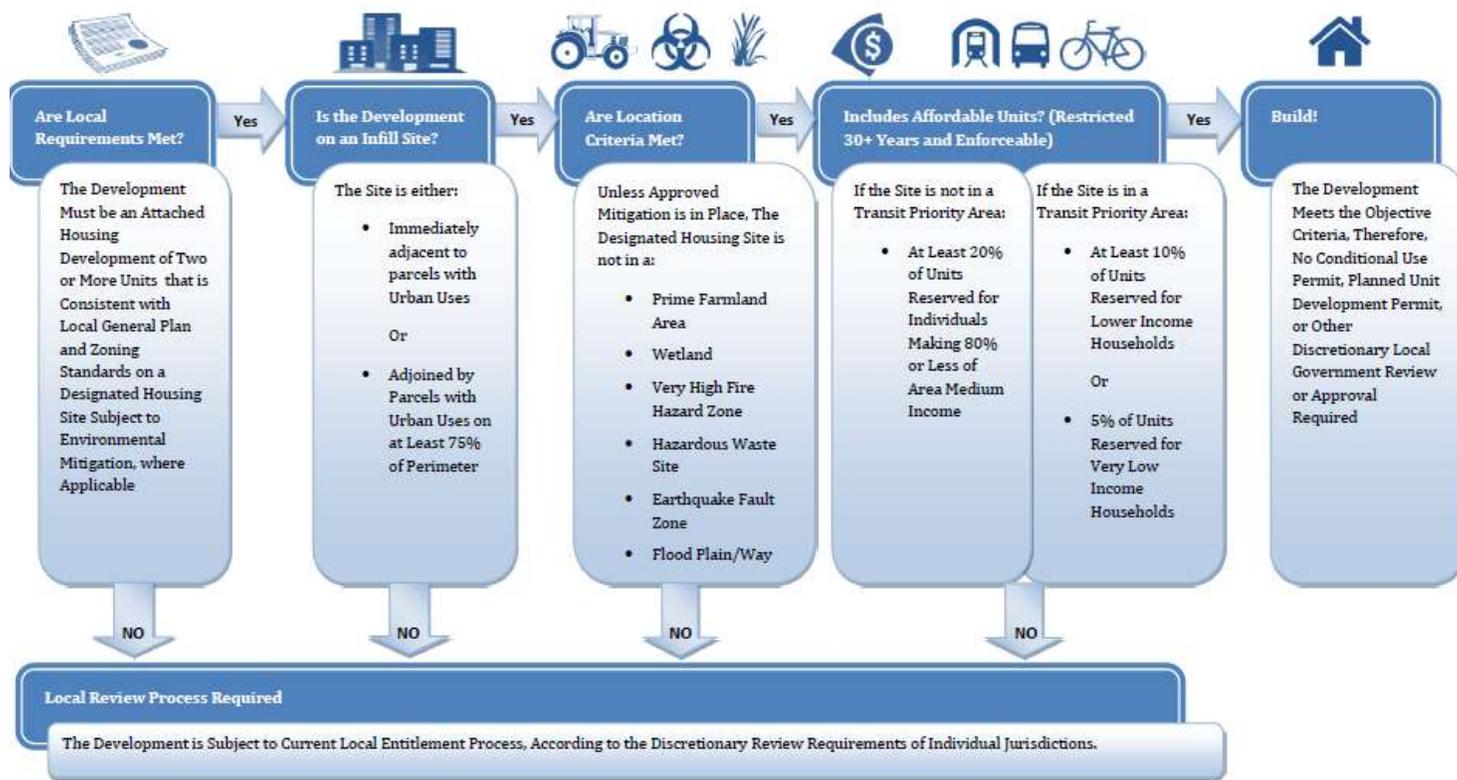
**BACKGROUND**

California's high housing costs and limited supply have created affordability challenges with over 1.5 million low-income households paying more than half their income in housing. Affordability challenges create a drag on the economy, limiting labor mobility and job creation, exacerbating poverty rates when considering housing costs, and contributing to unsustainable development patterns. Multi-prong efforts to facilitate the increase of housing supply include both land-use regulatory actions and targeted funding approaches that increase affordable rental housing and supportive housing.

