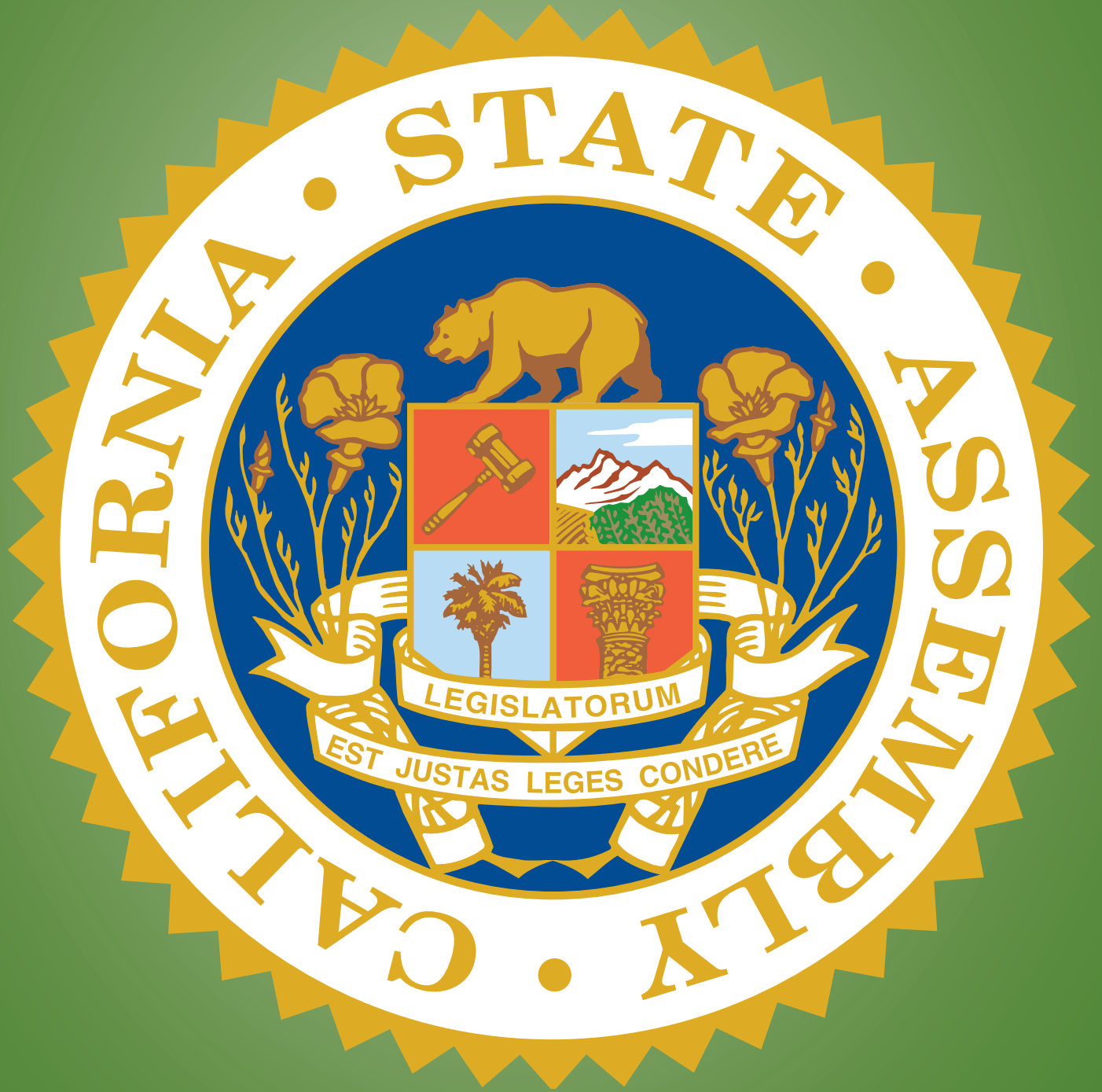


ASSEMBLY BUDGET COMMITTEE
PRELIMINARY REVIEW OF THE GOVERNOR'S PROPOSED
2015-2016
STATE BUDGET ACT



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February 13, 2015

Dear Colleagues and Friends:

I am pleased to present to you the Assembly Budget Committee's annual ***Preliminary Review of the Governor's Proposed 2015-16 State Budget***.

The ***Preliminary Review*** outlines and provides background for Governor Brown's major budget proposals and puts them in some perspective. It is organized by traditional topics of interest to us all, and highlights major provisions.

Crafting the state budget is perhaps the Legislature's greatest responsibility. Writing this year's budget will involve no less than making monumental decisions on the future of state government's role in educating our children, rebuilding our transportation infrastructure, protecting our unique environment and taking care of our aged and disabled residents.

The ***Preliminary Review*** is intended to serve as an effective tool for those interested in participating in this year's budget proceedings.

We hope that you find the ***Preliminary Review*** useful in understanding and discussing the Budget. If you have any questions or need additional information, please do not hesitate to contact me or the Assembly Budget Committee staff.

Sincerely,

A handwritten signature in blue ink, appearing to read "Shirley N. Weber", is placed above the printed name.

Shirley N Weber, Ph.D., Chair

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OVERVIEW

California is leading again. The recent passage of Proposition 2 combined with three financially stable years has silenced critics of the State and ended an era of perpetual crisis that left many to doubt California. Now the State is back to its traditional role as trend setter in technology, fashion, culture, and opinion. This leadership has extended to the State government itself. The Governor has offered a budget plan that looks to vanquish the State's remaining liabilities while embracing the State's cutting-edge efforts to address climate change, the education gap, and embark on the nation's largest public works project, building the California High Speed Rail system.

We can do even more. The Assembly begins the 2015 budget process with the ability to build upon the Governor's plan and further California's leadership in other areas such as additional public infrastructure investment, aggressive efforts towards poverty reduction, and increased access to early and higher education.

This report is aimed at providing an initial look at the 2015 budget plan in the context of recent policy challenges in California. The report is divided by policy areas into sections that are designed to first provide context regarding challenges faced by the State, and second, discuss options for moving forward in light of the Governor's January proposal. This initial report is intended to provoke questions and discussion as the Assembly embarks upon its public process to craft California's spending plan for 2015-16.

K - 1 2 E D U C A T I O N

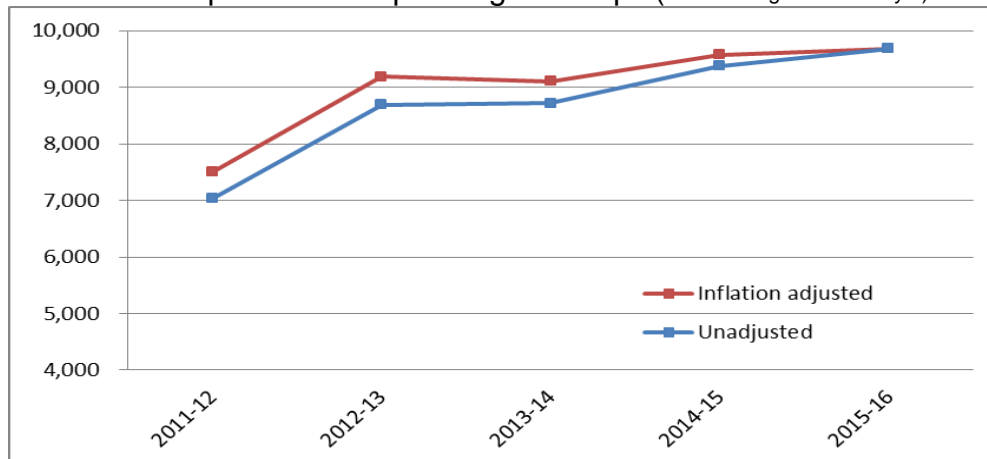
California's public education system is the largest in the nation, consisting of approximately 6.2 million students in over 10,000 schools within 1,000 districts and 58 County Offices of Education. California also employs approximately 295,000 public school teachers.

California's schools are funded through state, local and federal funds. State funding makes up the largest portion of funding for schools (63 percent). Local funding, such as property taxes, makes up 26 percent of school funding and federal funds contribute 11 percent. Most of this funding is used for instruction, including providing teacher salaries and benefits. Other costs include construction and maintenance of facilities, student services (such as transportation, school meals and counselors), and administration.

Total funding for schools and community colleges is largely driven by formulas created through Proposition 98, passed by voters in 1988. Proposition 98 created a minimum funding level for schools, referred to as the "minimum guarantee." The Proposition 98 minimum guarantee is determined by a series of formulas, or "tests," outlined in the State Constitution. These tests take into account multiple factors including K-12 enrollment, per capita personal income, and per capita General Fund revenue. Due to Proposition 98, approximately 40 percent of the state's budget is dedicated to California's schools and community colleges.

Even with the protections of Proposition 98, funding for schools has been especially volatile in recent years. During the Great Recession, state revenues declined and education funding was reduced by approximately 20 percent. Since the recession, education funding has improved considerably due to the recovering economy and the passage of Proposition 30. The Governor's budget assumes that schools will receive \$65.7 billion in 2015-16, a 39 percent increase from four years ago. As shown in the chart below, per-pupil spending under the Governor's plan is expected to be \$9,667 in 2015-16, a significant increase since 2011-12.

K-12 Proposition 98 Spending Per Pupil (Source: Legislative Analyst)



Despite the volatile funding in recent years, California has instituted a number of major education reforms. In 2013, California enacted a new school finance system through the “Local Control Funding Formula,” or LCFF. The purpose of the LCFF was to create a more simple and equitable formula that is intended to improve student outcomes by shifting decision making to the local level. The LCFF consists of a base grant for all students, supplemental funding for English learners, low-income and foster youth, and concentration funding for districts with relatively high proportions of student who qualify for supplemental funding. However, because the state could not fully fund the LCFF when it was enacted, the state set target rates which would be funded over the next several years. When the LCFF was enacted, it was estimated that the formula would not be fully funded until 2020-21.

In conjunction with the LCFF, the state established a new system for school accountability. Under the new system, school districts, County Offices of Education and charter schools are required to complete a Local Control Accountability Plan (LCAP), outlining their locally developed goals and actions in eight state priority areas. The plans also require districts to describe how they are enhancing services to English learners, low-income and foster youth students.

In addition to the LCFF and LCAP, California has adopted and began implementing new curriculum standards in many of the core subject areas. In 2010, California adopted the Common Core State Standards (CCSS) in English language arts and math. California has also adopted new English Language Development standards for English learners, which are aligned to the CCSS. In 2013, California adopted new curriculum standards for science, called the Next Generation Science Standards (NGSS).

This section will outline the major issues that are being discussed related to K-12 education, how the Governor responded to some of these issues in his January budget proposals and considerations for the Legislature when crafting the 2015-16 budget.

Major Issues in K-12 Education

- **Implementation of the Local Control Funding Formula.** California is in its second year of implementing the Local Control Funding Formula (LCFF). The goal of the LCFF is to refocus our school finance system on improving student outcomes. In order to do this, the LCFF seeks to align local budgets with local goals and state priorities for improving student performance. The system is intended to be more transparent and easily understood by the public. This year, state leaders will be evaluating how the first year of implementation went, and what changes or improvements should be made.

- **Local Control Accountability Plans.** The State Board of Education (SBE) was charged with adopting the template for districts to use in adopting their LCAP, as well as the regulations for how districts can use their supplemental and concentration funds. The SBE held numerous hearings with hours of public comment on their proposed LCAP regulations, and ultimately adopted the final template and spending regulations in November 2014. Although significant changes were made to the regulations throughout this process, questions still remain whether the regulations should be more stringent on what supplemental and concentration funds can be used for. Also, other elements of the accountability system are still being developed, such as the new rubrics for assessing school district performance and the California Collaborative for Educational Excellence (CCEE), which will provide intervention for low-performing school districts. This will likely be a topic of conversation this year.
- **School funding adequacy.** While the LCFF fundamentally changed the way we allocate funding to schools, this new formula does not provide any additional resources for schools. It is estimated that the LCFF will not be fully funded until 2020-21 or later. Proposition 98 explicitly added to the State Constitution the goal that that annual per student spending would equal or exceed the per-student spending of the top ten states across the nation. California has a long way to go to be among the top ten states in per pupil spending, ranking 46th in the most recent report. While the passage of Proposition 30 in 2012 was essential in preventing additional trigger cuts to schools in excess of \$5 billion, these temporary state tax increases are scheduled to begin to phase out in 2016. With the expiration of Proposition 30 looming, and the stated goal to profoundly improve our per-pupil investment, the Legislature may want to explore securing additional funding sources for schools.
- **Restructuring adult education.** Adult education provides free or low-cost classes to adults that are in need of additional education, whether it be learning English, obtaining a high school diploma, job training, or obtaining basic skills in preparation for college. Currently, adult education is provided through both the K-12 and community college systems, and is funded through separate funding streams. The 2013-14 budget created a local planning process to analyze needs and make recommendations about how adult education services could be improved in the future. The budget dedicated \$25 million for two-year planning grants provided to 70 regional consortia made up of community college district and school district representatives. The Department of Education and Community College Chancellor's Office are required to report to the Legislature on or before March 1, 2015 on their recommendations for improving adult education services based on the regional consortia plans. Additionally, with the creation of the LCFF, dedicated funding for adult education within the K-12 system was consolidated into the base funding for schools. However, the state created a two-year maintenance of effort requiring districts to continue to spend the same amount on adult education as they did in 2012-13 for two years. This maintenance of effort requirement expires at the end of the 2014-15 fiscal year.

- **Maintaining career technical education.** Prior to the LCFF, high school career technical education (CTE) programs were funded through various categorical programs, the largest being the Regional Occupational Centers and Programs (ROCPs). With the creation of the LCFF, funding for ROCPs was consolidated into the formula, along with most categorical programs. However, in order to ensure that ROCPs continued, the state instituted a two-year maintenance of effort requirement that local educational agencies maintain their existing levels of spending on ROCPs. Similar to adult education programs, this maintenance of effort is set to expire at the end of the 2014-15 fiscal year, causing uncertainty for many ROCPs.
- **Implementation of the Common Core State Standards.** The Common Core State Standards (CCSS) were adopted by California in 2010. Many schools were slow to implement the new standards due to the lack of adequate funding during the recession. The Department of Education originally estimated the cost for schools to implement the new standards would be approximately \$3.1 billion. The state has made progress in recent years in providing needed funding to implement the CCSS. The 2013-14 budget provided \$1.25 billion in one-time funding for professional development, instructional materials and technology related to the new standards. Additionally, the 2014-15 budget provided \$450 million to pay down the education mandates backlog, with the intent that the funding freed up by this payment be used toward implementing the CCSS and English Language Development standards. The Legislature could infuse schools with additional one-time funding to implement the CCSS in 2015-16
- **Preparing for computer based tests.** This spring students across the state will begin taking the new computer based assessments aligned to the CCSS. Last spring over 3 million students participated in "field tests" of the new assessments, which tests the validity of the questions, while also giving students and teachers the opportunity to take a practice test before it becomes fully operational in 2015. There have been many concerns raised about implementing this new assessment system, including that schools do not have the technology infrastructure to support the online tests, and that test results will be much lower due to the increased rigor in the standards and that many teachers just recently began teaching to these standards. Also, many question whether this year's scores should be used for accountability purposes.

- ***Vergara vs. California.*** On June 10, 2014, Los Angeles Superior Court Judge Rolf Treu found many California laws related to teacher tenure, dismissal and layoffs unconstitutional. The *Vergara vs. California* decision addressed multiple teacher protection laws, including: teacher tenure, giving teachers due-process rights after two years of probation; the state's complex teacher dismissal process for ineffective teachers; and the layoff process, requiring layoffs to be made based on seniority. This controversial decision has sparked national attention. In August 2014, Governor Jerry Brown appealed the Vergara decision, arguing that Judge Treu did not provide sufficient legal backing to his decision. Will the Legislature and Governor seek reforms to California's teacher protection laws this year, or wait for the Court of Appeal's decision?
- **Preschool expansion.** Last year the Legislature provided \$155 million for the State Preschool Program in order to expand access, increase preschool provider rates, eliminate preschool family fees, and improve quality. The Legislature also passed legislative intent to provide all low-income four-year-old children from working families with full-day, full-year early education and child care services, with acknowledgement from the Governor that additional preschool slots would be provided in future years. The Legislature may seek to further expand preschool access this year.
- **School facilities funding.** School districts rely on statewide General Obligation (G.O.) bonds to raise money to build and remodel school buildings and purchase equipment. Districts can also generate funds locally through developer fees, local bonds, certificates of participation, and Mello-Roos taxes. Since 1998, voters have approved \$35 billion in statewide G.O. bonds for school facilities in California. The last bond that was approved by voters was in 2006 with Proposition 1D. This bond provided a total of \$7.3 billion in bond authority for various K-12 facility programs, the largest being the New Construction and Modernization programs. These two core facilities programs currently have no remaining bond authority. However, it is estimated that \$1.2 billion in project applications are awaiting funding in these programs. AB 2235 (Buchanan, 2014), the Kindergarten-University Public Education Facilities Bond Act of 2014, would have authorized a modest statewide G.O. bond to be placed on the ballot in November 2014. If passed by voters, this bond would have provided \$4.3 billion for construction and modernization of K-12 and higher education school facilities. This legislation passed the Legislature with bipartisan support, but was opposed by the Governor and ultimately stalled. The Governor signaled that he would address this issue in his January budget proposal.

- **Special education reform.** California has implemented many reforms to our general education system to increase student achievement, such as the LCFF and the Common Core State Standards. However, California's special education system is also in need of reform. The State has convened the Statewide Special Education Task Force in order to come up with recommendations for reforming the current system. These recommendations will be released in February. Additionally, in June 2014, the U.S. Department of Education cited California as one of three states whose special education programs were in need of federal intervention due to the lack of academic progress for students with special needs.

Governor's January Budget Proposals in K-12 Education

K-12 EDUCATION

Major Provisions

- **Proposition 98.** The Governor's budget includes a total of \$7.8 billion in new Proposition 98 funding, including increases to the minimum guarantee in prior years. The total Proposition 98 funding level in 2015-16 is \$65.7 billion, \$4.9 billion higher than the 2014 Budget Act. According to the Administration's revised estimates, the 2013-14 minimum guarantee increased by \$371 million and the 2014-15 minimum guarantee increased by \$2.3 billion from the June 2014 estimate. Additionally, the Governor proposes to make a \$256 million "settle-up" payment to pay down Proposition 98 funding the state owes from 2009-10.
- **Local Control Funding Formula.** The Governor's budget provides \$4 billion to further implement the LCFF. This represents 32 percent of the remaining "gap funding" needed to reach full implementation of the LCFF and represents a 9 percent increase from 2014-15. The total amount provided for LCFF in the Governor's plan is \$50.7 billion in 2015-16. The total cost to fully fund LCFF this year would be \$60.1 billion. The Department of Finance originally estimated that the LCFF would be fully implemented by 2020-21. However, this projection has not been updated since the enactment of the LCFF. The Legislative Analyst's Office's November forecast estimated that in 2019-20 (as far as their projections go), the LCFF targets would be 91 percent funded.

- **Deferrals.** During the recession, Proposition 98 deferrals became a common budgeting tactic for balancing the State budget. By delaying Proposition 98 payments owed to schools from one budget year to the next, the State is able to achieve one-time savings without cutting programmatic spending. By the end of 2011, a total of \$10.4 billion in Proposition 98 payments were being paid late, approximately 21 percent of the total Proposition 98 support. As a result, many districts struggled with cash flow issues and were forced to turn to short term borrowing at their own expense. The state has made significant progress toward paying off this debt to schools in recent years. The 2014-15 budget required that funding increases in 2013-14 and 2014-15 first be used to pay all remaining payment deferrals to schools totaling \$992 million (\$897 million for K-12 schools and \$95 million for community colleges). Due to the increases in the Proposition 98 funding levels in prior years, the state is on track to fully eliminate the deferrals in 2015-16.
- **Education Mandate Backlog and Common Core Implementation.** In 1979, Proposition 4 was passed by voters, which required local governments to be reimbursed for new programs or higher levels of service imposed by the state. Local educational agencies are also eligible to seek reimbursement for activities mandated by the state. Over the years, as the cost and number of education mandates grew, the state began to defer paying the full cost of education mandates, but still required schools to perform the mandated activity. The state currently owes approximately \$5.4 billion in prior year mandate costs that accumulated due to the state deferring costs. The Governor's budget proposes to dedicate \$1.5 billion to further reduce the mandate backlog (\$1.1 billion for K-12 schools and \$379 million for community colleges).

The 2014-15 budget provided \$450 million to reduce the mandate backlog for schools (\$400 million for K-12 school and \$50 million for community colleges). It was the intent of the Legislature that K-12 schools use the funding freed up from this payment on further implementing the new Common Core State Standards and the English Language Development Standards (although there were no requirements that schools use this funding for any specific purpose). The Governor's 2015-16 budget proposal also intends this payment to be used to further implement the new standards.

- **Adult Education.** The Governor proposes providing \$500 million in ongoing funding for an adult education block grant that builds upon the state's plan for structuring adult education through regional consortia. For 2015-16, a portion of this funding will be used to replace LCFF funding for adult education programs operated by K-12 schools. (The Department of Finance and the California Department of Education estimate that this amount is between \$300 million and \$350 million.) The remaining funding would be distributed by the Chancellor's Office and State Superintendent to the 70 regional

consortia to be further distributed by "allocation committees." These allocation committee members would consist of representatives from community colleges, K-12 districts, other adult education providers, local workforce investment boards, county social services departments, correctional rehabilitation programs, and a public member. In future years all funding would be allocated to the regional consortia for distribution by the allocation committee.

- **Career Technical Education.** The Governor proposes to dedicate \$250 million in each of the next three years to support a career technical education (CTE) competitive grant program for K-12 schools. School districts, county offices of education and charter schools could apply to receive grant funding for up to three years. Grantees would be required to provide a dollar-for-dollar match, and priority would be given to those programs that coordinate with other districts to offer a regional CTE program. In order to maintain eligibility for funding in future years, grantees would be required to demonstrate their program is producing positive results, measured by certain outcome measures yet to be determined by the Administration. These outcome measures could include high school graduation rates, CTE course completion rates, and students obtaining an industry certification, among other measurements. This proposal is intended to assist schools in maintaining and expanding high-quality CTE programs during the implementation of LCFF.
- **School Facilities.** The Governor's budget proposes a new approach to funding school facilities that includes little state support. The Governor's budget summary notes a number of problems with the current school facilities program, including that the current program is overly complex, too costly for the state and locals, and does not provide sufficient local control.

The Governor's Budget makes recommendations to better allow school districts to fund school facilities on their own. These recommendations include:

- Increasing the caps on local bonded indebtedness and local property tax overrides.
- Modifying how much districts can levy in developer fees.
- Allowing districts to use funds currently restricted for routine maintenance for any facility related purpose.

The Governor also proposes creating a new state facilities program that would target districts with limited capacity to raise local bond funds and prioritizes funding based on pressing health and safety needs. The Governor proposes creating a sliding scale to determine the state's share of project costs.

The Governor's Budget includes a \$50 million augmentation to expand eligibility for the Charter School Facility Grant Program. The proposal would allow charter schools serving 55 percent or more low-income students to apply for the grant, which aids charter schools in paying lease expenditures. Currently, charter schools with 70 percent or more low-income students are eligible to apply for the grant.