Under this proposal, current state housing law would be modified to broaden eligibility for by-right, ministerial land use entitlements for multifamily infill housing if it includes long-term multifamily affordable units. Under the proposed legislation, a local government may not require a conditional use permit, planned unit development permit, or other discretionary local government review or approval for qualifying developments that include an affordable housing component. The proposal specifies that in order to qualify they must be consistent with objective general plan and zoning standards and are, where applicable, subject to mitigating measures to address potential environmental harm.

The chart on the next page demonstrates the process outlined in the May Revision proposal:

Proposed “By-Right” Process for Developments with Affordable Housing Units



**STAFF COMMENTS**

The Legislature will have to decide between some very different policy choices while evaluating this proposal. All year long, the Subcommittee has discussed the challenges facing housing in California with respect to both funding and finding ways to increase housing stock in local communities.

The subcommittee may wish to ask DOF to discuss the following:

- What are we getting by implementing this proposal? Does this proposal include workforce housing?
- What existing protections are we giving up?
- How does the proposal address affordability, covenants, and relocation assistance and replacement units?
- How is this new mitigation process different from the CEQA process? Does this process align with the goals included in SB 375 (Steinberg, 2008).

**Staff Recommendation: Hold Open.**

**ISSUE 3: DOWNPAYMENT ASSISTANCE PROGRAM TRAILER BILL LANGUAGE**

The May Revise includes trailer bill language that proposes changes in law to further the California Housing Finance Agency's (CalHFA) goal of helping more families become first-time homebuyers by combining remaining funds from multiple downpayment assistance programs into the MYHOME Program.

**BACKGROUND**

The CalHFA administers programs to assist low- and moderate-income residents purchase their first home, and provides loans to developers of affordable multifamily rental housing. As part of its first time homebuyer function, over the last several years CalHFA has administered a number of down payment assistance programs, many targeted to specific groups of buyers. Some of these programs were funded by CalHFA with its own resources, but most of them were started with the proceeds of General Obligation bonds. The first such bond that provided funds for this purpose was issued in 1988 (often referred to as the Roberti bonds), which provided for the creation and initial funding of the Home Purchase Assistance (HPA) fund.

Additional funding was provided to CalHFA for down payment assistance through the passage of Propositions 46 (2002) and 1C (2006). Those bonds funded the California Homebuyer Downpayment Assistance Program (CHDAP), which included a number of subprograms, including the Extra Credit Teacher Home Purchase Program (ECTP). Each of those bonds contained language that provided for funds from each of those subprograms to revert to CHDAP at some point in time, but each of those programs remains in CalHFA's governing statutes.

To date, all of the original bond funds have been used, and CalHFA has been operating its down payment assistance programs with recycled program funds. For accounting and auditing purposes, when repayments are received, they have been redeposited back into their original funds, and when a sufficient amount has accumulated, redeployed into new downpayment assistance loans. While virtually all of the funds from Propositions 46 and 1C can transfer back to CHDAP, there is currently no provision to combine the administration of all funds from CHDAP and HPA into a single fund.

CalHFA currently offers the MyHome Assistance Program, which provides down payment assistance for first-time homebuyers through a deferred payment, subordinate loan. It is available to first-time homebuyers throughout California that meet low- and moderate-income requirements. The down payment assistance is paired with a CalHFA first loan mortgage and payment on the down payment assistance is due when the borrower pays off or refinances the first loan.

In order to run its MyHome Program, CalHFA has been using recycled funds from both HPA and CHDAP. Transferring all down payment assistance funds into one single fund and program would make the administration of these dollars more efficient and

effective, allowing CalHFA to administer these funds under a single set of consistent rules. Statutory revisions would allow CalHFA to utilize the \$176 million remaining more flexibly and continue to fund the MyHome Program or other home purchase assistance for up to three more years, depending on volume.

Administering these funds under a single set of rules will also provide CalHFA with the opportunity to strategically align resources with local governments that are also promoting homeownership opportunities and provide needed flexibility to partner with non-profits in rural communities that use self-help and sweat equity as paths to homeownership.

### **Fund Balances (\$176,574,355)**

#### **California Homebuyer's Downpayment Assistance Program (CHDAP) – \$130,400,000 in recycled funds available**

*HSC section 51500:* Provided a deferred-payment junior loan of an amount of 3 percent of the purchase price or appraised value, whichever was less, to low and moderate income, first-time homebuyers.