- **Technology Infrastructure.** The budget provides an additional \$100 million in one-time funding for the Broadband Infrastructure Improvement Grant (BIIG), which is administered by the Department of Education and provides grant funding to schools to improve their internet connectivity. The 2014-15 budget included the initial \$26.7 million for the BIIG program and was targeted at those schools that were unable to administer the new computer-based assessments last spring. Additionally, the 2014-15 budget language required the K-12 High Speed Network to report to the Legislature by March 1, 2015 on the overall status of the network connectivity in California's schools. The Governor anticipates this second round of funding will further help schools that need assistance in upgrading their internet infrastructure.
- **Emergency Repair Program.** The Governor proposes to provide \$273.4 million in one-time funding for the Emergency Repair Program, retiring the state's remaining obligation under the *Williams* settlement. The *Williams v. California* lawsuit, filed in 2000, charged that the state had failed to give thousands of children the basic tools necessary for their education, including "inadequate, unsafe, and unhealthful facilities." The 2004 settlement included increased accountability measures, extra financial support, and other help for low-performing schools. The state agreed to provide \$800 million for critical repair of facilities in future years for the state's lowest-performing schools, to be paid through the Proposition 98 Reversion Account. This final payment is part of the Governor's proposal to eliminate the "wall of debt."

Other Key Issues

- **Energy Efficiency Projects.** The budget includes a total of \$368 million for energy efficiency projects funded through Proposition 39. The California Clean Energy Jobs Act (Proposition 39), passed by voters in 2012, required most multistate businesses to determine their California taxable income using a single sales factor method, in turn, increasing the state's corporate tax revenue. Half of these revenues must be used to support projects that will improve energy efficiency and expand the use of alternative energy in public buildings. The Governor proposes to allocate this funding for the following purposes:
 - \$320.1 million to K-12 schools and \$39.6 million to community colleges for energy efficiency project grants.
 - \$5.3 million to the Conservation Corps for technical assistance to K-12 school districts.

- \$3 million to the Workforce Investment Board for job training programs.
- **School Attendance.** The budget includes an increase of \$197.6 million in 2014-15 for school districts and county offices of education due to an increase in projected average daily attendance (ADA) from the 2014 Budget Act, and a decrease of \$6.9 million in 2015-16 due to a projected decline in ADA. The Governor's budget provides an increase of \$59.5 million to support projected charter school ADA growth and \$15.3 million to support a projected increase in Special Education ADA in 2015-16.
- **Cost of Living Adjustment.** The Governor's budget includes \$71.1 million for a 1.58 percent cost-of-living adjustment (COLA) for education programs funded outside the LCFF. These programs include: special education, child nutrition, state preschool, foster youth services, American Indian education centers and American Indian early childhood education programs. The budget also includes \$109,000 to provide a COLA for county offices of education.
- **State Preschool.** The Governor provides \$16 million in Proposition 98 funding and \$21 million non-Proposition 98 funding to annualize the additional 4,000 full-day State Preschool slots provided in the 2014-15 budget. These slots were established as of June 15, 2015 (only 15 days in the 2014-15 fiscal year); therefore these increases reflect the full-year cost for these slots.

DEPARTMENT OF EDUCATION: STATE OPERATIONS

Major Provision

- **Additional positions to fight childhood obesity.** The Governor's budget includes \$177,000 to fund 1.5 positions within the California Department of Education (CDE) for the Distinguished After School Health Program. SB 949, Chapter 369, Statutes of 2014, established the Distinguished After School Health (DASH) Recognition Program and required the CDE to develop a process for recognizing after school programs that meet certain requirements that promote healthy eating and physical activity.

COMMISSION ON TEACHER CREDENTIALING

Major Provisions

- **Streamlining the accreditation process.** The budget includes \$5.0 million in one-time non-Proposition 98 General Fund over a two-year period (\$3.5 million in 2015-16 and \$1.5 million in 2016-17) for the Commission on Teacher Credentialing to update and streamline the current accreditation system for teacher preparation programs. Specifically, this funding is provided for the following activities:
 - Convene an advisory panel to provide recommendations to the Commission on streamlining preparation standards.
 - Enhance existing data systems and develop new data systems to retrieve information from educator performance assessments and program surveys.
 - Develop candidate and employer surveys to gather information on the quality of preparation.
 - Increase transparency and access to information about the quality and effectiveness of educator preparation programs.
- **Performance evaluations for teachers and administrators.** The Governor also provides \$5.0 million in one-time non-Proposition 98 General Fund over a two-year period (\$4.0 million in 2015-16 and \$1.0 million in 2016-17) for the Commission to update the Teacher Performance Assessment and develop an Administrator Performance Assessment to verify educator quality and to assist with determining the effectiveness and quality of preparation programs.
- **Aligning teacher preparation programs to the new science standards.** The budget provides \$600,000 in one-time Test Development and Administration Account Funds to align teacher preparation standards, programs, and examinations to the Next Generation Science Standards (NGSS) to ensure that programs are preparing teachers to teach the NGSS.
- **Beginning teacher induction.** The Governor's budget directs the Commission to evaluate and report on the burden of current induction requirements on school districts and new teachers and identify options for streamlining and reforming the beginning teacher induction program.

Staff Comment and Analysis of Governor's Budget Proposal

The Governor's proposed budget uses the increase in education funding on a combination of debt repayment, ongoing and one-time funding for schools. The Governor's approach is, as expected, prudent and balanced. The Governor's largest investment in education, and throughout his entire budget, remains to be the implementation of the LCFF. This will likely continue to be a top priority until the LCFF is fully implemented. Although the overall structure of the Governor's budget is fairly simple, there are a number of issues for the Legislature to consider when crafting the budget.

- **More details needed on adult education proposal.** The Governor's proposal to restructure adult education is not yet fully developed. The plan includes \$500 million in ongoing funding and ensures that K-12 adult education programs will be funded at their current levels in 2015-16, however, the plan does not guarantee funding for these programs in future years. The Governor proposes that funding decisions for adult education be made by regional "allocation committees," consisting of community colleges, K-12 districts, and other regional workforce representatives. There are a number of questions around how these regional allocation committees would function and how they would interact with their local school boards. Would the allocation committees make funding decisions every year? And, how would this impact teacher contracts and staffing levels in K-12 schools? Additionally, the Legislature should consider whether \$500 million is sufficient to meet the need for adult education in California.
- **What is the state's role in financing school facilities?** For the past few years the Governor has criticized the current school facilities program and questioned what role, "if any," the state should play in funding school facilities. The Governor's budget includes recommendations for increasing the ability for local school districts to access financing on their own, which may have some merit. However, it is unlikely that these reforms alone will enable districts to fully fund their facility needs. The Governor also proposes to create a new state facilities program targeted at those districts that do not have sufficient local bond capacity. This proposal is lacking many important details. Most importantly, the budget does not include any funding for this new program.

The Governor's approach to shift responsibility of funding school facilities to the local school district level is problematic. School facilities are an essential component to the constitutional right to equal educational opportunity, which was confirmed in the *Williams vs. State of California* lawsuit. The Legislature should consider California's legal obligation to provide students with an adequate and equitable education when considering what role the state should play in school facilities funding.

- **Is career technical education a state priority?** The Governor's budget summary recognizes the importance of career technical education (CTE) in California high schools as part of the Administration's overall workforce investment strategy. The budget seeks to incentivize high quality CTE programs through a three year competitive grant program, requiring programs to provide a dollar-for-dollar match. Although the Governor acknowledges the increased costs associated with starting and maintaining CTE programs in his budget summary, the Governor's proposal would only provide funding for grantees for a three year transition period. Questions to consider include:
 - Will districts be able to maintain CTE funding through the LCFF grade span adjustment when grant funding expires?
 - What incentives do districts have to offer ongoing CTE?
 - How does high school CTE fit into the state's workforce investment strategy?
- **Technology infrastructure needed.** The Governor's proposal to provide additional one-time funding for internet infrastructure in schools is necessary in helping schools get up to speed with technology. This funding will not reach all districts, but will be targeted at those that need it most. Not only will this funding allow those districts to take the new computer based assessments, it will also help to upgrade classrooms in order to use technology in everyday teaching and learning.
- **Expanding early childhood education.** The Governor's budget does not address the Legislature's interest in expanding opportunities for early education programs. Specifically, the Governor does not recognize the Legislature's intent in last year's budget to further expand access to State Preschool. AB 47, introduced by Assemblymember McCarty, builds upon the Legislature's intent by asking the Department of Education to come up with a plan for expanding the State Preschool Program to all eligible low-income children who do not have access to transitional kindergarten. This planning process, along with providing additional preschool slots would make progress toward the Legislature's goal to provide preschool access to all low-income children. Another idea for expanding high-quality early education is to require kindergarten to be a full-day program. Both of these efforts would help in closing the achievement gap for low-income students.

- **School accountability still evolving.** The Governor's budget does not address any of the concerns related to school accountability or the LCAP process. The Governor's budget summary discusses the work of the State Board of Education in creating and revising the LCAP regulations and template and states that the State Board will continue to review and revise these regulations and template as necessary over the next several years. Although the State Board will be continuously reviewing the regulations and template in order to improve the LCAP process, the Legislature may wish to also review and make changes to the LCAP process in order to improve transparency and accountability of the significant new LCFF funding being appropriated to schools.



CHILD CARE/EARLY CHILDHOOD EDUCATION

California makes subsidized child care services available to: 1) families on public assistance and participating in work or job readiness programs; 2) families transitioning off public assistance programs; and, 3) other families with exceptional financial need.

Child care services provided within the California Work Opportunity and Responsibility to Kids (CalWORKs) program are administered by both the California Department of Social Services (DSS) and the California Department of Education (CDE); depending upon the “stage” of public assistance or transition the family is in.

CalWORKs Stage 1 child care services are administered by the DSS for families currently receiving public assistance, while Stages 2 and 3 are administered by the CDE. Families receiving **CalWORKs Stage 2** child care services are either receiving a cash public assistance payment (and are deemed “stabilized”), or in a two-year transitional period after leaving cash assistance. Child care for this population is an entitlement for twenty-four months under current law. The state allows counties flexibility in determining whether a CalWORKs family has been “stabilized” for purposes of assigning the family to either Stage 1 or Stage 2 child care. Depending on the county, some families may be transitioned to Stage 2 within the first six months of their time on aid, while in other counties a family may stay in Stage 1 until they leave aid entirely.

If a family is receiving **CalWORKs Stage 3** child care services, they have exhausted their two year Stage 2 entitlement. The availability of Stage 3 care is contingent upon the amount of funding appropriated for the program in the annual Budget Act.

Non-CalWORKs Programs. In addition to CalWORKs Stage 2 and 3, CDE administers general and targeted child care programs to serve non-CalWORKs, low-income children at little or no cost to the family. The base eligibility criterion for these programs is family income at or below 75 percent of State Median Income (SMI) relative to family size. Because the number of eligible low-income families exceeds available child care slots, there are long waiting lists for care.

Child care providers are paid through either (1) direct contracts with CDE, or (2) vouchers through the Alternative Payment Program.

- Direct Contractors receive funding from the State at a Standard Reimbursement Rate, which pays for a fixed number of child care “slots.” These are mostly licensed child care centers but also include some licensed family child care homes (FCCH). These caretakers provide an educational component that is developmentally, culturally, and linguistically appropriate for the children served. These centers and FCCH also provide nutrition education, parent education, staff development, and referrals for health and social services programs.

- Alternative Payment Programs (APs) act as an intermediary between CDE, the child care provider, and the family, to provide care through vouchers. Vouchers provide funding for a specific child to obtain care in a licensed child care center, licensed family day care home, or license-exempt care (kith and kin). With a voucher, the family has the choice of which type of care to utilize. Vouchers reimburse care providers based on the market rates charged by private providers in their region.

Major Issues in Child Care/Early Childhood Education

Subsidized early childhood education programs are proven to help children become more ready for school and also support a low-income family seeking self-sufficiency. A 2011 review of research found more than 100 studies that showed high-quality preschool significantly improves low-income children's school-readiness and performance, and studies show that parents with access to child care are more likely to be employed and to have higher earnings than parents without that assistance.

Despite the overwhelming research, California's child care and early childhood education programs do not meet demand for these services. Among the issues to consider are:

- **High Demand, Low Supply.** The 2014 Budget Act included the most significant increase in child care slots since the recession: 11,500 full-year, full-day preschool slots were added, as well as 1,000 General Child Care slots and 500 Alternative Payment Program slots. These additions do not come close to making up for massive cuts that occurred during the recession, however, when about 110,000 slots were lost. While it is difficult to assess current demand for subsidized slots, the California Research and Referral Network notes that 200,000 families were seeking subsidized child care when the state last kept a waiting list.
- **Rates Remain Low.** In addition to a small increase in slots, the 2014 Budget Act provided a minor increase in the rates paid to providers. The Standard Reimbursement Rate (SRR)— paid to many General Child Care and preschool providers – was increased by 5%, and the Regional Market Rate – paid to Alternative Payment and CalWORKS providers – was increased by as much as 9%, although the increase will vary dramatically in differing regions of the state. These increases are positive, but still remain low: the SRR is now \$36.67 per child per day. Low rates lead to low wages for staff and thus high turnover, and limit the provider choices of families receiving Alternative Payment vouchers.
- **Federal Regulation Changes Could Add Challenges.** In November 2014, President Obama signed the Child Care and Development Block Grant of 2014, which reauthorized a federal block grant that provides about \$550 million annually to California for child care programs. Under reauthorization, states are expected to make changes in block grant-funded child care programs, including annualizing licensing inspections, providing health and safety inspections for non-family license-exempt providers, allowing for extended income eligibility, providing additional funding for child care quality activities, restructuring professional development for child care providers and staff, and increasing local child care program information provided to families. While the state has several years to begin implementing these changes, they will,

nevertheless, pose many challenges for California, especially because the block grant funds are not anticipated to be sufficient to meet these new requirements and to maintain current service levels. President Obama did signal in his State of the Union Address this month that he may seek to increase federal child care spending, however.

Governor's January Budget Proposal in Child Care/Early Childhood Education

Major Provisions

- **Provides Full-Year Funding for 4,000 Full-Day State Preschool Slots Initiated in 2014-15 Budget.** The 2014 Budget Act provided 7,500 full-day State Preschool slots beginning July 1, 2014, and another 4,000 slots right at the end of the fiscal year – June 15, 2015. The Governor's budget proposal annualizes these slots by providing roughly \$16 million in Proposition 98 and \$21 million in General Fund support.
- **Annualizes Regional Market Rate Increase for 2015-16.** The 2014 Budget Act provided \$19.1 million to increase the RMR for the Alternative Payment Program and all three CalWORKs stages starting January 1, 2015. (The RMR sets the maximum rate the state will pay to child care providers accepting vouchers.) The new RMR sets the maximum reimbursement rate at the 85th percentile of the 2009 regional market survey reduced by 10.11 percent. To annualize the increased rates for 2015-16, the Governor's proposal provides an additional \$27.7 million for the four voucher-based programs over current year amounts.

Other Key Provisions

- **Provides Growth, Resumes Statutory Cost-Of-Living Adjustment (COLA) for the Alternative Payment, General Child Care, State Preschool, Migrant, and Handicapped Programs.** The Governor's budget provides a 0.57 percent growth adjustment and a 1.58 percent COLA. For programs using the Standard Reimbursement Rate (General Child Care, State Preschool, Handicapped and some Migrant programs), the COLA increases the Standard Reimbursement Rate. For the Alternative Payment Program the COLA increase is applied to the programs' appropriation, but its use is unspecified (traditionally this increase has supported additional slots). This would be the first COLA for these programs since 2007-08.
- **Maintains \$50 Million Quality Grants, Removes \$35 Million One-Time Funding for State Preschool.** The Governor's proposal maintains the ongoing \$50 million quality grants for State Preschool, which are allocated on a competitive basis to local education agencies. The proposal does not continue two one-time investments from 2014-15.

- **Creation of a Working Group.** The Administration states that it will introduce trailer bill language that would create working groups to look at contracting, administrative and reporting reforms that might lessen costs for child care administrative agencies and providers.
- **Makes Other CalWORKs Adjustments Due to Anticipated Changes in Caseload and Average Cost of Care.** The budget includes an overall year-to-year decrease of \$11.6 million for Stage 2 due to a decrease in caseload (4,988 fewer slots). Stage 3 funding increases \$38.6 million year-to-year due to increases in the average cost of care (independent from the RMR increase) and a slightly higher caseload (1,345 additional slots). The Administration anticipates reducing the amount of slots in the capped AP program by more than 4,000 due to the increasing cost of care.

Staff Comment and Analysis of Governor's Budget Proposal

Overall, the Governor's Budget increases spending on child care and early childhood education programs by \$101 million over the current year. There are no policy changes, however: the increase simply reflects an increasing cost of care in the CalWORKs programs, increases in the Regional Market Rate (RMR) enacted last year, growth, and COLA. This marks the third year in a row that the Governor has introduced a status quo budget for child care programs.

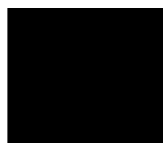
As it considers spending priorities, the Assembly should keep in mind that one in four children in California live in poverty, and one in five women work in low-wage jobs. Boosting early childhood education programs can be a key tool in addressing income and education inequalities in the state.

More slots are still needed. For example, between 2008 and 2012, 58 percent of counties saw a decrease in the number of child care centers, while 77 percent of counties saw a decrease in family child care homes. Los Angeles County alone now has 1,715 less providers than it did in 2008. And there are more than 24,000 children on waiting lists for subsidized child care in 15 Northern California counties, including Sacramento, San Joaquin, Marin and San Francisco. The Administration's estimate that it will need to cut 4,000 AP slots is alarming, and should be monitored closely in the Spring.

The Governor ignores language in the 2014 Budget Act that declared the state's intent to provide all low-income children with at least one year of state preschool. The demand is there: in response to the availability of 4,000 new slots in June, the Department of Education received applications from providers to create more than 32,000 new slots.

Rates remain too low. Use of the 2009 market survey to set regional rates means that many providers simply will not accept subsidized vouchers; it does not allow providers to improve quality and retain staff. The 2012 market survey indicated that the rates the state pays are less than 50 percent of rates charged by private providers in seven counties, and between 50 and 70 percent of private rates in 22 other counties. Families using vouchers have far fewer options for child care because of these low rates. Providers note that the state's rising minimum wage is putting pressure on their budgets, as rates do not keep up with growing personnel costs.

Additionally, the Assembly should seek to understand how federal action could bolster California's programs. President Obama this month announced a plan to make affordable, quality child care available to every working and middle-class family with young children. His plan calls for increasing funding for the federal block grant to states, tripling the maximum child care tax credit to \$3,000 per child, and creating a new innovation fund to help states design programs that better serve families with unique challenges in finding quality care, such as those working non-traditional hours. California already has an extensive system of providers that is aimed in part at families with night jobs or other unique circumstances; surely the state will be well poised to capitalize on any new funding in this area.



HIGHER EDUCATION

California's higher education system is governed by the Master Plan of Higher Education (1960), which promises a high quality, affordable higher education for all California citizens who can benefit from it. The Master Plan also delineates different missions for each of the three segments – the University of California, the California State University, and the California Community Colleges.

The **University of California (UC)** provides undergraduate and graduate instruction; it has jurisdiction over professional training including law, medicine, dentistry and veterinary medicine, and it serves as the State's primary agency for research. According to Master Plan goals, the top 12.5 percent of graduating public high school students are eligible for admission to UC.

The **California State University (CSU)** provides undergraduate and graduate instruction through the master's degree in the liberal arts and sciences and professional education including teacher education. The system is also authorized to offer selected doctoral programs jointly with UC and private institutions and support research. According to Master Plan goals, the top 33.3 percent of graduating public high school students are eligible for admission to CSU.

The **California Community Colleges (CCC)** provides academic and vocational instruction at the lower division level. Studies in these fields may lead to the Associate in Arts or Associate in Science degree. The colleges also engage in promoting regional economic development and conducting research on student learning and retention.

The **California Student Aid Commission (CSAC)** also plays an integral role in implementing the goals of the Master Plan, with CSAC providing and overseeing the state's financial aid programs, including Cal Grants and the Middle Class Scholarship.

MAJOR ISSUES FOR HIGHER EDUCATION

Two years of budget stability has allowed overall state support for higher education to climb past pre-recession levels. Despite recent funding increases for all three segments, however, the Assembly's key priorities of access and affordability remain in peril. This year's budget discussions must focus on how to ensure that qualified California students can get into college and complete their educational goals without amassing crippling levels of debt.

State support is higher than in recent past, but decades-long reductions impact students. While state support for the University of California, California State University and community college systems fell dramatically as the state faced a five-year budget crash, the passage of Proposition 30 and a reviving economy has allowed for recent reinvestment. Coupled with a significant increase in state-supported financial aid that tracks closely with major tuition increases, all three segments have more state funding than they did in 2007-08.

The charts below compare pre-recession funding for UC and CSU with the levels proposed by the administration in 2015-16.

University of California (in millions)

Fund Source	2007-08 Actual	2015-16 Proposed	Change in Dollars	Percent Change
State General Fund	\$3,398.8	\$3,106.1	(\$292.7)	-9%
State Financial Aid	\$295.2	\$938.4	\$643.2	218%
Total State Support	\$3,694	\$4,044.5	\$350.5	9%
Tuition and Fees	\$1,297.9	\$2,193.4	\$895.5	69%
Other Funds	\$602.8	\$1,019.7	\$416.9	69%
Total	\$5,594.7	\$7,257.6	\$1,662.9	30%

California State University (in millions)

Fund Source	2007-08 Actual	2015-16 Proposed	Change in Dollars	Percent Change
State General Fund	\$3,264.3	\$3,153.6	(\$110.7)	-3%
State Financial Aid	\$129.7	\$636.4	\$506.7	391%
Total State Support	\$3,394	\$3,790	\$396	12%
Tuition and Fees	\$1,046.6	\$1,707.1	\$660.5	63%
Other Funds	\$340.1	\$512.1	\$172	51%
Total	\$4,708.7	\$6,009.2	\$1,228.5	26%

Despite recent increases, state support for higher education has not kept pace with inflation or student population growth over time. This has led to a significant change in who pays for college in California. In short, students are now paying a much higher share of higher education costs. This is a major shift from a long-standing California priority. In 1998-99, state General Fund support provided between 75% and 80% of core funds for UC and CSU, with tuition covering only about 19%, according to data released by the California Budget Project. In 2014-15, direct state support to UC and CSU's main appropriation had dropped to 48% of UC's core funds and 54% of CSU's core funds.

Tuition now accounts for about 45% of UC and CSU core funds.

Access to public institutions remains a problem. California students seeking to enter college continue to face obstacles. Since Fall 2010, CSU has annually turned away more than 20,000 students who are eligible for entrance to a CSU campus based on Master Plan criteria. (The Master Plan declares that any student finishing in the top one-third of their high school class is eligible for CSU.)