The bond funds provided for CHDAP were used to successfully fund over \$350 million in down payment assistance to help over 47,000 families achieve homeownership. Recycled funds have been used to assist more than 7,000 additional first-time homebuyers.

#### **Housing in Revitalized Areas Program (HIRAP) – \$2,132,364 in recycled funds available**

*HSC section 51504(c):* Provided a deferred-payment junior loan of an amount up to 6 percent of the purchase price or appraised value, whichever was less, to low and moderate income, first-time homebuyers purchasing a property within a community revitalization area.

The original allocation for this program was exhausted in 2005. During the three years that it was active, HIRAP helped more than 480 low-income families purchase their first home.

#### **Extra Credit Teacher Home Purchase Program (ECTP) – \$8,401,638 in recycled funds available**

*HSC section 51505 & GC section 8869.84(g):* Program intended for eligible teachers, administrators, classified employees, and staff members working in high priority schools in California. Offers a deferred-payment junior loan of an amount not to exceed the greater of \$7,500 or 3 percent of the sales price or in CalHFA-defined high cost areas an amount not to exceed the greater of \$15,000 or 3 percent of the sales price. The ECTP has a forgivable interest component should the school staff remain employed with the high priority school for more than 3 years.

The ECTP Program is currently operating with recycled funds. However, because the Department of Education no longer ranks or publishes the list of high priority schools (based on API scores) – the list used to determine eligible school districts no longer exists. Teachers and school employees would still be eligible for downpayment assistance from CalHFA, and CalHFA plans to continue to market to this population.

**Residential Development Loan Program (RDLP) – \$34,917,129 in recycled funds available**

*HSC section 51504(b):* CalHFA was authorized to use, at its discretion, not more than \$75 million of CHDAP to finance the acquisition of land and the construction and development of housing developments, as defined in HSC section 50073.5, and for-sale residential structures through short-term loans pursuant to its authority pursuant to HSC section 51100. However, the statute also stated that as funds grew short, downpayment assistance was to be the priority use for these funds.

This program was suspended in September 2008, and all unencumbered funds were transferred to CHDAP to be used for down payment assistance.

**School Facility Fee Program (SFF) – \$723,224 in recycled funds available**

*HSC section 51451.5:* This was a down payment assistance program for homebuyers of newly constructed single family homes or condominiums in economically distressed areas (defined by a high rate of unemployment and low number of residential building permits). Assistance was calculated based on a portion of the eligible school facility fees paid by the builder.

Although it has now ended, SFF was responsible for helping over 14,000 families achieve homeownership. The SFF program provided more than \$61 million in down payment assistance grants to families purchasing newly constructed homes throughout California.

**STAFF COMMENTS**

This proposal would streamline funds and a set rules for CalHFA to administer funds that would help more families become homeowners.

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**Staff Recommendation: Adopt Placeholder Trailer Bill Language**

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**9210 LOCAL GOVERNMENT FINANCING**

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**ISSUE 4: COMMUNITY-BASED TRANSITIONAL HOUSING TRAILER BILL LANGUAGE**

The Governor's budget proposed \$25 million siting grant program to encourage local communities to support housing that provides treatment and reentry programming to offenders from the criminal justice system. The May Revision includes trailer bill language to implement the grant program.

**BACKGROUND**

The main components of the Community-Based Transitional Housing Program include:

- Additional funds to local communities that site, for a minimum of 10 years, new transitional housing and supportive services for offenders released from state prison or county jail.
- A requirement that a portion of the funds be used by the city or county to increase public safety around the facility and improve communication with neighbors.
- A requirement that grant funding be share with nonprofit facility operators to support rehabilitative services, security, and community outreach.
- A competitive application process that will protect existing permitted facilities, examine the current concentration of permitted facilities in the community, review the past performance of the facility operator, and give priority to cities and counties that leverage or provide other funding for the facility.

**STAFF COMMENTS**

Although the nexus to between the use bond funding is eliminated when the bonds go away, the nexus for the use of funds from AB 32 and SB 375 remains.

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**Staff Recommendation: Hold Open.**

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**0509 GOVERNOR'S OFFICE OF BUSINESS AND ECONOMIC DEVELOPMENT****ISSUE 5: CALIFORNIA SMALL BUSINESS DEVELOPMENT CENTER PROGRAM**

The May Revision includes a one-time appropriation of \$1.5 million as a partial match of Federal Funds to support the Small Business Development Center (SBDC) Program.

**BACKGROUND**

Created in California in 1974, the SBDC program is now the largest small business technical assistance program in the country, with over 1,000 centers across all 50 states and US territories.

The California SBDC network provides valuable services to small businesses, which comprise approximately 90 percent of businesses located in California. The following are the 2015 California statistics, which were recently submitted by the California SBDC network to the SBA as part of the reporting requirements of the federal grant:

- SBDC clients created 5,422 new jobs attributed to SBDC assistance.
- SBDC clients retained 2,998 jobs that would otherwise have been lost.
- SBDC clients secured \$634 million in new capital through loans and venture capital activity as a result of working with the SBDC program.
- SBDC clients increased their sales by \$272 million.

GO-Biz currently has three positions supporting small business assistance programs. If SBDCs were eliminated or severely decimated, GO-Biz does not have the capacity to provide the needed services that are currently provided by the California SBDC network to small businesses.

The Small Business Administration provides up to \$13 million of Federal grant funds to the California SBDC network, if they can meet the required one-to-one match. If the matching funds are not met, the funds that California is not able to match are released to other states.

**STAFF COMMENTS**

Approval of this proposal is consistent with the past two fiscal years. In previous years, the allocation was \$2 million. The Subcommittee may wish to ask why the funding is less this year.

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**Staff Recommendation: Adopt May Revision proposal.**

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**ISSUE 6: CALIFORNIA COMPETES TAX CREDIT CLEAN-UP TRAILER BILL LANGUAGE**

The May Revision proposes trailer bill language that would clarify GO-Biz's existing authority to negotiate tax credit agreements.

**BACKGROUND**

The California Competes Tax Credit (CCTC) clean-up language would clarify GO-Biz's existing authority to negotiate tax credit agreements by explicitly stating that GO-Biz may consider the following factors when deciding whether to enter into a tax credit agreement with a business:

1. The financial solvency of the business and the business's ability to finance its proposed expansion.
2. The business's current and prior compliance with federal and state laws.
3. Current and prior litigation involving the business.
4. The reasonableness of the fee arrangement between the business and any third party providing services related to the CCTC.
5. Other factors GO-Biz deems necessary to ensure the administration of the CCTC is a model of accountability, transparency, and the effective use of the limited tax credits available is maximized.

The CCTC program is one component of Governor Brown's Economic Development Initiative of 2013. The CCTC program authorizes GO-Biz to provide tax credits to businesses in exchange for California job creation and capital investments. However, unlike other tax incentive programs in which a business is automatically entitled to the incentive if it meets the statutory requirements, the CCTC enabling statutes provide GO-Biz the ability to negotiate tax credit agreements on behalf of the state with businesses committing to expand or locate in California.

The total amount of CCTC that can be awarded in any fiscal year is statutorily capped at \$200 million, plus any unallocated or recaptured previously awarded credits. The legislative intent language in the bill that created the CCTC states that the program was enacted to be a model of accountability and transparency and to maximize the effectiveness of the state's limited economic development dollars. Consistent with this intent, in 2014 GO-Biz promulgated regulations that, among other requirements, require applicants for the CCTC to disclose information related to their financial condition, federal and state law violations, pending and resolved litigation, and the compensation and nature of agreements with third parties preparing applications for the CCTC. GO-Biz requires this information to ensure the efficacy of the CCTC program and to

maximize benefits of the credits awarded. However, despite the clear legislative intent and authority vested in GO-Biz to administer the CCTC program, GO-Biz's ability to request and evaluate the above information required by its regulations has been called into question.

<b>STAFF COMMENTS</b>
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The CCTC clean-up language would clarify and make explicit GO-Biz's authority in this regard and ensure that the program continues to operate as it has since its inception.

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**Staff Recommendation: Adopt Placeholder Trailer Bill language.**

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**ISSUE 7: TRAVEL AND TOURISM COMMISSION TRAILER BILL LANGUAGE**

The May Revision proposes Trailer Bill Language that would make changes to the Travel and Tourism Commission (CTTC).