And while UC officials state that they are accepting all eligible high school students (those finishing in the top 12.5% of their class), three of UC's campuses – UC Berkeley, UCLA and UC San Diego - have recently enrolled fewer Californians than in the past as they have increased out-of-state and foreign enrollment. The chart below indicates enrollment growth at UC:

University of California Undergraduate Enrollment

	2007-08 Actual	2013-14 Actual	Percent Change
Resident	152,096	156,944	3%
Nonresident	7,104	20,565	189%

In its 2015-16 budget proposal, the Administration continues to oppose specific enrollment funding for UC and CSU, stating that funding enrollment does not encourage the campuses to focus on efficiency and student completion. This is in contrast to historic budgeting practices for both segments, which provided funding for enrollment targets negotiated with the segments and detailed in the budget.

Absent enrollment targets, the Legislature and public have no way of enforcing California's long tradition of encouraging access to higher education. Neither segment is held accountable for serving the state's students. This issue will remain a topic of considerable debate between the Assembly and the Governor.

College costs threaten access. Assembly actions in the 2013-14 and 2014-15 budgets sought to address college affordability issues:

- In 2013-14, the Assembly led the effort to create the Middle Class Scholarship, which went into effect in 2014-15 and has provided more than 75,000 UC and CSU students with tuition discounts. These discounts, which eventually will provide 40% off of tuition, are aimed at students with family incomes of between \$80,000 and \$150,000 – the students who typically do not receive need-based aid from other federal or state sources.
- In 2014-15, the Assembly successfully fought for an increase in the Cal Grant B stipend, which goes to the lowest-income Cal Grant recipients to cover costs other than tuition. The stipend was increased from \$1,473 to \$1,648 per year.

These improvements are important, but college affordability remains a top concern. While tuition at all three public segments have been flat since increases in 2011-12, it remains significantly higher than pre-recession levels, as the chart below shows. The chart does not include proposed UC tuition increases, which will be discussed later.

Tuition

	2007-08 Actual	2014-15 Actual	% Change
UC Tuition and System wide Fees	\$7,517	\$13,317	77%
CSU Tuition and System wide Fees	\$3,521	\$6,759	92%
Community College Fees	\$26 per unit	\$46 per unit	77%

Tuition is only part of the issue. UC's average cost of college is more than \$33,000 annually, when accounting for books and supplies, room and board, transportation and other living expenses. CSU's average is about \$23,000. According to data compiled by The Institute for College Access and Success, student debt in California has risen dramatically in the past five years. Average debt for bachelor's degree earners in California in 2013 was \$20,350; that is a 20% increase when compared to 2008.

UNIVERSITY OF CALIFORNIA

- UC pursuing a major tuition hike.** At its November 19, 2014 meeting, the UC Board of Regents approved annual increases in tuition and system wide fees of 5% per year for the next 5 years, beginning with the 2015-16 school year. These increases would be assessed for all students, including undergraduate, graduate academic and graduate professional students, as well as out-of-state and foreign students. This would amount to a 28% increase in tuition over the 5 years, and bring undergraduate tuition for one year to \$15,564, compared to the current \$12,192. UC expects to generate an additional \$97.7 million in net revenue in 2015-16 from this proposal.

As part of its proposal, the Regents authorized the UC President to reduce these increases in any year that the state provides additional funding to offset higher tuition revenue.

While UC would continue following its existing policy of using one-third of tuition revenue for financial aid programs for low-income students, this increased cost further threatens access to UC for many Californians.

- UC's increasing expenditures may not be sustainable.** Despite increased state support during the past two years and the Administration's pledge to provide 4% more funding during the next three years, UC believes it needs additional revenue from students to support its operational costs. The budget approved by the Regents at the November meeting includes \$459 million in new revenue, including the tuition increase, the 4% increase from the state, and other actions, such as increased philanthropy. UC states that mandatory costs, such as retirement contributions and health benefits, are driving the need for more funding. But UC also proposes to use increased revenue for non-mandatory expenses, including nearly \$110 million in compensation increases for faculty and staff.

Despite the recession, UC's core fund expenditures – those used for undergraduate and graduate education – rose by 28% between 2007-08 and 2014-15. It is unclear if this kind of growth is sustainable over the long term, or whether the UC's budget priorities are appropriate for a publicly-funded entity.

- **Surging nonresident enrollment is making it more difficult for California students to attend UC.** Out-of-state students, once less than 5% of the UC student body, have become a much more significant presence in the system, as UC relies on their extra tuition. (Nonresident students pay an additional \$22,878 above resident students' tuition.) Nonresident students now comprise nearly 14% of the student body, and at top-tier campuses like UC Berkeley and UCLA, the figure is nearly 20%. This has reduced spots for California students at these campuses, and overall, California student enrollment system wide dropped between 2009-10 and 2014-15 by 1%, while nonresident enrollment grew by 195%.

As a public university system supported by the state and operated for Californians, this is an alarming trend.

CALIFORNIA STATE UNIVERSITY

- **Thousands of eligible students are being turned away.** CSU is not meeting demand. More than 760,000 students applied for admission in Fall 2014, a record high. CSU states that funding restrictions do not allow it to accept all eligible applicants. The table below illustrates the number of students admitted and denied who qualify to attend CSU under Master Plan guidelines.

Year	Admitted	Denied
Fall 2009	193,928	10,435
Fall 2010	173,562	28,803
Fall 2011	178,615	21,697
Fall 2012	194,564	22,123
Fall 2013	212,152	26,430

- **Student outcomes must be improved.** Only about 16% of students who entered CSU in Fall 2006 graduated within 4 years. The graduation rate for this cohort rose to 53% in 6 years. CSU has multiple initiatives underway to improve performance, including a Graduation Initiative, which has set improved graduation targets for each campus, and the CSU Enrollment Bottleneck Solutions Initiative, which is designed to improve time to degree.

CALIFORNIA COMMUNITY COLLEGES

- **Focus continues on appropriate enrollment growth.** Community colleges dramatically limited access during the recession, and finished the 2012-13 school year serving 500,000 fewer students than they had in 2008-09. These cutbacks were devastating to students, who couldn't get into colleges or found it difficult to get the classes they needed to complete a certificate or degree program. Beginning in 2012-13, the state began providing enrollment growth funding again to colleges, but student headcounts remain below pre-recession levels and demand in some regions – particularly the urban coastal areas – is high. Additionally, the 2014 Budget Act included direction to the system to reform the formula for allocating growth funding, to ensure that funding went to the areas with the highest need for access to higher education and reward colleges that serve high-need areas. Need was defined as the amount of people without a college degree and the amount of disadvantaged people in an area, using factors such as unemployment and poverty rates. The Chancellor's Office is currently developing the new formula.
- **Efforts to improve student outcomes are underway, but some student support services remain underfunded.** Less than half of California community college students seeking a degree or certificate accomplish that task within 6 years, according to data compiled for the Community College Scorecard. In recognition that student outcomes must be improved, the state created the Student Success and Support Program in 2012. The program provides funding for student orientation, assessment, educational planning, counseling and tutoring. The 2014 Budget Act provided a major increase in funding for this program, adding \$100 million and another \$70 million designed to provide services specifically to underrepresented students based on districts' student equity plans.

While increasing funding for this program remains critical, other student support programs and research-backed practices for improving student outcomes have not been addressed. The table below shows some categorical programs and their funding levels, which remain far below pre-recession levels. All of these programs are well-established and provide more specific services to specific student populations.

Program	Description	2007-08 Funding	2014-15 Funding	% Change
Fund for Student Success	Provides counseling and mentoring to low-income or underrepresented students seeking to transfer to a four-year college	\$6.2 Million	\$3.8 Million	-39%
EOPS	Provides counseling, tutoring and textbook purchase assistance for low-income students	\$106.8 Million	\$88.6 Million	-17%
CalWORKS	Provides support services for CalWORKS recipients attending college, including child care, work study programs and counseling	\$43.6 Million	\$34.5 Million	-21%
Part-Time Faculty Office Hours	Pays part-time faculty to hold office hours to meet with students. Part-time faculty comprise about 44% of community college faculty	\$7.2 Million	\$3.5 Million	-51%
Campus Child Care Support	Provides child care services to low-income students with children	\$6.8 Million	\$3.4 Million	-50%
Basic Skills	Provides counseling and tutoring for students needing remedial classes; also provides professional development for basic skills faculty	\$33.1 Million	\$20 Million	-40%

In addition to these programs, research overwhelmingly indicates that student outcomes are improved at community colleges when students are taught by and interact more with full-time faculty. Full-time faculty are more available to students and tend to improve the quality of academic programs. Despite this research, only 56% of California Community College faculty are full-time. The state and colleges should continue to examine ways to increase the number of full-time faculty on campuses.

- **Adult education reform a major issue for 2015.** The 2013 Budget Act provided \$25 million for regional planning efforts aimed at improving adult education programs offered by school districts, community colleges and other providers. The budget also called for a reform of the current system in 2015 that encouraged more regional collaboration to meet growing need for classes in areas such as basic skills and high school diploma, English as a second language, and career technical education. The current system has numerous issues, most notably that K-12 programs saw major funding decreases during the recession. 70 regional consortia have been meeting for more than a year to catalog the need for adult education programs in their region, map out the current network of providers, and develop plans for better serving regional need. The Community College Chancellor's Office and the Department of Education will issue a report by March 1 with recommendations on how to improve the current system.
- **Addressing unfunded pension liabilities will add costs for colleges.** The 2014 Budget Act created a long-term plan to address a \$74 billion gap in unfunded pension liabilities for the CalSTRS system. The plan stipulates that the state will pay for 20% of the unfunded liability, employees will pay 10%, and schools and community colleges will pay 70%. Community colleges estimate this plan will add \$250 million or more to their annual costs.
- **Cal Grants provide significant support for students, but unmet need remains.** The General Fund is projected to provide more than \$2 billion to support the Cal Grant program in 2015-16. The program aids more than 360,000 Californians, including more than 12,000 undocumented students who are participating due to the 2012 California Dream Act. Despite this major investment, gaps remain in the state's support for students.

Cal Grants are automatically provided to qualifying low-income students if they are attending college within one year of graduating from high school. For students who graduated from high school more than one year after applying to college, the state provides only 22,500 Cal Grant slots through the competitive Cal Grant program. Demand for this program far outweighs the state investment: More than 300,000 students apply for those slots annually.

Additionally, the Cal Grant B access award provides the lowest-income students with a stipend to help cover living expenses. While the Assembly was successful last year in increasing the stipend to \$1,648 per student, this does not come close to covering living expenses. For example, CSU lists the cost of books and supplies, room and board, transportation and other personal expenses as \$16,332 annually for an average student living on campus. Living expenses are a significant issue for college students, and research indicates students who work less than 20 hours per week have much higher completion rates. Increasing financial aid for students to allow them to work less could have significant impact on student success.

- **Middle Class Scholarship entering its second year.** The Middle Class Scholarship was first implemented in 2014-15, and is providing nearly 80,000 University of California and California State University students with discounts on their tuition this year. Per statute enacted in the 2013 Budget, the state will provide \$152 million for the program in 2015-16.

The program is aimed at students whose family income is between about \$80,000 and \$150,000, and will provide up to 40% off of tuition once fully implemented in 2017-18. At full implementation, the scholarship would provide UC students with nearly \$5,000 off of current tuition levels and CSU students with nearly \$2,200. A four-year phase-in process is underway, with eligible students scheduled to receive 20% off of tuition in 2015-16. The California Student Aid Commission provided the following data indicating the average Middle Class Scholarship recipient in 2014-15:

	CSU	UC
Average Age	23	21
Average Family Income	\$85,266	\$96,542
Average Middle Class Scholarship Award Amount	\$628	\$1,112

In its first year, the program provided important support for students who suffer the most when tuition is increased. The \$107 million allotted for the program in 2014-15 may not be completely spent, however, raising a question about whether the program's implementation could be sped up in 2015-16 to provide larger discounts to qualifying students.

GOVERNOR'S JANUARY BUDGET PROPOSALS

UNIVERSITY OF CALIFORNIA

Major Provisions

- **4% Increase, with Strings Attached.** The Administration continues its multi-year funding plan for UC, providing a 4% increase in General Fund support, or \$119.5 million. UC received 5% increases the previous two years, and the Governor has indicated to UC that he plans on increasing UC support by 4% in 2015-16 and the subsequent two years. Budget language stipulates that the 4% increase will be provided to UC only if the UC Regents do not raise tuition or fees in 2015-16, and the system does not enroll more nonresident students than it previously did. UC must also agree to create a committee to examine ways to reduce the cost structure of the system, which the UC Regents did at their January hearing. General Fund support for UC's main appropriation line in the budget would be \$3.1 billion under the Governor's proposal. The Administration continues to oppose any effort to tie UC (or CSU) funding to specific enrollment targets, which has been the historical method of funding the segments.
- **Deferred Maintenance Funding.** The budget provides UC with \$25 million one-time General Fund to address deferred maintenance issues on campuses. The funding will be allocated after UC provides a list of deferred maintenance projects it intends to address to the Department of Finance. The department will review the list and allow for a 30-day legislative review process before the money is distributed.

CALIFORNIA STATE UNIVERSITY

Major Provisions

- **4% Increase.** The Administration continues its multi-year funding plan for CSU, providing a 4% increase in General Fund support, or \$119.5 million. CSU received 5% increases the previous two years, and the Governor has indicated to CSU that he plans on increasing CSU support by 4% in 2015-16 and the subsequent two years. There is no budget language similar to the proposal for UC. General Fund support for CSU's main appropriation line in the budget would be \$3.2 billion under the Governor's proposal.

- **Innovation Awards.** The budget would provide \$25 million in Innovation Awards to be awarded to CSU campuses that improve policies, practices and/or systems to ensure that more students graduate with bachelor's degrees within four years after beginning higher education. Similar to the program that was launched in 2014-15, a committee chaired by the Department of Finance would select winners through an application process.
- **Deferred Maintenance Funding.** The budget provides CSU with \$25 million one-time General Fund to address deferred maintenance issues on campuses. The funding will be allocated after UC provides a list of deferred maintenance projects it intends to address to the Department of Finance. The department will review the list and allow for a 30-day legislative review process before the money is distributed.

Other Key Issues in CSU

- **Center for California Studies.** The budget moves the CSU's Center for California Studies from its own budget line item into the main CSU appropriation, with budget language requiring CSU to provide at least \$3.5 million to fund the center. Past budgeting practices displayed the center with a line item and specific amounts for 8 programs the Center oversees, including legislative, executive and judicial fellowship programs. This is a cost-neutral proposal that modifies how information about the Center's budget is presented.
- **Lanterman Developmental Center.** The property associated with the former Lanterman Developmental Center would be transferred to the California State Polytechnic University, Pomona. CSU intends to use the property for academic programs and student and faculty housing. Trailer bill language that is not yet available will stipulate that the transfer is contingent on CSU acknowledging that it will not use state funds to operate, maintain or develop the property and that state agencies currently using the property continue to be accommodated.

CALIFORNIA COMMUNITY COLLEGES

Major Provisions

- **Student Success.** The Administration continues to support the Student Success and Support Program by providing \$200 million Proposition 98 General Fund. This program's funding level would grow to \$471.7 million under the proposal. This would mark a 360% increase in the past three years, as the program has evolved via 2012 legislation. The program provides orientation, assessment, placement,

counseling and other education planning services to students. Similar to a proposal last year, the Governor proposes to carve out funding in this program - \$100 million - to support activities outlined in campus' student equity plans, which seek to reduce access and achievement gaps among underrepresented students.

- **\$125 Million Increase to Base Funding.** The budget would provide \$125 million Proposition 98 General Fund to colleges' base allocation in recognition of increasing cost pressures. The Budget Summary states the Administration is providing the funding in recognition of increased costs "in the areas of facilities, retirement benefits, professional development, converting part time to full-time faculty, and other general expenses." Budget language does not require colleges to spend the funds on these specific items, however. The money would simply increase apportionment funding for each district, which would then have wide discretion as to how to spend the money.
- **2% Enrollment Growth.** The budget provides \$106.9 million Proposition 98 General Fund to support 2% system wide enrollment growth. The growth funding would be distributed through a new funding formula under development by the Chancellor's Office that would direct more funding toward areas with the highest need for higher education. The funding amount would allow colleges to enroll 23,000 additional full-time students in 2015-16 and would mark the fourth year in a row of post-recession enrollment growth funding.
- **\$500 Million Adult Education Block Grant.** Funding for Adult Education programs provided through regional consortia would be displayed in the Chancellor's Office budget under the proposal. The funding would be distributed in 2015-16 first to K-12 adult education programs that have continued to operate through the recession, with leftover funding distributed by the Department of Education and the Chancellor's Office to regional consortia based on a formula devised by the two agencies that considers adult education need by region. Each consortium, in turn, would form a seven-member allocation committee representing school districts, community colleges, other adult education providers, local workforce investment boards, county social services departments, and correctional rehabilitation programs, with one public member, to distribute the funding to adult education providers within the region. The administration indicates that it will provide a more comprehensive proposal, including a new accountability system, student placement criteria, and linked data systems following receipt of regional adult education plans in March.

Education Mandate Backlog Payments. To continue paying down outstanding education mandate claims by colleges, the budget provides \$353.3 million Proposition 98 General Fund. The funding would be distributed on a per-FTE basis to each district, regardless of how much they are currently owed through the mandate claims process. The Administration notes the funding will allow colleges with one-time funding to address deferred maintenance, instructional equipment needs, and other one-time costs. The state would owe \$25 million in outstanding mandate claims after 2015-16 based on this proposal.

Other Key Issues in California Community Colleges

- **Apprenticeship Programs.** Rates paid to colleges and K-12 school districts for two existing apprenticeship programs would be raised to pre-recession levels. Funding for these two programs would grow by \$14.1 million Proposition 98 General Fund, with the K-12 program at \$31.4 million Proposition 98 General Fund and community college program at \$20.5 million Proposition 98 General Fund. Additionally, the budget provides \$15 million to create new apprenticeship programs – in either K-12 programs or community colleges – that focus on new and emerging industries with unmet labor market demand. This funds a 1997 statute that encouraged innovative apprenticeship training demonstration projects in high-growth industries in emerging and transitioning occupations that meet local labor market needs and that are validated by current labor market data. Apprenticeship receives a \$29.1 million increase overall.
- **Cost-of-Living Adjustment.** Similar to the K-12 system, community colleges would receive \$92.4 million Proposition 98 General Fund for a cost-of-living adjustment of 1.58%.
- **Career Technical Education.** The Career Technical Education Pathways Program would receive \$48 million one-time Proposition 98 General Fund to continue this program for one more year. The program provides resources for community colleges to develop and expand CTE programs that meet regional labor demands.
- **Enhanced Non-Credit Rate Increase.** Per direction in the 2014 Budget Act, the budget provides increased funding to up the rates paid to colleges for enhanced non-credit courses. These career development and college preparation courses have been funded at a rate between non-credit and credit courses, and will now be funded at the same rate as credit courses. The Administration notes that the courses can be expensive for colleges to provide, and increasing rates will support colleges' efforts to maintain and expand them.

CALIFORNIA STUDENT AID COMMISSION

Major Provisions

- **Cal Grant Increases.** The Administration proposes no policy changes regarding the Cal Grant program, but notes continuing growth. Cal Grant costs would grow by \$68.9 million General Fund in 2014-15 and \$198.2 million in 2015-16 to reflect increased participation – more students are applying for and qualifying for Cal Grants. Administration estimates suggest a 9% increase in participation between 2014-15 and 2015-16, with more than 360,000 students schedule to receive Cal Grant aid in 2015-16. State spending on Cal Grants would rise above \$2 billion for the first time, according to Administration estimates.
- **2nd Year of Middle Class Scholarship Program.** The Administration sets aside \$152 million in 2015-16 for the second year of the Middle Class Scholarship. This amount was agreed upon in the 2013 Budget Act. The agreement calls for two more increases during the next two years, until spending reaches \$305 million in 2017-18. The program would be capped at \$305 million after that.

Other Key Issues in California Community Colleges

- **Student Outreach Funding.** The budget provides \$15 million General Fund to support the Cal-SOAP and Cash for College programs. Both of these programs are aimed at increasing student and parent awareness of financial aid opportunities. The Cash for College program holds events at schools in which students can receive advice and help in filling out the Free Application for Federal Student Aid (FAFSA), which is the gateway application for most financial aid programs, including Cal Grant and Middle Class Scholarship. Both the Cal-SOAP and Cash for College programs were federally funded, but the funding is no longer being provided.
- **IT Project.** To begin an effort to update the Student Aid Commission's information technology systems, the budget proposes \$840,000 General Fund and three new positions for the commission. Updating the commission's information technology project will be a multi-year, multi-million dollar project. The commission will follow state IT procurement policy and will be working with oversight from the state Department of Technology.

Staff Comment and Analysis of Governor's Budget Proposal

UNIVERSITY OF CALIFORNIA

The California State Assembly will dedicate much of the 2015-16 higher education budget discussion to the UC budget. Both UC's spending, and who should pay for UC, will be examined. UC's expenditures continued to grow throughout the recession, with rising tuition levels taking the place of state support. Tuition revenue – which includes state funding via the Cal Grant and Middle Class Scholarship programs – now account for about 45% of UC's core funds; this is a major change from previous decades.

The Administration and California State Assembly appear united in their opposition to the UC Regents' plan to raise tuition by 28% over the next five years. There is also agreement that an examination of UC's cost structures is needed. There is major disagreement, however, related to how the state should fund UC.

Historically, UC, the Legislature, the Department of Finance and the California Postsecondary Education Commission negotiated an appropriate cost to increase student enrollment, and tied funding in the budget to specific enrollment targets. Funding was supplied to the segments if the targets were met, and occasionally, some amount of funding was withheld from the segments if they did not meet the enrollment target. This was an appropriate way to fund the segments, as it highlighted the state priority of access and also connected state funding with the segments' core purpose – educating California students. Enrollment funding has been absent from the segments' budgets since the recession, as the Legislature determined it was inappropriate to require increased enrollment as it was cutting state support. Despite recent funding increases, the Administration has refused to return to enrollment funding.

In its budget summary, the Administration states that "traditional enrollment-based funding does not encourage institutions to focus on critical outcomes – affordability, timely completion rates, and quality programs – nor does it encourage institutions to increase the productivity of the system as a whole." This is wrong. Enrollment funding is the best method for ensuring efficiency in the system, as it provides the segment with a negotiated cost-per-student and then requires the segments to provide access to an agreed-upon number of students. Without enrollment funding, the state has virtually no leverage to require UC or CSU to do anything, and certainly no ability to require efficiency or completion. The Administration for three years in a row has complained in budget documents about UC's costs, but has provided no mechanism to enforce cost containment. An enrollment target would supply that mechanism; as it is a statement from the state regarding how much the state will pay to educate each student.

Simply providing an annual lecture about UC being more efficient is not a legitimate policy.

It should be noted that UC's outcomes are excellent – 63% of students graduate within four years, while 83% graduate within six. UC's problem is cost. An enrollment target in which the state examines all of UC's costs – faculty and administrators' salaries, operational costs, benefit costs, etc – and determines an appropriate cost per student is the best way to enforce efficiency. If the Administration believes UC is inefficient, one simple way to address the issue would be to lower the amount per student it provides through enrollment funding.