**BACKGROUND**

The California Tourism Marketing Act was enacted in 1995, to increase California's share of the travel and tourism market (pursuant to Government Code section 13995 et seq.). The legislation authorized self-imposition of an assessment by businesses that benefit from travel and tourism. It also authorized the establishment of a non-profit, public benefit corporation – Visit California – to oversee the promotion of California as a premier travel destination.

Pursuant to the Governor's Reorganization Plan 2 of 2012 and Government Code section 13995.40, the Governor's Office of Business and Economic Development (GO-Biz) has been bolstered through the addition of the CTTC and the Office of Tourism, the California Infrastructure and Economic Development Bank (I-Bank), the California Film Commission, the Small Business Loan Guarantee Program, and the California Small Business Development Centers. These organizations and programs moved into GO-Biz had previously been part of the California Technology, Trade, and Commerce Agency but were shifted to the California Business, Transportation, and Housing Agency when the Legislature eliminated the California Technology, Trade, and Commerce Agency through the 2003-04 Budget Act.

The Commission is governed by a 37-commissioner advisory board, of which up to 12 members are appointed by the Governor representing one of twelve tourism regions in the state, up to 24 members are elected by the assessed industry members (representing each industry segment including Accommodations, Restaurants and Retail, Attractions and Recreation, Transportation and Travel Services, and Passenger Car Rental), and the GO-Biz director, who serves as chair.

**Proposed Trailer Bill Language.**

The proposed TBL would allow the gubernatorial-appointed commissioners to elect both the chairperson and vice chairperson of the Commission. The GO-Biz director would continue to serve on the Commission and GO-Biz would continue to provide oversight of the Commission's annual budget and marketing plan, among other administrative functions.

**STAFF COMMENTS**

Staff has no concerns with the proposal.

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**Staff Recommendation: Adopt Placeholder Trailer Bill Language.**

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**7900 CALIFORNIA PUBLIC EMPLOYEES RETIREMENT SYSTEM****ISSUE 8: HEALTH BENEFIT ADMINISTRATIVE EXPENSES TRAILER BILL AND BUDGET BILL LANGUAGE**

The Governor's budget includes trailer bill language as well as budget bill language to address CalPERS increased health care administrative expenditures.

**BACKGROUND**

According to the Department of Finance (DOF), CalPERS has significantly increased its health care administrative expenditures in recent years. Though Proposition 162 provides broad authority for CalPERS to manage its pension funds, the administration of the CalPERS health care program has always remained under the jurisdiction of the Legislature and the budget-approval process.

The Contingency Reserve Fund (CRF) was established in 1962 as the clearinghouse for program-wide administrative activities for the CalPERS health care program. A CRF employer-paid surcharge is levied on premiums for all health plans to pay for state personnel and operating expenses, and maintain a reserve. The Legislature approves the CRF surcharge as well as CRF administrative costs through the Budget Act.

The Health Care Fund (HCF) was established in 1988 to manage the "self-funded" PPO plans. In addition to the CRF surcharge, the CalPERS Board was provided limited statutory discretion to run additional administrative expenses that are related to the "self-funded" plans through the HCF. These additional administrative costs are built into the PPO premiums. These additional administrative costs are not subject to the budget approval process; however they are displayed as a "non-Budget Act" item.

According to the DOF, over the past 20 years, and particularly over the last five years, CalPERS has moved an increasingly larger share of the administrative expenses and positions into the HCF, outside of the budget-approval process and unrelated to the direct costs of PPO plan administration.

DOF states that this dynamic has kept the CRF administrative expenses, which are subject to legislative review, relatively flat over the last decade, while the HCF now represents more than half of all the health care administrative expenses.

**Governor's Proposal.**

According to DOF, the intent of the trailer bill language and budget bill language is to provide the following solutions:

- Establish through TBL that all administrative expenses in the HCF and the CRF need legislative approval
- Establish through TBL that all administrative expenses for the health care program flow through CRF, effective July 1, 2017.

- Include provisional language that establishes a zero-based budget exercise to review CalPERS health care administrative expense and establish a baseline for the 2017-18 Governor's budget.

### Proposed Trailer Bill Language.

GC 22864	<b>Risk adjustment accountability.</b> Requires CalPERS to disclose risk adjustment premium information upon final board approval of premiums.
GC 22885	<b>Administrative Expenses.</b> Establishes that state CRF surcharge is to be used only for expenses on behalf of state employees and retirees. Ensures that state pays fair share of administrative expenses.
GC 22901	<b>Administrative Expenses.</b> Authorizes CalPERS to customize CRF surcharge for contracting agencies based on service levels. Ensures local agencies pay fair share of administrative expenses.
GC 22910	<b>Budget Oversight.</b> Clarifies existing statute establishing that CalPERS health care administrative expenses in the Contingency Reserve Fund must be approved by Legislature.
GC 22911	<b>Budget Oversight.</b> Establishes that CalPERS health care administrative expenses in the Health Care Fund must be approved by Legislature.

**Proposed Budget Bill Language**

7900-001-0950, Prov 2	<b>CRF appropriation.</b> Authorizes Finance to reduce the Current Year appropriation to reflect reductions in the CRF surcharge (CS 4.20) as a result of premium changes.
7900-001-0950, Prov 2	<b>Remove Medicare report.</b> The Medicare report was envisioned as a one-time report; CalPERS has complied with the report requirements.
7900-001-0950, Prov 3 7900-015-0822, Prov 3 7900-017-0950, Prov 1	<b>Zero-Based Budgeting.</b> Directs CalPERS to work with Finance on a zero-based budgeting exercise for health care administration expenses, to prepare the 2017-18 Governor's Budget.
7900-015-0822, Prov 2	<b>100-Day Report.</b> Deletes 100-day reporting requirement.
7900-015-0822, Prov 2	<b>Risk adjustment accountability.</b> Requires CalPERS to submit a one-time report detailing the CalPERS premium risk adjustment procedure and outcomes.
9650-001-0001, Prov 5 9800-001-0001, Prov 6 9800-001-0494, Prov 7 9800-001-0988, Prov 7	<b>Clarify authority for CY Executive Order.</b> Adds revised dental rates.

**STAFF COMMENTS**

The Governor's proposal to move the HCF administrative fees under budget is reasonable. However, the trailer bill language goes beyond the HCF administrative fees and begins to move toward a policy discussion on the issue. If the goal is to have a broader discussion on the policy issues associated with both risk adjustments and the administrative expenses for local governments, this seem like it would be more appropriate at the policy level in order to fully vet what the impact of those changes would be.

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**Staff Recommendation:** Reject the pieces of the TBL that deal with Risk Adjustment and Administrative Expenses. Approve placeholder TBL that deals with Budget Oversight in GC 22910 and 22911 .

**Approve Budget Bill language but reject the section on Risk Adjustment accountability provision.**

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## 7730 FRANCHISE TAX BOARD

### ISSUE 9: CALIFORNIA EARNED INCOME TAX CREDIT – EDUCATION AND OUTREACH

The Franchise Tax Board (FTB) requests \$2 million (General Fund) for education and outreach efforts related to the California Earned Income Tax Credit (EITC) that was implemented in the 2015 tax year.

#### BACKGROUND

California implemented an EITC program in 2015. The program is designed to help the poorest working families in California. The program provides a targeted, refundable credit for wage income (excluding self-employment) and focuses on the lowest-income Californians—households with incomes less than \$6,580 if there are no dependents or \$13,870 if there are three or more dependents. The state program complements the existing federal EITC and matches 85 percent of the federal credits up to half of the federal phase-in range and then tapers off relative to the maximum wage amounts.

FTB collaborated with government and non-government agencies to develop a detailed communication plan to reach California taxpayers who might qualify for both the federal and state credits. Collaborative efforts include the following:

#### *Demographic information:*

An interactive heat map of California identifying the target audience and Voluntary Income Tax Assistance (VITA) site locations. The information is available in several views including zip code and county.

#### *Web Support:*

- CalEITC4me.org - This non-government website developed and supported by Dewey Square is the main web marketing tool deployed for outreach. This site includes:
  - General information about the federal and state EITC credits.
  - Interactive credit calculator tool that provides the state and federal benefit amounts after providing income and dependent information.
  - Free Tax Assistance Tool that locates VITA sites by zip code, provides hours of operation, and contact information for tax preparation appointments.
- [ftb.ca.gov](http://ftb.ca.gov) - FTB updated the EITC webpage to include information for the new state credit. FTB deployed a "partner portal" for entities who want to support EITC outreach efforts. This portal includes marketing materials that can be downloaded and used for different purposes.
- [taxes.ca.gov](http://taxes.ca.gov) - This website includes a short description of the federal and state credits and provides a link to CalEITC4me.org in a prominent location.