CALIFORNIA STATE UNIVERSITY

Key concerns surrounding CSU are its inability to meet demand, and its poor outcomes. The Governor's budget does not specifically address enrollment and it is unclear if the innovation awards are a legitimate tool to address outcomes.

CSU officials believe the Governor's 4% funding increase will only allow them to increase student enrollment by 1%, or 3,500 full-time students. This does not go far enough to address the continuing trend of turning away more than 20,000 qualified students annually. The CSU Board of Trustees approved a budget proposal in Fall 2014 that seeks an additional \$97.1 million from the state; this would allow for 3% enrollment growth, or 10,400 full-time students. Because as many as half of students who apply and are accepted to CSU do not ultimately enroll, CSU believes the 3% enrollment growth would likely allow entrance to all qualified students who would actually enroll. Similarly to UC, the Assembly believes an enrollment target for CSU would be the most appropriate manner in which to ensure that all qualified students who seek a spot at CSU are able to find one.

Innovation awards were introduced in the 2014 Budget Act, when the state set aside \$50 million to allow UC, CSU and community college campuses to apply for grants to increase timely completion of degrees or transfers. Grant winners are to be selected by a committee chaired by the Department of Finance; that process is underway now. For the 2015-16 budget, the Administration proposes another round of these grants, but aimed solely at CSU. (Community colleges could also receive some funding if they were partnering with a CSU campus on a transfer initiative.)

Questions remain about whether this approach will make major changes in CSU outcomes. The LAO notes that this is a small, one-time earmark; hardly a tool to make sweeping changes in the system. Additionally, CSU has multiple efforts underway to improve outcomes, including a six-year-old Graduation Initiative that sets graduation targets at each campus, and the Early Assessment and Early Start Programs, which identifies students who are not ready for college level courses in English and math and provides support for those students their senior year in high school. The Assembly should review these programs and determine the best way to use \$25 million in one-time funds to address CSU outcomes. It could be that funding one of the existing programs throughout the system would be the best investment.

CALIFORNIA COMMUNITY COLLEGES

The Governor's Budget addresses enrollment growth and student support services, but the Assembly must determine if the growth amount is appropriate, and whether placing all increased funding for student support in one categorical program is the best way to help students advance.

The 2014 Budget Act provided for 2.75% enrollment growth, one of the highest growth rates in recent history. There was significant debate last year regarding an appropriate growth rate, as demand differs throughout the state and colleges that cannot grow do not receive enrollment funding. The Assembly will need to review growth throughout the state in the 2014-15 school year to determine an appropriate compromise growth rate for 2015-16.

Continuing increases to the Student Success and Support Program are critical. New regulations require students to complete a comprehensive education plan with goals, and beginning in Fall 2015, districts may place a hold on registration for students who do not comply with this requirement. It is imperative that colleges have enough counselors and appropriate infrastructure to allow students to easily develop an education plan. Failing to provide proper resources to help students fulfill this new requirement would be unfair and could jeopardize student access to community college.

However, as previously noted, there are numerous other community college programs aimed at supporting students. Many of these programs were cut by 40% during the recession and have seen minimal restoration since the end of the recession. In its budget request, the Community College Board of Governors is seeking \$115 million to restore most categorical programs to pre-recession levels. The board notes that many of these programs, including Extended Opportunity Programs and Services, CalWORKS and the Basic Skills Initiative, provide specific services to at-risk students, while others, particularly those addressing part-time faculty office hours and compensation, help students by ensuring more contact with faculty outside of class. The board also requested specific funding - \$70 million – to help colleges convert part-time faculty to full-time faculty.

The Assembly may wish to consider whether the Administration's proposal to provide \$125 million in unallocated increases to colleges should be more specifically directed to state priorities. While the Administration states that it intends this funding to be used for facilities, retirement benefits, professional development or increasing full-time faculty, there is no real requirement on how colleges use this extra funding.

Additionally, the Administration has provided only a partial proposal related to adult education reform, saying a more detailed proposal will be made in the spring. Questions to consider include whether regional committees are the most appropriate decision-makers for local school funding and whether the amount provided - \$500 million – is appropriate. Any proposal should address the two major concerns with the status quo: the state is not meeting demand for these badly-needed classes, and the K-12 and community college systems must work more closely to eliminate duplication and ensure that students can progress from the K-12 system to the college system if they choose that route.

CALIFORNIA STUDENT AID COMMISSION

The Administration has essentially proposed a status quo budget regarding student financial aid, with no new proposals for the Cal Grant or Middle Class Scholarship programs. The Assembly may wish to consider whether both programs are doing enough to meet student needs.

For example, CSU indicates that the average cost to students for books and supplies in 2014-15 is \$1,719. At \$1,648, the Cal Grant B access award for the lowest-income students does not even cover books and supplies expenses. The Assembly could consider tying the award to the actual cost of books and supplies – or go higher. According to The Institute for College Access, had the access award grown with inflation since it was created in the 1970s, it would be more than \$6,000. Additionally, the competitive Cal Grant program is dramatically under-resourced to meet demand, with more than 300,000 students annually competing for 22,500 grants. Increasing the number of competitive Cal Grants, or altering the Cal Grant entitlement program to allow entitlement eligibility to students who have been out of high school for more than one year, could be considered.

By spring 2015, the Assembly should have more information about participation in the Middle Class Scholarship program. Numbers in the Fall indicate that fewer students than expected have participated. This may be the result of low student awareness of a new program, and that more students than anticipated receive enough aid to make them ineligible. The program is important to protect students from current high tuition and potential increases in the future: should UC raise tuition by 5% in 2015-16 as proposed, more than 8,600 UC students would pay more than \$2,000 extra in tuition if the Middle Class Scholarship program were not in place. If participation rates continue as is, the Assembly could consider increasing the award amount per student while continuing the planned \$152 million appropriation in 2015-16.



HEALTH

Restorations and implementation oversight make up the core of the Legislature's focus this year and into the near future. Legislative policy-making and budgeting must continue to remember and recognize the dismantling of the state's safety net that occurred over the past six years, and the harm undoubtedly brought to many, many people. The state faces significant moral choices with regard to rebuilding this safety net, in light of the demands of many other critical components of the state budget, such as education and public safety. The Medi-Cal program is larger than it has ever been, insuring over 12 million Californians and covering half of all births in the state. Yet, while all of these 12 million people have a Medi-Cal card, they do not necessarily have real access to high quality care. Medi-Cal rates matter. Benefits matter. This third of Californians deserve high quality insurance, not just a meaningless Medi-Cal card. Moreover, the population is aging and by 2030, nearly 20 percent of Californians will be seniors, and approximately 20 percent of seniors live in poverty. While the Coordinated Care Initiative (CCI) is as well-intentioned as many of the reforms of the past several years, it is incumbent upon both the Legislature and the Administration to ensure the safety and continuity of care of this most vulnerable population. In general, the state's safety net for seniors seems to have more holes than net, likely a shameful signature of our generation.

This year will see the continuation of the implementation of the Affordable Care Act (ACA), which already includes the establishment and operation of Covered California, the state's health benefits exchange which, to date, has enrolled well over 1 million Californians into health insurance coverage. The ACA brought about an expansion to Medi-Cal, expected to ultimately insure over 3 million more Californians. The ACA has forced the private insurance market to insure even those with pre-existing conditions and requires other changes that have created a better industry, serving more people and saving more lives. Indeed, the ACA's reach is long, transformative, and fundamentally changing the face of health care in California and throughout the nation. Amidst this grand transformation, California endured a most costly recession accompanied by vast changes to government health programs and departments. In six short years, the state eliminated at least three health-related departments and at least one major health program for children, created a new department and a new branch within another department, eliminated numerous Medi-Cal benefits, and transitioned millions of low-income Californians into managed care.

Finally, the state of the state's public health is sounding alarms that are loud and clear. Obesity-related health conditions, such as diabetes and heart disease, continue to sicken millions of Californians while increasing health care costs at a rate that threatens to cripple our economy. Infectious diseases, such as Measles, may be on the rise with decreasing vaccination rates. Ebola has served as a critical call to action regarding the state's emergency response capacity. The budgets, and services, of both the Department of Public Health and the Emergency Medical Services Authority have suffered through the recession and the state's public health infrastructure is as worn, outdated, and insufficient as

California's roads. These recessionary cuts have undermined the public health capacity of both state and local governments. California has a public health infrastructure that was built for a significantly smaller population of people who had never heard of childhood obesity or climate change.

Major Issues in Health

- **Medi-Cal Rates Are Too Low to Attract and Retain Doctors.** There have been various reductions to Medi-Cal fee-for-service rates over the past decade, most notably a ten percent across-the-board reduction included in AB 97, budget trailer bill of 2011. A combination of research and anecdotal information points to California having the lowest, or nearly lowest, Medicaid rates of any state. Federal Medicaid law requires states to be able to maintain sufficient access to services in order to implement a rate reduction, and the federal government approved of the AB 97 rate cut based on evidence, provided to them by DHCS, of sufficient access. It is important to recognize that the program population has grown dramatically as a result of health care reform, adding approximately 3 million more people to the program who need to access the same quantity of providers and services which arguably were in short supply even before health care reform. DHCS has pushed hard over the past several years to move as much of the program as possible into managed care. Now, an estimated 70-80 percent of the Medi-Cal population is enrolled in a Medi-Cal managed care plan. Nevertheless, the fee-for-service Medi-Cal rates still have a significant impact on many components of the program, including: 1) the 20-30 percent still in fee-for-service make up an especially vulnerable segment of the Medi-Cal population as many avoided managed care due to continuity of care needs; 2) dental care is mostly fee-for-service; and 3) California Children's Services (CCS), as discussed elsewhere in this document, is fee-for-service. Although it can't be denied that significant resources are flowing into Medi-Cal as a result of the ACA, this investment may be a waste if the people in the program can't really access care.
- **The Coordinated Care Initiative Requires Oversight and May Cease Operating.** For a very long time, health care for low-income seniors has been fragmented, uncoordinated, confusing, and inefficient. In response, the Coordinate Care Initiative (CCI) was adopted through budget trailer bill in 2012 in order to create a coordinated system of care for low-income seniors. The CCI is a demonstration program, originally in 8 counties, wherein all Medi-Cal services, including long-term services and supports, are coordinated through managed care. The CCI also includes a pilot program that integrates Medi-Cal and Medicare services and financing, called "Cal MediConnect," for individuals in both programs (typically referred to as "duals"). The CCI statute requires the program to be cost-neutral or else the state must cease operation of the CCI. When proposing the CCI, the administration anticipated significant state savings to result, primarily in the form of Medicare savings that the federal government was expected to share with the state; however, the federal government agreed to a savings sharing arrangement that provides much less savings to California than anticipated. As a result, the CCI, in and of itself, has not produced significant savings for the state. The administration has begun funneling revenue from the Managed Care Organization (MCO) tax into the CCI, in order to create a cost-neutral program with savings.

- **Immigrants Lack Coverage and May Qualify Under the President's Immigration Reform.** The President's recent Executive Order on immigration reform may render many immigrants eligible for limited aspects of the Medi-Cal program for the first time, thereby representing a potential Medi-Cal expansion accompanied by increased costs, pending federal guidance on implementation of immigration reform. Related, a policy bill last year (2014) sought to create a Medi-Cal-equivalent program to provide full-scope benefits to immigrants.
- **Administration Seeks To Redesign the California Children's Services (CCS) Program.** For the past several years, DHCS has engaged in a major effort to move Medi-Cal towards managed care, leaving approximately 30 percent of today's Medi-Cal population still in fee-for-service. In addition to individual beneficiaries, the administration spearheaded an effort to expand managed care to all of California's counties, including rural counties, and to move various fee-for-service benefits into managed care such as long-term care services and supports. Hence, today, the vast majority of the program operates under managed care. One remaining exception to this is the CCS program which has been carved out of managed care. The CCS program provides specialized care to children with significant, chronic medical conditions on a fee-for-service basis, including for children who otherwise receive their care through a managed care plan. The CCS program has enjoyed a community of strong supporters, primarily in the form of families which have participated in, and benefited from, the program. Many parents have come forth in subcommittee hearings in prior years to urge preservation of the program in its current form, citing its effectiveness and value. The administration has begun a stakeholder process in order to facilitate discussions and move the ball forward with redesigning the program to be one that utilizes an organized delivery system of care, moving away from traditional fee-for service.

- **Denti-Cal: An Under-Resourced and Under-Utilized Program for Children.** Medi-Cal benefits for children include dental care, under the "Denti-Cal" program, which remains predominantly a fee-for-service program. Only two counties have pediatric dental managed care programs; Sacramento County only has managed care, and Los Angeles County residents can choose between managed care and fee-for-service (and most choose fee-for-service). In 2010, First 5 Sacramento published a scathing report on the low quality and utilization of care in Sacramento's pediatric dental managed care program. Two years later, a follow-up study and report was done on pediatric dental fee-for-service care, which also proved to be highly underutilized. Most recently, the Bureau of State Audits published a report/audit this past December (2014) that found insufficient access to providers, low reimbursement rates, low utilization rates, and inadequate monitoring of the program by DHCS. Generally, substantial evidence exists that kids in Medi-Cal do not get the quantity or quality of dental care they need and are guaranteed under the program. This was true prior to moving nearly a million kids from Healthy Families into Medi-Cal, and the full impact of this transition on Denti-Cal remains unknown.
- **Substantial Disinvestment in Public Health Has Not Been Restored.** The Department of Public Health's budget is typically in the billions. For example, this year's January budget includes \$3.1 billion for the department. However, of this amount, only \$120 million is state General Fund. Not only is the amount of General Fund (and the percentage of the department's overall budget that is General Fund) tiny, but it has shrunk approximately 65 percent over the past several recessionary years, from close to \$350 million to the proposed \$120 million in the 2015-16 budget. Federal funds make up the largest single source of funds in the department's budget, at \$1.75 billion in the Governor's budget. The WIC program is by far the most costly program at almost \$1.7 billion. Some of the General Fund reduction reflects a diminishing need for General Fund within the AIDS Drug Assistance Program (ADAP), which once hit a high of nearly \$100 million, and is now at \$0. Most of this General Fund, however, supported a wide array of programs at the department designed to prevent and reduce: AIDS and other STDs, teen pregnancy, asthma, diabetes, poor birth outcomes, and others. Other major public health challenges, such as childhood obesity, may have never received General Fund dollars at all. In 2014, the Assembly approved of a \$55 million General Fund public health reinvestment; however, the final 2014 Budget Act includes just restorations of \$4 million for the Black Infant Health Program and \$3 million for new HIV Demonstration Projects. DPH is not unique; there are other state departments that receive little or no General Fund. However, DPH's mission, to promote health and prevent illness, makes it uniquely undermined by its lack of General Fund. General Fund would provide DPH the freedom and flexibility necessary to effectively establish public health priorities for California that change over time and respond to the changing world in which we live. For example, DPH has lacked the resources and flexibility to make childhood obesity a top priority, despite the urgency and magnitude of this issue over the past decade. Now, climate change has begun to be recognized as one of the greatest public health challenges of our time; yet again, DPH lacks the ability, capacity, resources, and flexibility to shift gears, re-order priorities, and be effective and responsive to today's world. Similarly, infectious

disease threats, such as Ebola and Measles, seem to be on the rise; can DPH protect the health of 38 million Californians? Perhaps not in its current form. From a health care cost perspective, California has no choice but to invest in public health. High cost chronic diseases, such as diabetes, cancer and heart disease, threaten to bankrupt the state, or at least significantly destabilize California's economy, if the trajectory of the prevalence of these conditions isn't reversed. It is a well-known fact that health insurance status has much less impact on a person's actual health than does many other aspects of a person's life, namely their socio-economic status and life style.

- **Licensing & Certification Program at the Department of Public Health Continuously Underperforms.** Over the course of many years, a series of audits, analyses, and news stories have brought to light a host of serious deficiencies in the operation of the Licensing & Certification (L&C) Program, which licenses and regulates health care facilities, including hospitals and nursing homes. One of the most important consumer protection functions of this program is its investigations of complaints against facilities and providers. The program struggles with an intractable backlog of complaint investigations that have dragged on for extended periods of time with no firm deadlines for completion. The program also seems to lack clear and accurate accounting and budgeting processes, thereby making budgeting and meeting staffing needs very challenging. It has appeared that the program is substantially under-staffed, though the administration did not put forth any requests for increased resources over the past several years.
- **State Hospitals Face Ongoing Patient and Staff Safety Challenges and Growing Waiting List.** California has five state hospitals and three prison-based psychiatric programs that treat people with mental illness. Approximately 92 percent of the state hospitals' population is considered "forensic," in that they have been committed to a hospital by the criminal justice system. The state hospitals were designed and constructed for a patient population that was quite different than the population currently in the state hospitals. Substantial evidence demonstrates an increasing rate of aggression and violent incidents at state hospitals, with arguably insufficient solutions coming forth from the Administration. Moreover, over the past several years, the state hospitals have seen a growing waiting list of forensic patients. The largest waiting lists are for "Incompetent to Stand Trial" and "Coleman" commitments. The waitlist had approximately 500 patients in 2014. When queried about the potential causes of the growing number of referrals from judges and the California Department of Corrections and Rehabilitation, the Administration describes a very complex puzzle of criminal, social, cultural, and health variables that together are leading to increasing criminal and violent behavior by individuals with mental illness. Others surmise that it results from misdirected financial incentives for counties.

Governor's January Budget Proposals in Health

DEPARTMENT OF HEALTH CARE SERVICES

For Fiscal Year 2015-16, the Governor's Budget proposes \$98 billion for the support of DHCS programs (primarily Medi-Cal). Of this amount, approximately \$500 million is budgeted for state operations, while the remaining is for local assistance. The proposed budget reflects nearly a 10 percent (\$9.6 billion) increase over the current year budget which is primarily attributable to the federally-funded health care reform expansion and other changes to Medi-Cal.

Medi-Cal Major Provisions

- **Managed Care Organization Tax.** The budget 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 also proposes to use \$215.6 million of this revenue to fund restoration of the 7 percent across-the-board reduction to authorized In-Home Supportive Services (IHSS) hours of service. The IHSS hours reduction resulted from a settlement agreement that was originally codified in Senate Bills 67 and 68 (Chapters 4 and 5, Statutes of 2013), however the agreement was later revised in September 2014. This revision adjusted the timeline that requires the state to act toward a restoration of the hours and the seeking of federal approval for the mechanism to achieve this, in this case, the MCO tax, by April 1, 2015.
- **Skilled Nursing Quality Assurance Fee.** The budget proposes to reauthorize the Skilled Nursing Quality Assurance Fee for five years with annual rate increases of 3.62 percent beginning August 2015. The budget maintains the 2014-15 funding level for the Quality and Accountability Supplemental Payment program that was created to provide supplemental payments to nursing facilities based on their achievement of specified quality metrics.
- **Annual Open Enrollment.** Consistent with several prior-year budgets, the Governor is proposing to institute an annual 90-day open enrollment period for certain non-disabled Medi-Cal beneficiaries in managed care for General Fund savings of \$1.6 million in 2015-16. Currently, Medi-Cal beneficiaries may change health plans on a monthly basis and this would limit the opportunity to change plans to just the 90-day open enrollment period.
- **Pediatric Palliative Care Pilot Program.** DHCS has operated a Pediatric Palliative Care pilot program in 11 counties since 2006 to improve care to terminally ill children and reduce the cost of such care. The budget reports that an evaluation of the program found that it has both increased the quality of care and reduced costs, and therefore includes an expansion to the Pediatric Palliative Care pilot program to seven additional counties, assuming General Fund savings of \$1.4 million in 2015-16.

- **Major Estimate Assumptions.** The November 2014 Medi-Cal estimate, included in the Governor's 2015 budget, reflects the following significant assumptions and adjustments:
 1. County Eligibility Administration. Increases General Fund savings as a result of the availability of an increase in federal funding for certain eligibility determination-related costs, resulting in General Fund savings of \$122.6 million in 2014-15 and \$22.3 million in 2015-16.
 2. Autism Spectrum Disorder Treatment. 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 up to 21 years of age.
 3. Coordinated Care Initiative (CCI). Includes \$176.1 in General Fund savings from the CCI in 2015-16, primarily resulting from MCO tax revenue. Also increases General Fund costs by \$97.3 million in 2014-15 and by \$6.4 million in 2015-16.
 4. Health Care Reform Costs. Includes a decrease of \$14.5 million General Fund in 2014-15 for the mandatory and optional expansions to Medi-Cal, and an increase of \$199.2 million General Fund in 2015-16. Also includes fiscal impacts of various other aspects of health care reform resulting in an increase of \$127.5 million General Fund in 2014-15 and a decrease of \$61.3 million General Fund in 2015-16. Increases funding for counties for the administration of Medi-Cal eligibility by \$75 million General Fund in 2014-15 reflecting increasing caseload and delays in the new automated eligibility system.
 5. Managed Care Rates. Increases managed care rates, resulting in an increase in General Fund costs of \$337.9 million in 2014-15 and \$456.3 million General Fund in 2015-16.
 6. Substance Use Treatment. Includes savings of \$36.9 million General Fund by excluding residential treatment services for non-perinatal beneficiaries due to a delay in approval of a proposed federal waiver. Increases General Fund costs in 2015-16 by \$19.6 million.
 7. Mental Health Expansion. Includes increased costs in 2014-15 of \$28.4 million and \$109.2 million in 2015-16 based on caseload estimates.
 8. 1115 Waiver. The current 1115 waiver expires October 31, 2015, and the administration expects the new waiver to disallow the use of certified public expenditures for Designated State Health Programs, resulting in increased General Fund costs of \$220.55 million.
 9. Hepatitis C Drugs. Reserves \$300 million to account for the fiscal impact of new high-cost Hepatitis C drugs on Medi-Cal and other state programs.

Other Key Issues in Medi-Cal

- **Resources Requests.** DHCS is requesting approximately \$5.8 million General Fund, 79 new positions (28 permanent and 51 limited-term), an extension of 9 existing limited-term positions, and the conversion of 43.5 existing limited-term positions to permanent positions. These resources are being requested to support workload associated with, among other activities, all of the following: 1) waste, fraud and abuse prevention; 2) research and data collection for the mental health Performance Outcomes System; 3) Affordable Care Act implementation; 4) 1115 Waiver workload; 5) managed care expansion; 6) palliative care services; and 7) Substance Use Disorder treatment services.

Non-Medi-Cal Major Provisions

- **Genetically Handicapped Persons Program (GHPP).** The budget proposes to require individuals applying for GHPP to first apply for comprehensive coverage through Medi-Cal and Covered California. This proposal would require individuals who qualify for either Medi-Cal or Covered California to enroll in that program, and receive specialized services from GHPP that are not provided through either Medi-Cal or a Covered California qualified health plan.
- **Every Woman Counts (EWC), Family Planning Access Care and Treatment (FPACT) and IMPACT (prostate cancer treatment).** Similar to GHPP, the budget proposes to require providers in these programs, when enrolling individuals, to provide those individuals with single streamlined applications and encourage them to apply for comprehensive coverage through either Medi-Cal or Covered California.
- **Managed Risk Medical Insurance Program.** Consistent with the two proposals above, the budget proposes to limit the Major Risk Medical Insurance Program (MRMIP) to individuals who are unable to enroll in comprehensive coverage through either Medi-Cal or Covered California.

DEPARTMENT OF PUBLIC HEALTH

The Governor's proposed 2015-16 budget provides approximately \$3.1 billion overall, representing a \$141 million (total funds), or 4.5 percent, increase from the current year DPH budget. General Fund dollars (\$120 million) make up just 3.9 percent of the department's total budget while federal funds make up approximately 56 percent of the total department budget.

Major Provisions

- **Licensing and Certification Program Improvements.** The budget requests substantial increases in staffing and funding in order to make improvements, and meet state and federal workload mandates, to the Licensing and Certification Program within DPH. Specifically, the budget includes:
 - 1) \$19.8 million (special funds) and 237 positions (173 permanent and 64 limited-term) for 2015-16;
 - 2) A \$9.5 million (special funds) augmentation to the Los Angeles County contract, 32 new Los Angeles County positions and \$378,000 for three new state positions to provide oversight in Los Angeles County; and
 - 3) \$2 million (special funds) to implement quality improvement projects recommended by the "Initial Assessment & Gap Analysis Report and Remediation Recommendations."
- **Richmond Laboratory Capital Outlay.** The proposed budget includes \$4.3 million (General Fund) to fund construction upgrades at the Viral and Rickettsial Diseases Laboratory in Richmond, California to meet current guidelines for Bio-safety Level 3 laboratory requirements. An operational BSL-3 laboratory is required to identify emerging deadly viral diseases. The federal Centers for Disease Control and Prevention and the National Institutes of Health have restricted laboratories without these enhancements from testing for a variety of highly pathogenic viruses such as the "Bird" flu, Rickettsia species, Eastern Equine Encephalitis, SARS Coronavirus, and others.

Other Key Issues

- **Resources Requests.** DPH is requesting approximately \$14.4 million (\$384,000 General Fund), 33 new positions (14 permanent and 19 limited-term), and an extension of 11 existing limited-term positions. These resources are being requested to support workload associated with, among other activities, all of the following: 1) California Gambling Education and Treatment Services program; 2) Biomonitoring program; 3) inspections of food processors and distributors; 4) food

safety transportation enforcement; 5) Stop Tobacco Access to Kids Enforcement (STAKE) Act enforcement; 6) medical waste; 7) beach water quality; 8) Home Visiting Program; 9) Newborn Screening Program expansion; 10) Infant Botulism Treatment and Prevention Program; and 11) AIDS Drug Assistance Program (ADAP) client eligibility verification.

DEPARTMENT OF MANAGED HEALTH CARE

The Department of Managed Health Care (DMHC) receives no General Fund and is supported primarily by an annual assessment on each HMO. The annual assessment is based on the department's budget expenditure authority plus a reserve rate of 5 percent. The assessment amount is prorated at 65 percent and 35 percent to full-service and specialized plans respectively. The amount per plan is based on its reported enrollment as of March 31st of each year. The Knox-Keene Act requires each licensed plan to reimburse the department for all its costs and expenses. The Governor's 2015-16 Budget proposes \$68.2 million, an increase of \$2.5 million (3.7%) over current year, for the Department's overall budget.

Major Provisions

- **Federal Mental Health Parity.** The budget requests 11 positions (5.5 permanent and 5.5 limited-term) in 2015-16 and an additional 2 permanent positions in 2016-17 to support workload associated with conducting medical surveys of the 45 health plans affected by the federal Mental Health Parity and Addiction Equity Act of 2008. This request includes Managed Care Fund resources of \$1.86 million in 2015-16, \$2.22 million for 2016-17 and \$166,000 for 2017-18 and ongoing for clinical consulting services for the medical health plan surveys and for expert witness and deposition costs for enforcement trials.
- **Individual Market Enrollment.** As part of the implementation of federal health care reform, the department is requesting 7 permanent positions and Managed Care Fund resources of \$1.1 million for 2015-16 and \$1 million for 2016-17 to address workload related to a revised projected increase in enrollment in the individual market. The department is also requesting \$208,000 (special funds) for 2015-16 and ongoing for expert witness and deposition costs for enforcement trials.
- **Large Group Claims Data Exposure.** In order to implement SB 1182 (Leno, Chapter 577, Statutes of 2014), DMHC is requesting 1 permanent position and Managed Care Fund resources of \$85,000 in 2015-16 and \$148,000 in 2016-17.
- **Dental Plans Medical Loss Ratio.** In order to implement AB 1962 (Skinner, Chapter 567, Statutes of 2014), the budget includes 1.5 permanent positions and Managed Care Fund resources of \$189,000 for 2015-16 and \$173,000 in 2016-17 and ongoing.

DEPARTMENT OF STATE HOSPITALS

The Governor's proposed 2015-16 Department of State Hospitals (DSH) budget includes total funds of \$1.7 billion dollars, of which nearly \$1.6 billion is General Fund. The difference is primarily in the form of "reimbursements" from counties which pay the state hospitals for civil commitments. The proposed 2015-16 budget is a modest 0.9 percent increase over current year funding.

Major Provisions

- **Not Guilty by Reason of Insanity.** The proposed budget 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. It proposes to use the same medication authorization process used for Mentally Disordered Offenders and Sexually Violent Predators.
- **Incompetent to Stand Trial (IST) Waitlist.** The budget includes increased resources to address the substantial and growing 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. Total project costs are estimated to be \$32 million with ongoing costs of \$48 million.

Other Key Issues

- **State Hospitals Capital Outlay.** The budget requests resources for many facility improvement construction projects including the following:
 - a) **Statewide: Enhanced Treatment Units.** The capital outlay budget includes \$11.4 million for the renovating and retrofitting of existing facilities into Enhanced Treatment Units (ETUs). The 2014 Budget Act includes \$2.1 million for the planning phase of this project. The department plans to have 12 ETUs at Atascadero, Napa, and Patton, and 8 ETUs at Coalinga.
 - b) **Atascadero.** The capital outlay request for Atascadero State Hospital is for \$442,000 for the seismic retrofit of the East-West corridor to raise Risk Level designation of the corridor from a V to a III.
 - c) **Coalinga.** The capital outlay request for Coalinga State Hospital is for \$219,999 to design and construct a secure treatment courtyard, including a walking/running track and open air space that can accommodate the population at the hospital. This space will be used for group exercise, social interaction, and other outdoor activities.

- d) **Metropolitan.** The capital outlay requests for Metropolitan State Hospital include:
1) \$7.6 million to upgrade the Notifier Fire Alarm System in patient housing, including a new central monitoring system; and 2) \$1.9 million for increased bed capacity and security fencing, increasing capacity of the visitor's center and parking, and installation of sallyports, security kiosks, alarms, cameras, lighting and perimeter roads.
- e) **Napa.** The capital outlay request for Napa is for \$2 million to improve security, including replacement of gates and installation of extensions to increase the height of security fencing.
- f) **Patton.** The capital outlay request for Patton is for \$731,000 to upgrade the Simplex Grinnell Fire Alarm Systems in patient housing and provide a new central monitoring system.

OFFICE OF STATEWIDE HEALTH PLANNING AND DEVELOPMENT

The proposed 2015-16 budget for the Office of Statewide Health Planning and Development (OSHDP) is \$147.5 million, a decrease of \$35.1 million (24%) over the current year budget. This reduction in funding primarily reflects the depletion of carry-over funds from prior years.

Major Provisions

- **Elective Percutaneous Coronary Intervention Program Outcomes.** OSHPD requests 2 permanent positions and \$372,000 in 2015-16 and \$319,000 ongoing (California Health Data and Planning Fund) to implement SB 906 (Correa, Chapter 368, Statutes of 2014) which establishes the Elective Percutaneous Coronary Intervention (PCI) Program and requires OSHPD to produce annual risk-adjusted public performance reports on participating hospitals' PCI-related mortality, stroke, and emergency Coronary Artery Bypass Graft outcomes.

EMERGENCY MEDICAL SERVICES AUTHORITY

The Emergency Medical Services Authority (EMSA) proposed 2015-16 budget is \$32.2 million, a \$0.5 million (1.8 %) increase over the current year budget.

Major Provisions

- **Disaster Preparedness and Emergency Response.** The EMSA budget requests \$500,000 General Fund and 2 permanent positions in 2015-16 and ongoing to:
 - 1) Reestablish the southern California component of the California Medical Assistance Team;
 - 2) Support disaster medical preparedness programs (Ambulance Strike Team Program, California Medical Assistance Team Program, Training and Exercise Program); and
 - 3) Coordinate joint activities with the Department of Public Health's Emergency Preparedness Office, including Catastrophic Event Planning, and Emergency Operations Center planning and development.
- **Document Imaging Workload and Efficiencies.** EMSA is requesting 1 permanent position, 3 "Seasonal Clerks" and \$366,000 (Emergency Medical Services Personnel Fund) in 2015-16 to address increased workload associated with the document imaging of paramedic licensure and enforcement files.

Staff Comment and Analysis of Governor's Budget Proposal

The Governor's proposed budget in health keeps an appropriate focus on the implementation of the ACA, including substantial resources to expand Medi-Cal, as well as resources for other emerging health issues. For example, it includes substantial resources to make Applied Behavior Analysis (ABA) services a covered benefit for all children in Medi-Cal, an issue of much debate and concern in the Legislature since the elimination of the Healthy Families Program. Thankfully, the budget includes no real reductions in services, as occurred virtually every year since 2008. Nevertheless, the budget seems to reflect a fairly narrow view of the state's obligations and opportunities in health. The following are some areas where more discussion and resources are warranted:

- **Medi-Cal Rates Remain Unaddressed by Governor.** Raising Medi-Cal rates is clearly not a priority for this Administration, despite the fact that it has been a high priority for the Legislature, providers, and low-income advocates. The Governor's budget includes no rate increases, even in Denti-Cal despite the recent unflattering audit of the program. It is challenging to imagine how access to providers and services could be adequate given the recent expansions to the program which occurred while reimbursement rates were cut and benefits were scaled back.

- **The CCI Could Fail Thousands of Frail Seniors.** The budget includes a proposal to reconfigure the MCO tax, to conform with federal law, which, if passed, would ensure future savings from the CCI. Nevertheless, the Governor's budget expresses concern about the future of the CCI. Should the state choose to discontinue the CCI at any point in the future, millions of fragile seniors will experience new disruptions and confusion in their health care, compounding the past several years of substantial change, confusion and disruptions in health care for this population.
- **Immigrants Lack Coverage.** The Governor's budget includes no funding to cover the costs of coverage for which many immigrants may become eligible. If additional federal guidance leads to coverage for this population, funding will have to be added to the budget. The Legislature should explore the federal actions and make its own estimation of the likeliness of this funding being needed. The Legislature may also want to grapple, in general, with the moral and public health questions surrounding denying the immigrant population access to health care.
- **CCS Redesign.** Although the Administration is pursuing a redesign of the CCS program, there is no specific proposal included in the budget. Nevertheless, the Legislature should provide oversight of these efforts, with a watchful eye towards protecting a program that is considered by many to be one of the state's model programs, having served a most vulnerable population very effectively for many years.
- **No Significant Investment in Public Health.** While the Governor's budget includes a few key provisions within public health, it keeps public health a low priority generally. The budget responds to years of concerns about the Licensing and Certification Program with over \$31 million in increased special funds and 272 new positions. The budget also adds nominal resources to the Biomonitoring program and a host of other Department of Public Health Programs. Nevertheless, as discussed in some detail earlier in this document, the Legislature should seriously examine the state's public health infrastructure, its ability to address major chronic disease challenges, its ability to respond quickly and capably to major infectious disease outbreaks, and the general effectiveness of the Department of Public Health.
- **State Struggles to Define State Hospitals.** Are they hospitals or are they prisons? They were created to be hospitals, to provide mental health treatment to the most severely mentally ill patients in the state. However, over time, with increased community-based mental health care and a growing societal bias against institutional care, the population in the hospitals has become almost entirely "forensic" and increasingly violent. The Governor's budget includes substantial new resources to address the waiting list for individuals referred to state hospitals who have been deemed "Incompetent to Stand Trial" by the courts. The budget also continues funding for the construction of Enhanced Treatment Units, as well as for security-related construction projects. The Legislature should work with the administration to uncover best practices for protecting patients and staff from violence, as well as cross-jurisdictional issues involving the courts in order to curtail the waiting list.



HUMAN SERVICES

Millions of Californians rely on income support programs like Social Security, basic needs support like the CalFresh food benefit, and programs intended to support families facing multiple barriers through their hardship, with the hopes of eventually moving them off of aid, like the California Work Opportunity and Responsibility to Kids (CalWORKs) program. Human Services programs touch all segments of the age, geographic, and life situation spectrum, providing critical services in Child Welfare, In-Home Supportive Services, and Regional and Developmental Centers. These safety net resources provide positive intervention through difficult adversities of the human condition, promoting personal dignity and well-being.

California's Unfunded Poverty Liability is the Worst in the Country. California has the highest poverty in the country compared to any other state. According to a September 2014 report from the Public Policy Institute of California, California's Poverty Measure reveals that 25 percent of our children live in poverty, about 2.3 million. Homelessness is on the rise, with more families seeking services to survive day to day. Like other unfunded liabilities, the cost to California from failure to act increases as the problem is ignored. The permanent effects of poverty on brain development for young children add to the alarm of our situation, underscoring that growing up poor has lifetime negative consequences: decreasing the likelihood of graduating from high school and increasing the likelihood of becoming a poor adult, suffering from poor health conditions and outcomes, and becoming involved in the criminal justice system. This grim future will be difficult to transcend for a quarter of California's children, and for the whole of the state with attendant economic and social losses, absent a significant statewide strategy to address poverty.

Working Poor Falling Farther Behind. After decades of widening inequality, California's richest households have dramatically bigger incomes than its poorest households, and California is among the top three states in the nation with the highest income inequality. Wage stagnation and loss of earned income value further impede low-income earners' ability to effectively pull themselves above the poverty line. If the minimum wage (\$9 per hour today) had kept pace with inflation since 1968, it would now be nearly \$11 per hour. It's estimated that a minimum wage of \$13 per hour would equal annual earnings that would move a worker above the poverty threshold. Earned income doesn't go far enough for most families, calling for effective strategies to enable and bolster the middle class, allowing families to meet their basic needs and have a chance at achieving the California Dream.

No Recovery for the Safety Net. Dramatic budgetary cuts made during the Great Recession worked together to shrink the safety net to a place of bare minimum. While targeted restorations have been included in the past two state budgets, investment has fallen short of making up for the billions of dollars in funding that was lost during that painful era. Multiple waves of big reductions were sustained in Developmental Services starting in 2008. CalWORKs saw the largest contraction of its services since its 1997 creation in the 2011 and 2012 budget deals, in a time when its caseloads were expectedly high due to unemployment. Supplemental Security Income/State Supplementary Payment (SSI/SSP)

amounts were reduced to the federal minimum. General Fund was zeroed for all Older Californians Act programs. Resources diminished and conditions in low-income communities worsened, making the possibility for social mobility and breaking the cycle of poverty harder for more Californians. Attention to these issues since these massive reductions has been measured and tepid, while the state and economy struggled to find footing and a path forward toward stability.

What Human Services Can Do. A course to address some of these daunting challenges lies in the human services safety net that seeks to change these phenomena, pulling more Californians out of poverty, providing adequate resources to address basic community needs, and fueling a more equitable income spectrum where working families can feel a genuine reward in options, lifestyle, and their children's futures from labor well spent. Investment can't yield if not provided, and California may be facing a future of continued, desperate poverty if public policies continue to work around the edges of the problem and not tackle it with the moxie and confidence we are known for on a variety of other tough, entrenched, and seemingly intractable subjects ranging from global warming to disparities in education funding.

Major Issues in Human Services

- **Reduce Poverty Through Supporting Work.** The federal Earned Income Tax Credit (EITC) is a refundable tax credit that is one of the nation's most effective tools for reducing economic hardship and ameliorating child poverty among working families. Research demonstrates that the EITC helps poor children by increasing family income, boosting academic achievement, and improving health outcomes. The EITC also increases employment among single parents by rewarding work, creating higher earnings in subsequent years. Half of all states have created a state EITC to build on the federal credit. Raising California's minimum wage is another key strategy to address the unfunded poverty liability and would bring millions of families closer to self-sufficiency. Pairing an increase in the minimum wage with an improved EITC would be particularly effective in boosting financial security for low-income parents as the two policies amplify and complement one another.
- **CalWORKs Must Work for Low-Income Families and Children in Poverty.** The CalWORKs program has undergone complicated, continuous change over the past six years, the design of which achieved enormous savings of cumulatively over \$1 billion dollars. In short, the changed program has a (1) new, shorter lifetime clock of 48 (versus the federally allowed 60) months, (2) flexibility within a new 24-Month Welfare-to-Work services clock, (3) Early Engagement reforms that were intended to improve the experiences for families facing severe and multiple barriers to employment, such as homelessness and mental illness, and (4) grants that, despite some increases, remain at historic lows. One million California children rely on the program and two-thirds of the CalWORKs caseload are Latino and Black families, most of whom are headed by a single female head of household. More children are expected to be the primary recipients of CalWORKs, receiving a child-only grant, as the 24 month clock implements more fully in the 2015-16 year. This will happen if the adult recipient is no longer eligible for their portion of the grant due to lack of meeting higher work standards after the 24th month. It's indisputable that CalWORKs families live in deep poverty, so their transition either into work or further into poverty, and how this is dictated by the program design, is the question for the Legislature and the State. Ultimately, how CalWORKs families fare affects and reflects the face of poverty for California.
- **Keep In-Home Supportive Services Sustainable.** IHSS is a home and community-based service that provides personal care services for over 460,000 disabled, frail, and aged recipients across California. Like CalWORKs, IHSS has weathered major program changes and reductions over the past several budget cycles, most recently enduring a 7 percent across the board reduction in authorized hours in 2014-15, decreasing only slightly from 8 percent in 2013-14. As part of the 2014 Budget, an agreement on overtime management and \$172.2 million General Fund was approved, with certain restrictions on weekly hours affecting the over 380,000 providers in the program. The federal district court recently nullified the federal rule on overtime that would have taken effect on January 1, 2015, though disability rights advocates had expressed concern over vulnerable types of consumers if the law were to take effect. With a federal appeal now set in motion, the future of overtime in IHSS is uncertain. In addition, its inclusion in the Coordinated Care Initiative, which has

been somewhat delayed, requires continuing monitoring by the Legislature. With the U.S. Census Bureau reporting that California's over age 65 population is projected to double from 3.6 million in 2000 to 7.2 million in 2025, IHSS remains a key strategy to keep people living in their homes and communities in compliance with the *Olmstead* Supreme Court decision, avoiding unnecessary and costly institutionalization.

- **Create Responsiveness and Adequacy in Child Welfare Services.** In 2011, Child Welfare Services (CWS) were realigned, with constitutional changes enacted with the passage of Proposition 30, resulting in the transfer of \$1.6 billion in state funding for the CWS, foster care, and adoptions programs, to the counties. The 2011 realignment moved program and fiscal responsibility to counties, providing a dedicated source of funding with the goals of eliminating duplication of effort, generating savings, and increasing flexibility. As a federally-regulated, state-supervised, county-administered program, CWS continues to be of interest to Legislators seeking to improve permanency and well-being for children in foster care. Efforts in Subcommittee No. 1 last year to draw attention to issues not envisioned or dealt with in realignment were successful, resulting in increased foster care payments for nonfederally eligible foster youth (\$15 million General Fund for part year) and an effort to build services for children who are victims of commercial sexual exploitation (\$5 million General Fund in the first year). The CWS advocacy community has anticipated the release of the Continuum of Care Reform (CCR) report, which was requested in 2012 realignment programmatic legislation. Reducing reliance on group homes and more systemic attention to permanent placement and identifying and addressing the needs of children remain central philosophical tenets in the child welfare discourse.
- **Maximize CalFresh Enrollment.** Hunger remains a serious issue in California. California's underperformance on enrollment of eligible cases onto the CalFresh program (our state iteration of the federal State Nutrition Assistance Program, or SNAP) has been a topic of scrutiny in recent years, with 57 percent of those eligible and 44 percent of working poor eligible participating, some of the lowest numbers in the nation. However recent policy implementations such as the Affordable Care Act, the State Utility Assistance Subsidy, Modified Categorical Eligibility and School Lunch have bolstered caseload growth. The Legislature will be interested in how these changes have altered the participation landscape for CalFresh and if there are further innovative, near-term efforts that can be undertaken to ensure that more eligible families are receiving food benefits. Over 2.5 million Californians are projected to receive CalFresh benefits in 2015-16.
- **Ensure Health and Safety in Community Care.** From care at the earliest stages of life to end of life care, nearly 1.4 million Californians rely on the Community Care Licensing (CCL) Division of DSS and its licensing enforcement activities to ensure that the care and supervision that they receive is consistent with the standards set in law and regulations. Under current law, DSS is required to make random inspection visits to 30 percent of all facilities each year, and is required to inspect all facilities at least once every five years. Additionally, approximately ten percent of facilities are required to be inspected annually as a requirement of federal funding or due to poor compliance history. Currently, approximately 460 licensing staff regulate the operations of more than 66,000 licensed community care facilities and DSS contracts

with counties to license an additional 8,700 Foster Family Homes and Family Child Care Homes. CCL requested and received \$5.8 million General Fund in the 2014 Budget to undergo quality enhancements and program improvements in its licensing, inspection, and certification of community facilities. This was expected to be a first step toward a plan for more frequent inspections across facilities.

- **Acknowledge Growing Senior Poverty.** The SSI/SSP program provides a monthly cash benefit to enable aged, blind, and disabled recipients to meet basic living expenses for food, clothing, and shelter. Under current federal law, states must meet a maintenance of effort (MOE) requirement in SSI/SSP, losing all Medi-Cal funding if they go below this floor. During the recessionary cuts, SSI/SSP grants were brought to the MOE floor, and in 2009, the statutory cost of living adjustments for both SSI/SSP and CalWORKs grants were removed. Senior poverty is high nationwide, but the situation is particularly dire in California, due to higher costs of health care and housing. Approximately 20 percent of California's seniors, compared to 15 percent nationally, live below the poverty threshold when taking health care expenses into account, according to a recent report from the Kaiser Family Foundation. Grant levels and COLAs in the SSI/SSP have been priority areas of advocacy in the human services world.
- **Caring for Older Californians.** California receives a federal block grant pursuant to the Older Americans Act, and is home to 33 local Area Agencies on Aging throughout the state that provide community-based nutrition, health, and social services for the senior community. The General Fund complement to these programs, called the Older Californians Act funding, was slowly reduced in the recessionary years and then was finally fully eliminated in 2009. Legislative efforts to infuse resources into programs like Ombudsman, Senior Nutrition, and Alzheimer's Day Care Resource Center programs have not yet met with success, but advocates are continuing to make the arguments linking the lack of supportive community services and the condition of the old and poor in California.
- **Moratorium of Developmental Center Admissions and Transitioning Individuals to Regional Centers.** The 2012-13 budget imposed a moratorium on admissions to DCs except for individuals involved in the criminal justice system and consumers in an acute crisis needing short-term stabilization. The high costs to maintain and staff these facilities, coupled with an emphasis on transitioning individuals back into their community, have led to the closure and/or restructuring of many developmental centers. Currently, the Department of Developmental Services operates three state-operated developmental centers (DCs) and one state-operated community facility. A fourth DC, Lanterman, transitioned its last resident into community living on December 23, 2014, and the facility has moved into warm shutdown. Although there is a moratorium on admissions to DCs, judges may still recommend placement within a DC for certain individuals. Those with acute issues or whom have been deemed incompetent to stand trial (IST) are often referred to the Porterville DC, which has a Secure Treatment Program (STP). Last year, advocates raised the issue that the State should operate at least two acute crisis facilities. Funding for these acute crisis facilities was approved as part of the 2014 Budget. As many developmental centers have closed, options for acute care and services have decreased. In order to provide consumer protection during this transition resources, including competent providers and adequate services, must be made available in the community.