*Direct Mail Campaign:*

FTB conducted a direct mailer campaign to California taxpayers who did not have a state filing requirement but may qualify for the new California EITC credit. The mailer included information on the federal credit.

*FTB Education and Outreach Efforts:*

FTB has conducted over 30 educational outreach events this past year. These events reach taxpayers, tax professionals, legislative staff, and other groups to discuss the new California EITC.

FTB will continue to provide EITC information at events, including small business fairs should self-employment income be included, along with any EITC marketing materials.

*Marketing Materials:*

Working in collaboration with business partners, FTB uses the same logo for the EITC education and outreach campaign.

*Communication Plan:*

Dewey Square gathered information from collaboration partners to lay into a communication plan by location, date, etc. This plan helps identify gaps in VITA support and allows us to more effectively fill those gaps.

Despite extensive education and outreach efforts, it appears that not all eligible taxpayers were aware of the EITC program. To enhance awareness FTB intends to expand these outreach efforts with its partners to reach a higher percentage of qualifying residents to put money in their pockets.

Efforts include continuing to partner with non-profits, community based organizations, and other state and local government agencies.

**STAFF COMMENTS**

Advocates have raised concerns that additional outreach is needed to help reach more of the targeted community. The subcommittee may wish to ask about what specific efforts FTB will make to partner with non-profits, CBOs and local government agencies? What changes will FTB implement from the original marketing plan in order to reach more taxpayers with the additional funds.

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**Staff Recommendation: Hold Open.**

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**8260 CALIFORNIA ARTS COUNCIL****VOTE-ONLY ISSUE 10: ARTS IN CORRECTIONS PROGRAM EXPANSION**

The California Arts Council requests additional reimbursement authority of \$4 million 2016-17, and \$6 million 2017-18 and ongoing, along with position authority for two additional positions to expand the current Arts-in-Corrections programming and to administer the resultant additional workload.

The 2016-17 Spring Finance Letter for Arts-in-Corrections proposed funding through a \$2 million Interagency Agreement (IA) between the California Arts Council (CAC) and the California Department of Corrections and Rehabilitation (CDCR). The current level of funding received from CDCR allows the CAC to partially implement the program at 20 of the CDCR Adult Institutions. The increased funding would allow the CAC to fully program the existing 20 facilities and also would allow the CAC to expand the Arts-in-Corrections to fully program the remaining CDCR Adult Institutions.

**BACKGROUND**

The CAC and CDCR, starting in 2013-14, partnered through an IA to create and operate a successful Arts-in-Corrections program in California. "Arts-in-Corrections" is a comprehensive term to describe the direct instruction and guidance in the creation of and participation in the visual, performing, literary or media arts to inmates in correctional settings. Arts-in-Corrections programming is provided by professional artists individuals who have actively participated in their particular arts discipline and who are recognized as experts by their peers in the arts field. Those inmates who are actively involved in the creation and participation of the arts under the guidance of the Providers are the Arts-in-Corrections participants. To date, the CAC has reached over 2,000 Inmate Participants through the Arts-in-Corrections program.

The first two years of the project, 2013-14 and 2014-15, were part of a pilot project. Funding in 2013-14 was at \$1 million. In 2014-15 funding was increased to \$1.5 million, with an additional \$316,000 coming at the end of the fiscal year for a total of \$1.816 million. In 2015-16, funding was increased to \$3.5 million, including \$1.5 million of one-time funding. As part of a pilot program, funding levels were uncertain, so the CAC had been documenting the funds as unscheduled reimbursements. However, with the certainty of a multi-year IA the CAC would no longer have a need to leave the reimbursements unscheduled. The CAC would like the recent stability of the Arts-in-Corrections funding be reflected in the CAC budget.

**STAFF COMMENTS**

On April 26, 2016, the Subcommittee approved a Spring Finance Letter to approve \$2 million in funding through an interagency agreement. The funds requested in the May Revise are consistent with previous action taken by the Subcommittee this year.

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**Staff Recommendation: Adopt May Revision proposal.**

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