- **Certification and Licensing Issues at the Developmental Centers.** The state's DCs undergo annual recertification surveys conducted by DPH to ensure that the facilities meet federal requirements for receipt of federal Medicaid funds. These evaluations include monitoring of treatment plans, protection of residents, client health and safety, and client rights. Currently, the Fairview and Porterville Developmental Centers have Program Improvement Plans (PIPs) in place to bring these facilities into compliance with federal certification requirements in order to retain federal funding for services in the Intermediate Care Facilities. In budget year 2014-15, four ICFs within the Sonoma DC had been voluntarily decertified, which has led to an \$8.8 million GF increase to replace the loss of \$8.8 million in federal funding. Without the DCs compliance with federal regulations, the State is liable for costs incurred by these facilities.
- **Developmental Services Task Force on Strengthening Community Services.** In July 2014, the Secretary of the California Health and Human Services Agency convened the Developmental Services Task Force, which is focused on strengthening community services. This Task Force and subsequent smaller Task Forces are working toward the overall development of appropriate guidelines for the rate structure, caseload ratios, available services, and overall availability of community services for persons with developmental disabilities. The smaller workgroups within the Task Force will convene in January and March of 2015 to review regional center caseload ratios and operations in order to make implementation recommendations to the Department and the Legislature. The Task Force will reconvene in February 2015 to continue their efforts.
- **Rates May Need to Increase to Fund Minimum Wage Cost Pressures.** Many Regional Center staff are paid at or near the State minimum wage. As a result of recent increases to the minimum wage, a number of regional center vendors may need a rate adjustment in order to pay employees the new minimum wage.
- **Customer Service for Affordable Care Act Enrollment Undermined by IT Problems.** Failures and flaws in the new California Healthcare Eligibility, Enrollment and Retention System Project (CalHEERs) system have forced the State to adapt and rely more on Counties to facilitate and correct enrollment into the Affordable Care Act benefits. In addition to challenges for system users, CalHEER is plagued by system functions that don't work or generate inaccurate data. These problems have forced the State to spend a great deal of money to temporarily remedy.

Governor's January Budget Proposal in Human Services

DEPARTMENT OF SOCIAL SERVICES

The Governor's Budget includes \$21.8 billion all funds (\$7.2 billion General Fund) for the California Department of Social Services (DSS) in 2015-16, an increase of \$244,650 General Fund or 3.4 percent from the current year. A large proportion of DSS funding is comprised of federal and realigned funds.

Major Provisions for CalWORKs and SSI/SSP

- **Backfill for CalWORKs Grant Increase.** The Governor's Budget provides additional General Fund of \$73.3 million to fund the grant increases of Maximum Aid Payments (MAPs) that will go into effect on April 1, 2015 pursuant to the 2014 Budget. For an assistance unit of three persons in high cost counties, the MAP will increase from \$670 to \$704 per month. The total average grant of all CalWORKs cases is estimated to increase by \$24.
- **COLA Pass-Through for 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.

Major Provisions in CalFresh and Other Food Assistance

- **Maintaining Access to CalFresh.** The Governor's Budget 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.
- **CalFresh Reporting Simplification: Eliminate Change Reporting (CR).** The Budget reflects the net cost, or savings of \$2.9 million General Fund (\$8 million total funds) of eliminating CR, a new proposal effective October 1, 2015. Certain households, such as those containing elderly or disabled individuals or seasonal or migrant workers, were subject to CR when California originally implemented Quarterly Reporting. All CR households will be converted to semi-annual reporting (SAR) and implementation will be phased over the subsequent year at the recipient's recertification month.

- **CalFresh and CFAP Caseload Impact of the ACA.** The Budget reflects the caseload impact to CalFresh and CFAP as a result of the implementation of the ACA. The Department of Health Care Services (DHCS) increased their caseload projections to reflect approximately 3 million individuals that will be added to the Medi-Cal program due to ACA by June 2015. The Medi-Cal application process allows potential CalFresh or CFAP-eligible individuals to initiate an application process for food assistance through California Healthcare Eligibility Enrollment and Retention System (CalHEERS). The 2015-16 costs of \$93.9 million General Fund (\$237.9 million total funds) reflect an increase in the projected caseload impact, partially offset by savings from a conforming methodology to include prospective budgeting savings.
- **Drought Food Assistance Program (DFAP).** The Budget reflects funding for the temporary program implemented in response to the Governor's Drought Emergency Declaration in January 2014. The DFAP is designed to provide food assistance to drought-affected counties that suffer high levels of unemployment and is being provided through the California Emergency Foodlink, the non-profit contractor that purchases and distributes United States Department of Agriculture food statewide. The 2014-15 revised Budget reflects \$6.9 million GF in DFAP claims and another \$6.0 million General Fund anticipated by June 2015. The Governor's Budget reflects the remaining \$7.1 million GF of the \$20 million GF that was authorized being carried forward to 2015-16.

Major Provisions for IHSS

- **Restoration in Service Hours Tied to MCO Tax.** 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 \$215.6 million General Fund (\$483.1 million total funds) in 2015-16. For additional information on the MCO tax, refer to the Department of Health Care Services (DHCS) section of this document.
- **Overtime in IHSS.** 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 \$182.6 million General Fund (\$403.5 million total funds) in 2014-15 and \$314.3 million General Fund (\$707.6 million total funds) 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. On January 14, 2015, the court struck down the remainder of the regulation and DSS announced that it was halting the implementation of state statute governing these changes in the program, set to take effect on January 1, 2015. This leaves the application of the new overtime state rules uncertain for the current year as of this writing. The administration has indicated that no change is being made to the budgeted amounts pending the May Revision.

Major Provisions for Protecting Children and Seniors

- **Continuum of Care Reform (CCR) Recommendations Released.** Includes \$7 million General Fund (\$9.6 million total funds) to begin implementing the 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.
- **Enabling More Frequent Inspections at Community Care Licensing (CCL).** The Budget proposes to spend \$3 million General Fund and 28.5 positions, ramping up in later years, to address a backlog of complaint cases and expand training and technical assistance in CCL. 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. The ongoing staffing costs after full implementation under this proposal would be approximately \$14 million General Fund, with a total of 145 new permanent positions approved to achieve this new licensing standard. This continues the effort approved as part of the 2014 Budget to address service quality, fee adequacy, and complaint and investigation standards at CCL.

Other Key Issues

- **Resources for IHSS Overtime Implementation for FLSA and CMIPS II.** The Budget requests four new two-year limited-term positions to enable the implementation of recent changes to the IHSS program related to the impact of the federal FLSA and SB 855, Chapter 29, Statutes of 2014. This request also seeks the two-year extension of four existing limited-term positions assigned to support the Case Management, Information and Payrolling System (CMIPS) II project as it continues in its Maintenance and Operations (M&O) phase and works through a backlog of special service requests from counties. The administration has asked for the BCP to continue to be considered despite the halting of the state program changes for FLSA due to the aforementioned court decision. The costs for the eight staff resources in 2015-16 is \$513,000 General Fund (\$1 million total funds).

- **Coordinated Care Initiative Staffing Extension.** The Budget requests a two-year extension of nine limited-term positions for the continued support and oversight of the Coordinated Care Initiative as it relates to the IHSS program, for a cost of \$505,000 General Fund (\$1 million total funds). The CCI proposed to shift 1.2 million seniors and persons with disabilities who are beneficiaries of both Medi-Cal and Medicare (dual eligible) into managed care, integrating all services inclusive of medical care and long-term supports and services (LTSS). These positions would continue to certify managed care agencies, implement and manage the provision of contracts between a managed care health plan and agencies, develop the provider training curriculum, and revise existing social worker training modules for compliance with new managed care requirements.
- **Preparing for Implementation of the Home Care Services Consumer Protection Act.** The Budget requests a General Fund loan of \$5.5 million to the Home Care Fund, utilizing \$4.3 million for staff resources (25.5 permanent, 11.5 limited-term for a total of 37 positions in 2015-16). The administration states that the General Fund will be repaid with fee revenue in future years. These resources will enable to timely implementation of AB 1217, Chapter 790, Statutes of 2013, which requires DSS to regulate home care organizations and provide for background checks of affiliated, and independent, home care aides who wish to be listed on a registry. Implementation will begin on January 1, 2016.
- **Staffing to Detect Registered Sex Offenders in Out of Home Care.** The Budget requests the conversion of four two-year limited-term positions set to expire June 30, 2015 to permanent at a cost of \$364,000 General Fund (\$443,000 total funds). These positions currently handle the workload of conducting address matches of the Department of Justice's California Sex Offender and Arson Registry (CSAR), the Licensing Information System (LIS), and the Child Welfare Services Case Management System (CWS/CMS), pursuant to recommendations issued in two reports (2008 and 2011) from the Bureau of State Audits.
- **Implementing Legislation Promoting Problem Detection in Child Welfare.** The Budget requests one permanent position at DSS (costing \$87,000 General Fund, \$129,000 total funds) to implement the provisions of AB 1978, Chapter 768, Statutes of 2014, which requires the DSS to collaborate with labor and the County Welfare Directors Association to develop and implement a confidential process whereby child welfare social workers can inform DSS of local policies, procedures, or practices that endanger the welfare of a child. The implementation date is January 1, 2016 and a report to the Legislature is required by January 1, 2018.

- **Implementing Legislation Related to Residential Care Facilities for the Elderly (RCFEs).** The Budget requests 8.8 permanent and 5.3 limited-term positions, for a total of 14.1 in 2015-16, at a cost of \$2.3 million General Fund to implement recently enacted legislation. This body of new law increases civil penalties for licensed facilities throughout the state and, for RCFEs, prohibits problem licensees from admitting new residents, strengthens residents' personal rights, and expands training to increase compliance. The legislation includes:
 - AB 1570, Chapter 698, Statutes of 2014, which increased training for applicants and direct care staff at RCFEs.
 - AB 2171, Chapter 702, Statutes of 2014, which expanded personal rights of residents in RCFEs.
 - AB 2236, Chapter 813, Statutes of 2014, which increased civil penalties for licensed facilities.
 - SB 911, Chapter 705, Statutes of 2014, which increased training for RCFE administrators.
 - SB 1153, Chapter 706, Statutes of 2014, which placed a prohibition on new clients for particular RCFEs.
- **Implementing Legislation Related to Group Home Complaints.** The Budget requests two permanent and 4.5 limited-term positions, for a total of 6.5 in 2015-15, at a total cost of \$726,000 General Fund to implement AB 388, Chapter 760, Statutes of 2014. The legislation requires DSS to include in its annual listing of licensed community care facilities the number, types and outcomes of licensing complaints made by facility staff or children in group homes and other youth residential facilities. It requires facilities to report to DSS any incidents concerning a child involving contact with law enforcement and DSS to inspect those facilities reporting an excessive number of calls to law enforcement. It also requires CDSS to cross-report internally and to the Department of Health Care Services (DHCS) depending upon which entity had licensed the facility.
- **Continuing Early Work of Horizontal Integration.** The CDSS requests the permanent extension of two existing limited-term positions and permanent funding for a third existing position. The requested positions will enable the CDSS to continue to plan for and implement horizontal Integration efforts involving multiple automated systems, including Statewide Automated Welfare System (SAWS), Child Welfare Services – New System (CWS-NS), Medi-Cal Eligibility Determination System (MEDS), Leader Replacement System (LRS), and the Appeals Caseload Management System (ACMS). In addition to focusing on specific projects, requested staff will also work to establish standards for data exchange, attempting to ensure that new systems are able to communicate and share recipients information and implement improvements to streamline recipient paperwork and social worker workload. The staffing costs are \$162,000 General Fund (\$371,000 total funds).

- **Complying with Federal Request on Oversight of SNAP-Ed.** The Budget requests six permanent positions (costing \$747,000, all federal funds) to provide a higher level of program management and oversight and create a new Technical Assistance and Program Compliance unit for the Supplemental Nutrition Assistance Program-Education (SNAP-Ed). SNAP-Ed is a 100 percent federally funded program, with California receiving \$136 million, the highest grant allocation for any state in the country. The requirement for greater oversight resulted from a recent management evaluation of DSS by the U.S. Department of Agriculture, Food, and Nutrition Services.
- **CalFresh Student Eligibility Legislation.** The Budget includes \$200,000 General Fund (\$300,000 total funds) to implement AB 1930, Chapter 729, Statutes of 2015, which expands CalFresh eligibility to students who participate in certain educational programs that are considered employment training programs as determined by CDSS. This will implement on October 1, 2015.
- **Implementing CalWORKs Legislation.** The Budget reflects the total cost of 2014 legislation enacted for CalWORKs, excluding legislation that did not have an associated local assistance budgetary impact.
 - AB 1579, Chapter 632, Statutes of 2014 extends eligibility to pregnant women who are 19 years of age or older by an additional three months with verification of pregnancy. This implements July 1, 2015 and results in costs of \$6.6 million total funds in 2015-16. Approximately 257 recipients will receive an additional three months of grants, including a \$47 special needs payment each month.
 - AB 2382, Chapter 905, Statutes of 2014 implements January 1, 2015, and reflects the elimination of the grant reduction penalty for truant children under 16 receiving CalWORKs. This premise results in total funds costs of \$1.7 million in 2014-15 and \$3.3 million in 2015-16. There are approximately 4,500 cases that do not meet the school attendance requirement; this will eliminate the penalty imposed on the case, resulting in a grant increase.

DEPARTMENT OF AGING

The Governor's Budget includes \$194.5 million all funds (\$30.5 million General Fund) for the California Department of Aging (CDA) in 2015-16. This represents a slight decrease of \$1.9 million General Fund or 6.2 percent from the current year. A large proportion of funds for CDA come from the federal government, including Older Americans Act funding and grant funds. Federal funds are projected to be \$150 million in 2015-16, slightly lower than the current year.

Major Provisions

- CDA contracts with agencies that operate the Multipurpose Senior Services Program (MSSP), which is scheduled to transition to managed care in the Coordinated Care Initiative (CCI) counties. Funds for MSSP remain in the CDA budget for 2015-16. MSSP's planned transition, with the hopes of minimizing disruptions for consumers, is a timely area of inquiry for the Legislature.

DEPARTMENT OF DEVELOPMENTAL SERVICES

The Department of Developmental Services (DDS) is responsible under the Lanterman Developmental Disabilities Services Act (Lanterman Act) for ensuring that approximately 290,000 individuals with intellectual and developmental disabilities receive the services and supports they require to lead more independent and productive lives, and the ability to make choices and decisions about their lives.

The Governor's Budget includes \$5.7 billion total funds (\$3.3 billion General Fund) for the Department in 2015-16; a net increase of \$246 million above the updated 2014-15 budget, a 4.5 percent total fund increase (6.5 percent General Fund increase).

Major Provisions

- **Expansion of Secure Treatment Program at Porterville DC.** \$18.0 million GF and 184.5 position increases to support the expansion of the STP capacity at Porterville DC by 32 beds, so that DDS may accommodate the increasing number of individuals deemed incompetent to stand trial and awaiting treatment.
- **Program Improvement Plans.** \$12.2 million (\$6.5 million GF) and 179.5 position increases for full year costs to implement two PIPs at the Fairview and Porterville DCs that were entered into with the California Department of Public Health (CDPH) on January 15, 2014. Also, \$11.9 million (\$7.5 million GF) and 119.7 Full Time Equivalent (FTE) positions in current budget year to cover eight months of implementation costs for the PIPs at the Fairview and Porterville DCs.
- **Sonoma DC Backfill.** \$8.8 million GF increase for the current budget year (2014-15) is needed to replace the loss of \$8.8 million in federal funding as a Reimbursement (FFP) for the four Intermediate Care Facilities (ICF) units. DDS voluntarily decertified these units on January 17, 2013, to retain FFP for the remaining ICF units. The assumption was that Sonoma DC would receive a favorable outcome on the survey and have all eleven ICF Units recertified by July 1, 2014. In July 2014, CDPH did not find sufficient progress in the PIP to warrant recertification. DDS has appealed that action. However, the four ICF units voluntarily decertified are not eligible for FFP during the appeal process period.
- **Lanterman DC Post Closure Adjustments.** \$46.3 million decrease (\$23.9 million GF decrease) associated with the closure of Lanterman DC. The budget for Lanterman DC reflects the proposed transfer of the facility to the California State University (CSU) System on July 1, 2015. As such, no funding has been included for costs associated with the continued operation of the facility in 2015-16. In accordance with Government Code sections 11011 and 11011.1 concerning surplus state property, the land will be declared excess by DDS when it is no longer needed. The Department of General Services will then report to the Legislature that the land is surplus. After the Legislature approves the property as surplus, DGS will take the lead in determining the future use

of the property, and the disposition of the property will follow the established process. The following budget adjustments are needed prior to the transfer to CSU:

- \$64.8 million decrease (\$33.9 million GF decrease) and elimination of 418.5 positions from the Developmental Center budget, reflecting full year budgeted levels for Personal Services and Operating Expenses and Equipment.
 - \$0.3 million decrease (\$0.2 million GF decrease) in funding level for the Foster Grandparent/Senior Companion Program at the Lanterman DC moving to the Community Services Program.
 - \$17.3 million increase (\$9.1 million GF increase) to pursue the settlement of open Workers' Compensation claims assigned to the Lanterman DC. For one year after closure of the facility, the State may claim matching federal funds for these expenditures.
 - \$0.6 million increase (\$0.4 million GF increase) and 6.0 positions to extend the Regional Resource Development Projects to ensure that individuals who moved from Lanterman DC to community settings, successfully maintain their placements and living arrangements.
 - \$0.3 million increase (\$0.2 million GF increase) and 2.0 positions for the Community State Staff program administration.
 - \$0.6 million increase (\$0.5 million GF increase) and 5.0 positions stationed at Headquarters that supported the closure of Lanterman DC, are now needed to continue working on post-closure workload and on future statewide downsizing in the overall DC system.
- **Restoration of Unrealized Savings from Senate Bill 946, Chapter 650, Statutes of 2011.** \$44.3 million GF increase in Purchase of Services to reflect restoration of funding as a result of unrealized savings from SB 946, which requires health care insurers to provide coverage for behavioral health treatment for pervasive developmental disorder or autism. The 2012 May Revision included estimated GF savings of \$80 million for implementation of SB 946. Since implementation, the Department has realized savings of \$35.7 million which is reflected in the trends used to develop the 2014 November Estimate. DDS will review updated expenditure data for the 2015-16 May Revision.
 - **Minimum Wage Increase.** \$64.2 million increase (\$36.6 million General Fund increase) due to Assembly Bill 10, Chapter 351, Statutes of 2013 that increases the State minimum wage from \$9.00 to \$10.00 effective January 1, 2016.
 - **Update of Federal Overtime Regulations.** \$24.4 million increase (\$13.1 million GF increase) in POS to reflect the full-year impact of the change in the Federal Labor Regulations regarding overtime. While the Governor's Budget includes funding to implement the Federal Labor Regulations regarding overtime effective January 1, 2015, implementation of these regulations has been halted following a Federal Judge's ruling invalidating them. On December 31, 2014, the United States District Court in Washington, D.C. issued a temporary restraining order staying the revised definition of "companionship services" for 14 days, until January 15, 2015. These regulations were due to go into effect on January 1, 2015. As a result of the US District Court's action, the 5.82% rate increase for supported living,

personal assistance and in-home respite agency services scheduled to begin January 1, 2015, will not go into effect at this time.

- **Developmental Services Task Force on Strengthening Community Services.** On July 24, 2014, the Secretary of the California Health and Human Services Agency convened the Developmental Services Task Force, which is focused on strengthening community services. At the subsequent Task Force meeting on October 8, 2014, the Task Force members prioritized the subject areas most in need of review for sustainability of the community services system. Four general workgroups are being convened on the following topics:
 - Rates/Rate Structure
 - Caseload Ratios/RC Operations
 - Medical and Mental Health Services and Supports
 - Housing and Employment

The Rates Workgroup convened on December 16, 2014, to begin examining the current rate structure and rate-setting methodologies and to decide how best to move forward on the remaining subject areas. They will reconvene in February 2015 to continue their efforts. Workgroups also will convene in January and March 2015 to review RC caseload ratios and operations.

Other Key Provisions

- **AB 1522 Healthy Workplace, Healthy Families Act of 2014.** \$25.3 million increase (16.2 million GF increase) in POS to reflect costs associated with the implementation of AB 1522. Effective July 1, 2015, AB 1522 requires that an employee who works in California for 30 days or more in a calendar year is entitled to paid sick days.
- **Implementation of Behavioral Health Treatment (BHT) Services by Department of Health Care Services (DHCS).** \$2.0 million decrease (\$1.0 million GF decrease) in POS to reflect a reduction in POS expenditures for an estimated 292 new consumers who would receive BHT services through the DHCS as a Medi-Cal benefit per SB 870.
- **Reduction of One-Time Funding.** \$13.0 GF million decrease in POS to reflect a reduction of one-time funding from 2011-12 for a re-appropriation of Community Placement Plan funds to implement the recommendations of the Developmental Centers Task Force.
- **Community-Based Services Caseload and Utilization.** \$308.8 million increase (\$236.5 million GF increase) in regional center operations (OPS) and purchase of services (POS) to reflect changes in caseload and utilization due to updated population and expenditure data including Home and Community-Based Services (HCBS) Waiver enrollment above budgeted levels.
- **Developmental Center Employee Compensation and Staff Benefit Contribution Changes.** \$13.2 million increase (\$7.9 million GF increase) due to employee compensation augmentations approved through the collective bargaining process, as well as increases in retirement and other staff benefit employer contribution rates.

- **DC Population Decrease Staffing Adjustments.** -\$12.0 million (-\$6.6 million GF) decrease and -149.4 position reduction due to the anticipated population decline of 134 residents from the continuing transition of DC residents into the community.
- **Sonoma Creek Pump Station.** \$1.6 million GF increase for the replacement of the Sonoma Creek Pump Station Intake System located at the Sonoma DC, for Phase I funding to prepare Preliminary Plans and Working Drawings.

DEPARTMENT OF REHABILITATION

The Department of Rehabilitation (DOR) works in partnership with consumers and other stakeholders to provide services and advocacy resulting in employment, independent living, and equality for individuals with disabilities. The Governor's budget proposes total spending of \$435.454 million, an increase of 0.7 percent from the current year. Proposed staffing totals 1,860 personnel.

Key Provision

- **Statewide Funding of Social Security Beneficiary Work Incentives Planners.** DOR is requesting additional federal fund authority of \$3.11 million and 31 ongoing full-time permanent positions to hire Work Incentives Planners (WIPs) to eligible DOR consumers receiving Supplemental Security Income/Social Security Disability Insurance benefits. The Department will utilize 100% federal program funds received from the Social Security Administration Cost Reimbursement program.

STATE COUNCIL ON DEVELOPMENTAL DISABILITIES

The State Council on Developmental Disabilities is responsible for engaging in advocacy, capacity building, and activities that promote self-determination, independence, productivity, and inclusion in all aspects of community life for Californians with developmental disabilities and their families. The Governor's budget proposes total spending of \$11.570 million, a decrease of 0.06 percent from the current year. Proposed staffing totals 87 personnel.

No major issues are included in the Governor's Budget for the State Council.

STATE INDEPENDENT LIVING COUNCIL

The State Independent Living Council's (SILC's) mission is to create policy and system change for independent living. The Governor's budget proposes total spending of \$778,000, a decrease of 2.7 percent from the current year. Proposed staffing totals 3 personnel.

No major issues are included in the Governor's Budget for the SILC.

DEPARTMENT OF CHILD SUPPORT SERVICES

The Department of Child Support Services (DCSS) provides professional services to locate parents, establish paternity, and establish and enforce order for financial and medical support. The Governor's budget proposes total spending of \$1.001 billion (\$313.615 million General Fund) for the Department of Child Support Services, an increase of 0.02 percent from the current year. Proposed staffing totals 664.5 personnel.

- **Changes to Federal Law Will Unify States' Enforcement.** House of Representatives Bill 4980 was enacted on September 29, 2014, and enrolled as Public Law 113-183. Title III of the of the Preventing Sex Trafficking and Strengthening Families Act requires all states to enact the 2008 version of the Uniform Interstate Family Support Act (UIFSA) verbatim, during the next legislative session. This law establishes rules for states regarding the establishment and enforcement of child support orders across state lines. Advocates have raise the question of whether or not some families would be eligible for services under UIFSA that they normally would not be eligible for under Temporary Assistance for Needy Families (TANF). The Assembly should follow the implementation of this federal law in order to determine if services will be made available to more needy families.
- **Revenue Stabilization Funding Has Helped Ease Strain on the System.** The Department reviewed collection data for 2013-14 and found that the revenue stabilization funds are having the effect of maintaining statewide child support collections. This is a significant achievement in the context of California's slow recovery from the economic downturn and retention of revenue generating caseworker staff has had a positive impact on collections. The Assembly should continue to monitor revenue stabilization funding and revenue stabilization collections in order to ensure that counties are still performing to federal performance measures.

HEALTH AND HUMAN SERVICES AGENCY

The Governor's budget includes \$360.1 million for the Health and Human Services Agency in 2015-16, an increase of \$3.1 million or 0.9 percent from the current year. Over 95 percent of the funds in the Agency budget are associated with the Office of System Integration, which oversees information technology systems and projects that serve various departments within the agency.

Key Provisions

- **Office of Patient Advocate Health Care Compliant Data.** The Budget includes \$206,000 special fund and one position to implement the multi-department Health Care Compliant Data Reporting Project.
- **State Hearing Appeals Case Management System Procurement Extension.** The Budget includes \$177,000 Special Fund and one limited-term for one year to conform

to the new procurement schedule for a new State Hearing Case Management system, which is expected to be procured in 2017.

- **Transition Costs for new California Electronic Benefits Transfer (EBT) Vendor.** The Budget includes \$1.6 million Special Fund for one-time costs associated with the transition the EBT program to a new vendor. The transition to a new vendor is expected to begin in January 2016 and last for 18 months.

Staff Comment and Analysis of Governor's Budget Proposal

In California, before we had the benefit of a safeguard like Proposition 2, we cut budgets during the worst of our economic woes to bridge deficits. However, a recession is generally when we would expect more people to need services and supports to weather a tough economic time. Now on more solid footing, we can take a renewed look at our unfunded liabilities and plan for the future. The budget is a tool to craft opportunities to ensure that more Californians have what they need to survive, transcend, and in turn invest in our collective prosperity.

There are many sensible and interesting ideas in Human Services that warrant healthy debate in the upcoming budget cycle. The following attempts to capture some of the issues and strategies most discussed at this pivotal time in our state's recovery.

- **Poverty Reduction Is Possible.** According to the U.S. Census Bureau, safety net programs on average kept nearly 4 million Californians, including 1 million children, out of poverty between 2009 and 2011. The Governor's Budget, aside from several targeted changes, is a workload budget for CalWORKs, one of our principal anti-poverty programs. Investments and changes in the safety net, including those affecting CalWORKs, could encompass the following:
 - **Provide a State Earned Income Tax Credit (EITC).** We can create a state EITC to build on the existing federal credit, which would give more than 3 million California households an economic boost. Depending on the approach and the amount of the supplemental state tax credit, families could see their earned income increase by hundreds or thousands of dollars annually, depending on the number of earners and the number of children in the household. The federal EITC and the Child Tax Credit lifted 1.3 million people, including 629,000 children, out of poverty each year, on average, between 2010 and 2012. This cut the child poverty rate by 6 percentage points.
 - **Increase the Minimum Wage.** Raising the minimum wage to a level that would allow a family to live above the Federal Poverty Level is an important anti-poverty goal. Indexing the wage after that so that it keeps pace with inflation an integral component to this strategy.
 - **Repeal of CalWORKs Maximum Family Grant Rule.** Currently a child born into a family receiving CalWORKs does not receive a benefit unless the circumstance of the pregnancy is attested to be the result of rape, incest, or a failure in contraception. This effort would repeal that exclusion and would provide for the increased benefit payment starting now and into the future years for the current and incoming caseload.

- **Raise CalWORKs Grants.** CalWORKs grants, even after a 5 percent increase that will take effect on April 1, 2015, will still be at 43 percent of the federal poverty level. Cases where the adult is no longer receiving aid because they have either not been able to meet work requirements or they have exceeded their time limit receive an even smaller grant, pushing these families into extreme poverty. Increasing grant amounts in general, and considering an increase of the child-only and safety net grants that benefit children, continue to be pressing areas of need in the program. In addition, the reinstitution of the COLA to allow for the grants to keep pace with inflation is an important idea.
- **Increase Months on the CalWORKs Welfare to Work Services Time Clock.** Currently a participant receives 24 months of welfare to work services and then must meet higher work standards to receive additional months after this, not to exceed 48 months of services in total. The federal TANF law that created CalWORKs allows for 60 months in a lifetime benefit. Bringing California's clocks back into alignment with the federal maximum is a critical area of policy in the program, as the case can be made that additional time for participants is needed to address barriers including educational and training needs, counseling, and mental health/substance abuse/domestic violence intervention services.
- **Increase the Earned Income Disregard.** Currently CalWORKs families are allowed to keep a certain percentage of their earned income until their income grows too high (still below the Federal Poverty Level), and they "income out" or earn too much to qualify for the program. Proposals have been made in the past to allow for participants to keep more of their earnings, incenting work and allowing them more resources while they remain on the program. This strategy ensures that families don't "income out" of the program too early to meaningfully give them an opportunity to pull themselves out of deep poverty.
- **Increase Investments for Seniors.** Advocates are united in calling for an increase to the SSI/SSP grants, with reinstitution of a COLA, to provide additional resources to those least able to improve their sources of income on their own – the aged, blind, and disabled. In addition, there has been ongoing discussion about creating investments for Older Californians Act programs, such as Ombudsman, to provide proper oversight for residential facilities caring for those more frail in our community.
- **Protect Children in Foster Care.** Once more is learned about the Continuum of Care Reform recommendations from the administration in their pending statutory proposals, we can assess what the next steps might be in Child Welfare at the state level. Housing for homeless foster youth and other proposals have been discussed in the past and will resurface as the CWS conversation continues. The out-of-home caseload is trending slight upward with 62,100 children in care, with roughly half in kinship care and the remainder split between Foster Family Agency, Foster Home, and Group/Shelter care. Entries are ticking slightly up to 32,228 and exits slightly down to 27,602. This follows a decade of gradual trending in the opposite direction. Foster Care has consistently been an area of legislative interest as we grapple with how to best care for children who are in our care as a state.

- **Respond to Health and Safety Concerns.** The DSS proposal in Community Care Licensing, just released, responds overall to the concerns brought forward in 2014 when the initial Quality Enhancement proposal was considered. Annual inspections for all facility types was a popular drumbeat, and it is uncertain how providers and advocates will respond to the three-tiered inspection protocol that is currently in the Governor's proposal.
- **Continue Monitoring of Program Improvement Plans.** In DDS, the Program Improvement Plans (PIPs) at Fairview and Porterville are a response to federal findings of non-compliance and state licensing citations. The PIP establishes a structure for independent analysis and monitoring of the facilities in order to improve services to the individuals residing there. The Assembly should continue to monitor the progress of the PIPs in order to ensure that these facilities can get back into federal compliance.
- **Build Additional Community Capacity.** Last year's budget included a redirection of funding from DDS headquarters to the Community Services Program in order to increase quality and staffing for community services. The Assembly should continue working with the Department and Task Force to ensure that communities throughout the State have the necessary resources to support the regional centers and the developmentally disabled population at large.
- **Assess Fees Paid by Parents of Children Living in Residential Facilities.** The State Auditor issued a report on January 13, 2015 which details the inefficiencies and inconsistencies within DDS's process for assessing fees paid by parents of children living in residential facilities. According to the report, 95% of appeals that are sent to DDS are approved, which leads to the question of why the family was initially assessed at a higher amount. The Assembly should look to require the Department to consider the same information in its initial fee determinations as it does during the appeals process, in order to achieve parity within the processes.
- **Consider Advocates' Concerns with Regional Center Rates.** According to advocates, due to low rates for employees, families no longer have ready access to a stable and experienced team of regional center case managers, community direct support professionals, and others who used to make up the essential teams for realizing person centered and family centered plans. The Assembly should look at options related to the Advocates' request to increase worker rates by 10% in order to stop the current crisis to stabilize the community system.
- **Fix CalHEERs.** The Assembly should consider options for addressing the flaws in the CalHEERs system. Either the user experience must improve and the quality of the data in CalHEERs needs to be more reliable or the State should consider whether relying on CalHEERs is still the most effective way to link Californians to health care coverage..



ENVIRONMENTAL PROTECTION, NATURAL RESOURCES, AND ENERGY

This section discusses several significant budget issues in the natural resources, environmental protection and energy areas. Three of the issues cross-cut a number of agencies and departments — continued implementation of the Governor's Water Action Plan, monitoring of Cap and Trade investments, and the state's emergency drought response. There are also a number of singular issues related to zero based budgeting, the Beverage Container Recycling Fund, and the operation of state parks.

- **Water.** Last year, the Legislature and the Governor made progress towards addressing a multitude of water challenges facing the state with the passage of the Water Bond and enactment of historic groundwater legislation. Continued challenges include limited and uncertain water supplies, poor surface and groundwater quality, impaired ecosystems, and the high risk of flooding.
- **Drought.** The Legislature and Governor deployed significant resources to combat the drought last year. California is now experiencing its third dry year in a row. California's drought conditions have resulted in dangerously low levels of water in our reservoirs and groundwater aquifers and have impacted every aspect of our environment and economy. The drought has imperiled drinking water supplies, our agricultural sector, sensitive habitats and greatly increased our risk of wildfire. Even with the series of tropical storms in December, the state is still far short of where we need to be with our water supplies.
- **Climate Change.** California has wide-ranging policies for dealing with climate change, including programs to promote renewable energy, energy efficiency, cleaner cars and transportation fuels, energy storage, and more sustainable land use practices. According to the Administration, the state is on track to meet the AB 32 goal of reducing greenhouse gas (GHG) emissions to 1990 levels (roughly 431 million metric tons) by 2020. However, the overwhelming scientific consensus is that continued and even steeper reductions in carbon pollutants are necessary to avoid “dangerous” climate change—meaning some of the worst and most disruptive climate impacts.

Last year, the state began investing over \$870 million from auction proceeds in low carbon transportation, sustainable communities, energy efficiency, urban forests, and high-speed rail.

- **Zero-Based Budget of the California Public Utilities Commission (CPUC).** After a number of fact-finding hearings in the past two years, the Legislature took a series of actions to increase controls and oversight of the CPUC. On March 6, 2013, the Subcommittee held an oversight hearing to discuss the Department of Finance Office of State Audits and Evaluations' (OSAE) audit of CPUC's budget process for developing the 2012-13 and the 2013-14 Governor's Budgets. The OSAE audit found "widespread weaknesses within CPUC's budget operations which compromise its ability to prepare and present reliable and accurate budget information." The audit revealed: ineffective management over budgeting functions; budget forecasting methodologies and monitoring needed improvement; fiscal management practices needed improvement; and non-compliance with statutory requirements specified to the Office of Ratepayer Advocates (ORA).

On April 17, 2013, the Subcommittee discussed a report, commissioned by the CPUC, that revealed significant cultural problems related to safety at the CPUC and strongly suggested that safety concerns are not a top priority at the Commission.

The serious breakdown of fiscal controls at the CPUC revealed at the hearing and at subsequent hearings plus concerns about CPUC's safety culture led to a number of actions by the Legislature, including directing the CPUC to conduct a zero-based budget for all of its programs by January 10, 2015 to allow the Legislature to reevaluate the base funding requirements of all CPUC program implementation.

The intent of the exercise was to enable the Legislature to better control the overall size and direction of the CPUC's programs, including how funds are allocated and prioritized for particular programs and functions, as well as how expenditures ensure that safety is integrated into every aspect of the CPUC's activities.

California Beverage Container Recycling Fund. The BCRF is a depository for processing fees, fines, and redemption values paid by the certain bottle distributors subject to the California Beverage Container Recycling and Litter Reduction Act. Generally, the funds are used to administer litter reduction and recycling efforts. Due to the state's high recycling rate (85 percent) and mandated program payments, expenditures for the BCRF have exceeded revenues by \$100 million in three of the last four fiscal years and by nearly \$29 million in the past fiscal year. The Governor's proposal this past year to make substantial reforms to the program lacked stakeholder consensus and ultimately failed.

State Parks. California state parks have played integral role in preserving the state's diverse natural and cultural heritage for over 150 years. Millions of visitors from around the world visit California state parks each year, fueling our state's critical tourism economy. California's State Park System today includes 280 park units covering nearly 1.6 million acres of land and a third of the state's coastline.

However, California's State Park System faces significant challenges, as documented by a host of studies, reports, and audits. Declining budgets have led to scaled-back services, shorter hours, and higher fees. A long list of maintenance needs ranges from broken toilets and dilapidated structures to crumbling roads. Outdated administrative systems, technology, and processes impede park staff's ability to effectively manage and protect parks' natural and cultural resources.

These problems came to the forefront in 2012 following reports of fiscal irregularities at the same time the state was considering closing up to 70 parks. This crisis resulted in the creation of the independent Parks Forward Commission, charged by the California Legislature to recommend improvements for ensuring the State Park System's long-term sustainability.

In June 2013, the Parks Forward Commission began an assessment of the financial, operational, and cultural challenges facing the state park system. The Commission released its draft report with preliminary findings in July 2014. The final report is expected to be released in January 2015.

Governor's January Budget Proposals

Water Action Plan. The Governor's California Water Action Plan (CWP), unveiled in October 2013, is the Administration's vision for a five-year approach to water policy. The plan addresses multiple water challenges facing the state, including limited and uncertain water supplies, poor surface and groundwater quality, impaired ecosystems, and the high risk of flooding.

The Urgency Drought Relief Package, passed by the Legislature and signed by the Governor on March 1, 2014, accelerated the appropriation of \$569.5 million of CWP expenditures, including \$472.5 million for Integrated Regional Water Management (IRWM) grants, \$77 million for FloodSAFE, and \$20 million for water-efficiency activities promoting greenhouse gas (GHG) emission reductions.

The 2015-16 proposed Budget includes approximately \$1.7 billion in investments to continue to implement the Governor's Water Action Plan. The two largest components of which are the implementation of the Water Bond and spending for flood protection. Various other Water Action Plan proposals will be discussed later in this section by department.

Water Bond Implementation. The Budget includes \$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. The LAO chart below breaks down water bond expenditure plan:

2015-16 Proposition 1 Expenditure Proposals*(In Millions)*

Purpose		Department		Amount
Watershed Protection and Restoration				\$178.0
Watershed projects	restoration	Various ^a		139.1
Enhanced projects	stream flow	Wildlife Board	Conservation	38.9
Water Recycling				\$137.2
Water recycling projects		SWRCB		131.7
Water recycling and desalination		Water Resources		5.5
Safe Drinking Water				\$135.5
Drinking water treatment projects		SWRCB		69.2
Wastewater treatment projects		SWRCB		66.3
Water Supply Reliability				\$59.9
Integrated regional water management		Water Resources		32.8
Water conservation		Water Resources		23.2
Improvements to state water system		Water Resources		3.3 ^b
Stormwater management		SWRCB		0.6
Groundwater Sustainability				\$21.9
Groundwater management		Water Resources		21.3
Groundwater contamination		SWRCB		0.6
Total				\$532.5

^aIncludes Department of Fish and Wildlife, state conservancies, and Natural Resources Agency.

^bDoes not include \$1.4 million proposed for expenditure in 2014–15.

SWRCB = State Water Resources Control Board.

2015-16 Proposed Proposition 1 Expenditure Proposal for Conservancies (in millions)

Conservancy	Activity	Amount
Tahoe Conservancy	Provides \$200,000 program delivery and \$13,950,000 for local assistance or capital outlay for water quality, watershed protection, and restoration in the Lake Tahoe Basin.	\$14,150
Wildlife Conservation Board	Provides \$491,000 for 2 limited-term positions and 1.5 permanent positions for WCB program delivery and \$41.2 million for local assistance and capital outlay projects. Of this amount \$38.4 million is for WCB stream flow enhancement \$2.8 million is requested for the San Joaquin River Conservancy for watershed protection and restoration.	\$41,691
Santa Monica Mountains Conservancy	Request is for \$508,000 program delivery and \$17.5 million for local assistance grants and capital outlay.	\$18,008
San Gabriel River And Mountains Conservancy	Request is for \$332,000 and 2 positions for program delivery and \$15 million for local assistance grants or capital outlay for watershed projects.	\$15,332
San Diego River Conservancy	Provides \$100,000 and 1 position for program delivery and \$2 million for local assistance grants or capital outlay for watershed protection and habitat restoration projects.	\$3,100
Coachella Valley Mountains Conservancy	Provides \$70,000 and 1 position for program delivery and \$2.5 million for local assistance grants or capital outlay for multi-benefit ecosystem and watershed protection projects.	\$2,570
Sierra Nevada Conservancy	Provides \$200,000 and 2 positions for program delivery and \$10.2 million for local assistance grants or capital outlay for multi-benefit water quality, water supply, and watershed protection projects.	\$10,200
Delta Conservancy	Provides funding and 4 positions to support a local assistance grant program for multi-benefit ecosystems and watershed protection and restoration.	\$9,871
Coastal Conservancy	Provides \$15 million for local assistance grants and capital outlay for the purposes of protecting rivers, lakes, streams, coastal waters, and watersheds.	\$15,000
Baldwin Hills Conservancy	Provides \$78,000 and 1 position for program delivery and \$2 million for local assistance grants or capital outlay for watershed protection and habitat restoration projects.	\$2,100

The Legislature may wish to consider whether we are getting the Water Bond money out the door fast enough given the multitude of water challenges facing the state. Additionally, the Legislature may wish to consider how projects will be selected, public benefits should be evaluated and what project outcomes to assess that might help inform future rounds of funding.

Emergency Drought Response. Last year's Urgency Drought legislation, mentioned above, provided \$687.4 million to support drought relief, including emergency financial assistance for housing and food for workers directly impacted by the drought, funding to secure emergency drinking water supplies for drought-impacted communities, and funding for projects to help local communities more efficiently capture and manage water.

The 2014 Budget Act also provided \$142 million to continue immediate drought-related efforts, such as enhanced fire protection, assistance to local water agencies with emergency water supply projects, public outreach through the Save Our Water campaign, and enforcement of drought-related water rights and water curtailment actions.

The 2015-16 Budget proposes \$115 million (\$93.5 million General Fund) on a one-time basis to continue the critical drought response efforts, should existing drought conditions continue through next year. The table below outlines the proposed expenditure by Department.

Proposed Drought Response Funding

Department	Activities	Amount
Department of Forestry & Fire Protection	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	\$59.4
Department of Fish & Wildlife	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	\$11.4
Department of Water Resources	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	\$11.6
Department of Social Services	Provide food assistance for communities most impacted by the drought	\$7
State Water Resources Control Board	Continue enforcement of drought-related water rights and water curtailment actions and provide grants for emergency drinking water projects	\$22.6
Office of Emergency Services	An increase of \$4.4 million General Fund for the State Operations Center to continue to provide local communities with technical guidance and disaster recovery support related to the drought.	4.4
Totals		116.4

Following this section, each department's budget and proposals are summarized briefly.

SECRETARY OF THE NATURAL RESOURCES AGENCY

The Secretary of Natural Resources proposed budget is \$53.1 million, which represents a 10 percent decrease in expenditures from last year. This decrease is primarily due to a reduction in bond expenditures from Propositions 12, 40 & 84, which are nearly depleted. All funding in the Secretary's budget is special funds.

Key Provisions

Marine Protected Areas Monitoring. The Governor's Budget request is for \$2.5 million in Proposition 84 funding to monitor the state's marine protected areas of the central coast.

Water Bond. The Budget proposes \$9.8 million in Proposition 1 funds and four positions for general oversight of Proposition 1 bond programs and to support the Ocean Protection Council Grant Program and the Watershed and Urban River Enhancement Grant Program.

Environmental License Plate Fund (ELPF) Shortfall. The ELPF is depository for revenues collected from personalized license plates. Funds must be used to preserve and protect the environment, including control and abatement of air pollution generated by motor vehicles. The 2014-15 budget increased ELPF expenditures by providing \$5 million for a fourth climate change assessment and \$2.5 million to address the risks of climate change, sea level rise, and associated extreme events. Due to a number factors, including falling revenues, employee compensation increases and additional funding obligations, there is concern that the Fund may have a deficit in 2015-16. The Governor proposes shifting funding from the ELPF to other special funds to address a drop in revenue projections.

DEPARTMENT OF WATER RESOURCES

The Department of Water Resources' proposed budget is \$3.4 billion, which represents a 22 percent decrease in expenditure from last year. This decrease is primarily due to expiring bond funds. Most of the Department's budget is special funds, with \$83 million of the proposed total funding coming from General Fund.

Major Provisions

Flood Protection. The Budget includes \$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. Proposition 1E authorized \$4.1 billion in general obligation bonds to support flood protection efforts in the Central Valley, the Sacramento-San Joaquin Delta, and other areas of the state subject to flooding.

Since 2007, the Legislature has appropriated all but approximately \$335 million of this funding for a variety of flood-related activities in the state, including emergency flood system repair projects, emergency preparedness, Delta flood protection projects, floodplain mapping, statewide and local planning, and the construction of flood protection projects.

Proposition 1E stipulates that no appropriation may be made after June 2016 – essentially setting up a “use it or lose it” scenario. In order to provide sufficient time to both encumber and expend the as-yet unspent Proposition 1E dollars, the 2015-16 Budget Act is seeking the reappropriation of approximately \$750 million in money previously approved, and approximately \$335 million in new dollars – collectively comprising the remaining Proposition 1E authorizations – that would be available for up to ten years. Providing this length of time would ensure any hurdles that may stand in the way of projects can be overcome without loss of the state funding.

Groundwater Management. The Budget includes \$6 million General Fund for DWR to implement specific requirements of SB 1168 (Chapter 346, Statutes of 2014), the Groundwater Sustainability Act, such as the adoption of basin boundaries and regulations on best groundwater management practices and provide additional technical assistance to local agencies on the development of the groundwater sustainability plans.

Water Bond. The Governor requests \$86.6 million in funding and positions to support state operations and local assistance grants related to groundwater sustainability plans and projects, integrated regional water management, agricultural and urban water use efficiency and conservation, desalination.

Drought. The Budget requests \$11.625 million for statewide planning, monitoring, and to support the Save our Water Program.

Key Provisions

Critical Water Shortage Management Program. The Budget proposes \$1.4 million General Fund for DWR to identify water management operation improvements during drought conditions and streamline water transfers.

DEPARTMENT OF FORESTRY AND FIRE PREVENTION

The Department of Forestry and Fire Protection's (CALFIRE) budget is \$1.7 billion, which represents less than a one percent increase from last year. This increase is primarily due to a hiring and training augmentation at CALFIRE's Academy (discussed below), employee compensation increases, and increased estimates for E-Fund expenditures. Some of the Department's budget is special funds, with \$1 billion of the proposed total funding coming from General Fund.

Major Provisions

Drought. The Governor's Budget requests 373 temporary positions and \$62 million for one year from the General Fund and State Responsibility Area (SRA) Fire Prevention Fund to address above average fire conditions related to the current drought.

In order to address the unprecedented fire conditions that were seen during the 2014 fire season, the Department's base budget was augmented by \$33 million. In addition, the Department's Emergency Fund was augmented by \$24 million to reflect the lengthened operational period for some fire crews, helitack bases, and other resources. The 2014 fire season saw the Department respond to approximately 1,000 more fires than the five year average. However, due to the additional resources the total acreage burned was approximately 30 percent lower than the total for 2013.

The current precipitation outlook for the remainder of the winter suggests at best temporary relief from the drought conditions. Given the already drought stressed conditions of fuels, and the low likelihood of moisture recovery, the Administration is requesting continuation of the resources that were approved in 2014 (\$59.4 million – shown in the previous table), including early staffing and delayed down-staffing of firefighting resources. In addition, the Governor's budget adjusts the estimate for the current year Emergency Fund by an additional \$214 million to account for predicted higher fire activity through June 2015 above 2014 Budget Act levels. Budget year estimates are increase by \$207 million.

Helicopter Replacement. CAL FIRE currently operates 12 Vietnam-era military helicopters. These aging helicopters are becoming more costly to maintain, and are not equipped with modern technology that enables night-flying capabilities. Replacing the existing fleet with new helicopters would enhance CAL FIRE's initial attack effectiveness, improving its ability to contain wildfires quickly before they spread. The Governor is proposing budget bill language directing CAL FIRE to initiate a competitive procurement process to replace its existing fleet of helicopters.

According to the Administration, the Governor's Budget does not include an appropriation for helicopters in order to preserve the integrity of a competitive procurement process and because, from a timing perspective, an appropriation is not needed until 2016-17. The earliest date the Administration is anticipating an intent to award is Spring 2016, with an actual award made 30 days later. To the extent an intent to award is made in Spring 2016, the Administration would have sufficient time to include an amount necessary to facilitate that award in the 2016-17 May Revision. However, if the process proceeds more quickly, not having money appropriated in the 2015 Budget could delay acquisition of the helicopters.

CAL FIRE Core Training Academy. The Governor requests \$9.2 million and 49 positions for two years to address the hiring and training needs resulting from climate change impacts that are lengthening the fire season.

DEPARTMENT OF PARKS AND RECREATION

The Department of Parks and Recreation's budget is \$570 million. This represents a 15 percent decrease from last year. This decrease is primarily due to expiring bond funds. Most of the Department's budget is special funds, with \$115 million of the proposed total funding coming from General Fund.

Major Provisions

Base Funding-Parks Forward\Maintain Operations. The Governor's Budget requests another one-time increase of \$19.7 million (State Parks and Recreation Fund) to allow Parks to sustain operations and maintain its base support budget. This will allow sufficient time for the Parks Forward Commission to prepare its final report (discussed previously) and identify sustainable funding sources for the Department.

Empire Mine Remediation The Budget proposes an on-going budget augmentation of \$220,000 in General Fund to provide for the long-term operation and maintenance at Empire State Park pursuant to a recent settlement agreement.

Key Provisions

Invasive Aquatic Plant Control. The Budget proposes an augmentation of \$3.993 million (2015-16) and an ongoing augmentation of \$2.844 million and 11 positions for expenses, equipment and support associated with the Invasive Aquatic Plant Control and Eradication Program for treatment of invasive species.

DEPARTMENT OF FISH AND WILDLIFE

The Department of Fish and Wildlife budget is \$516 million. This represents a six percent decrease from last year. This decrease is primarily due to expiring bond funds. Most of the Department's budget is special funds, with \$80 million of the proposed total funding coming from General Fund.

Major Provisions

Water Bond. The Budget proposes \$36 million and 41.5 positions (4.5 new positions and 37 redirected positions) to implement Proposition 1 (discussed previously), which allocates \$372.5 million to the Department for watershed restoration projects. This request represents the first of a ten year plan to spend the funds allocated to the Department by Proposition 1.

Drought. The Governor requests \$14.7 million (\$11.435 General Fund and \$3.250 Fish and Game Preservation Fund) and 13 one-year limited term positions to respond to continued drought conditions with focused efforts on the highest priority needs, including providing emergency help for Winter and Spring-run Chinook salmon on the Sacramento River and its tributaries.

Enhance Stream Flows. The Governor requests \$1.6 million General Fund and 12 positions to protect and restore important ecosystems which includes enhancing flow in stream systems statewide that support critical habitat for anadromous fish. This work will be done in collaboration with the State Water Resources Control Board.

Payment of In-Lieu-Fees (PILT) to Counties. The Budget provides \$644,000 General Fund per year to pay counties an amount equal to the county taxes levied on the properties at the time they were transferred to the state. According to the Administration, the amount does not include funding that the county would have provided to education because Prop 98 has supported this amount.

Groundwater Management. The Governor requests \$274,000 General Fund and two positions to implement groundwater legislation enacted last year (SB 1168, AB 1739, and SB 1319). Funding will be used to coordinate with local agencies, the Department of Water Resources and the State Water Resources Control Board on groundwater policies and management plans.

ENERGY COMMISSION

The Energy Commission budget is \$423 million, which represents a 46 percent decrease from last year. This large change is primarily due to a carry-over of Electric Program Investment Charge (EPIC) funds, which artificially inflated the Commission's budget the previous year. All of the Commission's budget is special funds.

Key Provisions

ECAA Program Support. The Governor's budget requests \$1.48 million from the Energy Conservation and Assistance Account (ECCA) and 11 positions (6 permanent and 5 limited term) to support the ECCA Program. The ECCA Program is a revolving loan fund which provides low interest rate loans to local governments, special districts, public schools, universities, and public institutions for the installation of cost-effective energy efficiency and renewable energy projects. The additional funds would support the work which comes as a result of an additional \$56 million from the California Clean Energy Jobs Fund for K-12 and community college districts and \$20 million from the Greenhouse Gas Reduction Fund in the 2014-15 Budget specifically for state owned buildings and University of California and California State University campuses.

Increase Alternative and Renewable Fuel and Vehicle Technology Program (ARFVTP) Staff Resources. The Budget proposes \$2 million from the Alternative and Renewable Fuel and Vehicle Technology Fund and 15 positions to strengthen staff resources implementing the ARFVTP and the Zero Emission Vehicle Action Plan.

Vulnerability of Fueling Infrastructure for the Transportation Sector to Climate Change. The Budget proposes \$1.8 million from the Petroleum Violation Escrow Account funding to support an evaluation of the vulnerability of the fuel infrastructure for the transportation sector to climate impacts. This proposal was denied by the Legislature last year.

DELTA STEWARDSHIP COUNCIL

The Delta Stewardship Council's budget is \$25 million, which represents a 40 percent increase from last year. This change is due to the proposed funds to implement the Delta Plan (discussed below). The Department's budget contains some special funds, with \$17 million of the proposed total funding coming from General Fund.

Major Provision

Delta Plan Implementation. The Budget proposes \$6.7 million 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.

SAN FRANCISCO BAY CONSERVATION AND DEVELOPMENT COMMISSION

The San Francisco Bay Conservation and Development Commission's budget is \$7.6 million (\$5.4 million General Fund), which represents an eight percent increase from last year. This increase is primarily due to a proposed increase in General Fund spending for core programs (discussed below).

Key Provisions

Stable Base Funding. The Budget proposes a baseline augmentation of \$1 million from the General Fund to fully fund core programs.

AIR RESOURCES BOARD

The Air Resources Board's budget is \$576 million. This amount represents a 32 percent decrease from the previous year. The substantial decrease is due primarily to a reduction in previous Proposition 1B (Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006) bond appropriations—the 2014 Budget Act appropriates \$240 million and provides an extended encumbrance and liquidation period. The Board receives no General Funds.

Key Provision

Implementation of SB 1371. The Governor's Budget requests \$370,000 annually from the Public Utilities Commission Public Utilities Reimbursement Account to implement SB 1371 (Ch. 525, Statutes of 2014). SB 1371 requires the California Public Utilities Commission (CPUC), in consultation with the Air Board to adopt rules governing the operation, maintenance, repair, and replacement of natural gas pipeline facilities to minimize methane leaks and GHG emissions. The Air Board will use the requested resources to identify types of methane leaks, develop a methodology and protocol to estimate and project emissions from those leaks, and determine appropriate mitigation options.

DEPARTMENT OF RESOURCES RECYCLING AND RECOVERY

The Department of Resources Recycling and Recovery's budget is \$1.53 billion, which represents less than a one percent decrease from last year. The Department receives no General Funds.

Major Provision

SB 270 Implementation (Plastic Bag Ban). The Governor's Budget proposes \$268,000 from the Integrated Waste Management Account, Integrated Waste Management Fund and three positions to implement SB 270 (Padilla, Chapter 850, Statutes of 2014). SB 270 imposes a ban on plastic single-use carryout bags and enacts new requirements for bag producers and specified stores related to the sale and distribution of reusable and recycled paper bags.

THE STATE WATER RESOURCES CONTROL BOARD

The State Water Resources Control Board's budget is \$1.35 billion, which represents a 19 percent increase from last year. This change is primarily due to implementation of the Water Bond and SB 445 (discussed below). Most of the Department's budget is special funds, with \$32.7 million of the proposed total funding coming from General Fund.

Major Provisions

Enhance Stream Flows. The Budget proposes \$2.2 million General Fund and \$1.8 million Water Rights Fund for the State Water Resources Control Board and the Department of Fish and Wildlife to enhance flows in at least five stream systems that support critical habitat for anadromous fish.

SB 445 Implementation. The Budget proposes a permanent increase of \$79 million in baseline authority (Underground Storage Cleanup Fund and Site Cleanup Subaccount), plus a one-time authority increase of \$109.9 million and 21 new positions to implement the program changes required by SB 445 (Chapter 547, Statutes of 2014). SB 445 provides new funding to address the most serious groundwater contamination sources such as solvents like PCE (drycleaners) and TCE (industries), nitrates (chemical fertilizers), and perchlorate (fireworks, rockets) that have taken thousands of public supply wells out of service in drought impaired California. The positions and increase in authority will be supported by revenue collected from the program.

Water Bond. The Governor requests \$268.5 million in budget authority and 55 positions to provide local assistance resources, and to administer the programs under the Proposition 1 Bond Act approved by the voters on November 4, 2014.

Drought. The Budget proposes \$22.6 million (\$7.6 million State Operations and \$15 million Local Assistance) to continue drought efforts, including responding to drinking water emergencies.

Key Provisions

Marijuana Cultivation Enforcement Team. The Budget proposes \$1.5 million General Fund and 11 two year limited term positions to continue a pilot project approved in the 2014-15 Budget, to provide resources needed to address damage occurring to the state's natural resources resulting from marijuana cultivation on public and private lands in California.

Small Communities Wastewater Projects. The Governor requests a one-time augmentation of \$4 million for the State Water Pollution Control Revolving Fund Small Community Grant Fund to assist small disadvantaged communities with their wastewater needs.

AB 2071 Use of Recycled Water for Water Livestock. The Budget proposes a one-time General Fund increase of \$300,000 to implement the requirements of AB 2071. These funds enable the State Water Board to hire contractors who are needed to coordinate, oversee, and administer an expert panel to determine if the use of tertiary recycled water for consumption by animals poses a significant health risk to the public or animals.

DEPARTMENT OF TOXIC SUBSTANCES CONTROL

The Department of Toxic Substances Control's budget is \$208 million, which represents a six percent decrease from last year. This decrease is primarily due to carry overs of unspent funds from the past year to the current year. Most of the Department's budget is special funds, with \$27 million of the proposed total funding coming from General Fund.

Major Provisions

Permitting Coordination and Backlog Support. The Governor requests \$1,632,000 from the Hazardous Waste Control Account (HWCA) and 16 limited-term positions for two years to address the increased workloads for the Enforcement Division, Policy and Program Support Division, Office of Planning and Environmental Analysis, Office of Legal Counsel, and Office of Environmental Information Management in support of the Office of Permitting's initiative to reduce DTSC's inventory of backlogged hazardous waste facility permit applications and streamline and enhance protections in the enforcement and permitting processes.

Key Provisions

Exide 2014 Enforcement Order. The Budget proposes 5.5 positions and \$734,000 (reimbursements to HWCA) to implement the 2014 Enforcement Order against Exide Technologies.

Hazardous Waste Reduction. The Governor requests an augmentation of \$840,000 Toxic Substances Control Account (TSCA) and 6 positions for two years to develop, implement, and evaluate projects that reduce the generation of hazardous wastes that are treated or disposed in California. This Community Protection and Hazardous Waste Reduction Initiative will select up to three pilot-scale projects to reduce hazardous wastes that are generated in significant quantities in California, can pose substantial risks or hazards to human health or the environment, and are treated or disposed in California communities that are disproportionately burdened by multiple sources of pollution. The Administration will also select individuals to sit on an advisory panel that will provide guidance on the Initiative.

Biomonitoring. The Budget proposes 2 limited-term positions and \$600,000 from TSCA and the Birth Defects Monitoring Program Fund for two years to support the California Environmental Contaminant Biomonitoring Program (CECBP).

THE DEPARTMENT OF PESTICIDE REGULATION

The Department of Pesticide Regulation's budget is \$90.9 million, which represents a three percent increase from last year. The Department receives no General Funds.

Key Provisions

Product Registration Data System. The Governor requests \$1,958,000 in 2015-16, \$1,962,000 in 2016-17, \$400,000 in 2017-18, and \$163,000 in 2018-19 and ongoing to develop and implement a fully integrated information management system to substantially improve the pesticide product and device registration process.

PUBLIC UTILITIES COMMISSION

The Public Utilities Commission's Budget is \$1.5 billion, which represents a 14 percent increase from last year. This increase is primarily due to anticipated increases in demand for the Universal Lifeline Telephone Service Program and the California Teleconnect Fund. The Commission receives no General Funds.

Major Provisions

Fiscal Audits. The Governor requests \$81,482 (various Special Funds) and one position to audit submitted User Fee Statements against utilities' financial records to ensure utilities are remitting correct fees in relation to their revenue.

Internal Audits. The Budget proposes \$178,000 for one position to provide a detailed work plan based on a charter, initial risk assessment, and other foundational documents to support and justify the role and overall resource needs for a newly-created internal audit function within the Executive Division of the CPUC. This function will conduct independent audits of internal CPUC programs, processes, fiscal administration, and other administrative responsibilities.

Review of Balancing Accounts. The Governor requests two three-year limited term positions in the Energy Division and \$224,944 from the Public Utilities Commission Utilities Reimbursement Account (PURA) to conduct in-depth reviews of entries in utility balancing accounts in light of a March 2014 State Auditor findings.

Regulatory Audits. The Budget proposes 7 additional audit positions (three-year limited term) within the small water and energy audit sections and \$754,768 from PURA to enhance the CPUC's regulatory audit capacity in light of criticism from recent audits and analysis of internal risks.

Deaf and Disabled Telecommunications Program (DDTP). The Governor requests \$1.5 million from the DDTP Administrative Committee Fund to address increased costs to administer the program due to projected increases in expenses related to contracts and personal services, and equipment purchases.

Key Provisions

Universal Lifeline Telecommunications Program. The Budget proposes \$142.8 million from the Universal Lifeline Telephone Service Trust Administration Fund to address a new and increased subscribership for wireless service plans by California Lifeline participants.

California Teleconnect Fund. The Governor requests \$40.4 million from the California Teleconnect Fund (CTF) Administrative Committee Fund to ensure adequate funding for increased claims in light of external factors technology programs authorized in the 2014-15 Budget and changes in the E-rate program (federal schools and libraries counterpart to the CTF program).

California High Cost Fund A Program. The Governor requests \$3.95 million from the California High Cost Fund-A Administrative Committee Fund to ensure adequate funding for increased claims in light of forecast increases to basic service telephone rates and the resulting subsidy claims that are paid by the fund.

Speech Generating Devices. The Governor's requests \$397,000 from the DDTP Administrative Committee Fund for continuation of 4.5 positions for an additional two-year limited term to administer the Speech Generating Device program.

Gas Leak Abatement. The Budget proposes \$550,000 from the Public Utilities Commission Reimbursement Account and 4 positions to implement SB 1371, Chapter 525, Statutes of 2014, which relates to procedures governing the leak management of gas pipeline facilities.

Electrical Grid Security. The Budget proposes \$551,000 from the Public Utilities Commission Reimbursement Account for 3 limited term positions and one permanent position to implement SB 699, Chapter 550 (Statutes of 2014). SB 699 directed the CPUC to develop rules and procedures to assess security measures at electric companies and develop baseline standards.

Modified Limousine Regulation. The Governor requests \$227,000 from the Public Utilities Transportation Reimbursement Account for 3 two-year limited term positions to implement SB 611, Chapter 860 (Statutes of 2014). SB 611 directed the CPUC to survey 12,000 carriers and annually develop a list of modified limousines and transmit to the California Highway Patrol.

DEPARTMENT OF FOOD AND AGRICULTURE

The Department of Food and Agriculture budget is \$384 million, which represents less than a two percent decrease from last year. Most of the Department's budget is special funds, with \$76 million of the proposed total funding coming from General Fund.

Major Provision

California Animal Health and Food Safety Laboratory. The Governor requests \$4,250,000 in General Fund authority for 2015-16 and \$4,374,000 ongoing for the California Animal Health and Food Safety laboratory system's baseline deficiency, and additional resources required to operate the new South Valley Animal Health Laboratory in Tulare, to prevent, detect, and respond to animal health disease outbreaks.

Fairs and Expositions – Training Program. The Budget proposes \$3,091,000 in General Fund authority for 2015-16 and \$3,086,000 on-going, and two positions for the Division of Fairs and Expositions to sustain California's network of 78 fairs by providing operational and training support. This request will provide critical support for fairs to continue operating and reduce the potential high cost closure of fairgrounds.

Certified Farmers' Market. The Budget proposes \$1.046 million in fiscal year 2015-16 and \$1.042 million ongoing and four permanent positions to enhance the existing Certified Farmers' Market (CFM) Program. The requested resources will allow the CFM Program to increase enforcement activities as required by Chapter 579, Statutes of 2014 (Assembly Bill 1871), by contracting with county agricultural commissioners for enforcement work and allowing the CFM Program to align its administrative functions to adequately account for the industry's growth.

Key Provisions

Organic Waste. The Governor requests a General Fund increase of \$211,000 and 1.5 positions in fiscal year 2015-16 and \$229,000 and 2.0 permanent positions, ongoing to increase enforcement and licensing activities for the Rendering Program to implement Chapter 727, Statutes of 2014 (Assembly Bill 1826).

Drought: Economic Impact Study. The Governor requests \$200,000 in one-time General Fund authority to validate and conduct economic analysis studies to determine the ongoing economic impacts of California's drought on the state's agriculture sector and identify potential solutions.

Staff Comment and Analysis of Governor's Budget Proposal

This budget proposal is responsive to most of the major issues in the natural resources, environmental protection and energy areas. As the Legislature deliberates the Governor's proposals, it may wish to consider the following:

Water. With regard to implementing the voter-approved Water Bond, the Legislature may wish to consider: whether funds are getting out the door fast enough; the kinds of accountability and controls to put in place; and how best to determine the "public benefit" of the funds.

Drought. The Legislature will need to closely monitor the drought conditions and assess the need to appropriate additional funds to continue critical drought response efforts.

Climate Change. While the Budget assumes \$1 billion in state revenue from Cap and Trade auctions, the Legislative Analyst estimates that state revenue could exceed \$2.3 billion. To the extent revenues exceed the amount assumed in the budget, those programs that are continuously appropriated specified percentages of auction revenue would receive significantly more funding in 2015–16 than is identified in the Governor's budget. The Legislature could also choose to appropriate additional funds in the non-continuously appropriated cap and trade categories. If the \$2.3 billion in revenue projection materializes, that would mean the availability of \$520 million non-continuously appropriated monies over the amount proposed in the Governor's Budget. Questions that the Legislature should consider going forward:

- How much additional revenue is anticipated with the introduction of fuels under the cap?
- How are last year's investments doing?
- What kinds of metrics are being used to evaluate the success of the different programs?
- What should be the new midterm and long-term targets for GHG reductions?
- How are investments working in disadvantaged communities? Is 25% investment the right percentage?

As this is the first year of investment of Cap and Trade revenues, it will be difficult to evaluate the success of the various investments in this budget cycle. The Administration will begin seeking public comment on its next three year Cap and Trade Investment Plan this Spring, with an anticipated release of the new Investment Plan next January.

Finally, the Governor's State of the State address discussed establishing our next set of objectives for 2030 and beyond and laid out three ambitious goals to be accomplished within the next 15 years:

- Increase from one-third to 50 percent our electricity derived from renewable sources;
- Reduce today's petroleum use in cars and trucks by up to 50 percent;
- Double the efficiency of existing buildings and make heating fuels cleaner.

It should be noted that the Budget does not include specific proposals related to these goals. The Budget does note that the Administration will work with the Legislature and stakeholders to develop a midterm reduction target for 2030 that is consistent with this 2050 objective for stabilizing climate change, and to develop an integrated, economy-wide plan for meeting this target.

Zero Based Budget of the CPUC. Pursuant to the 2013-14 Budget Act, the CPUC submitted a zero-based budget for its programs on January 10, 2015. The Legislature should consider the following questions going forward as it reviews the CPUC zero-based budget:

- Does the zero-based budget examine the work specifically required of the CPUC per existing statutes?
- Does it evaluate the type of resources (labor, equipment and supplies) needed to accomplish those tasks and if current resources are at the appropriate levels?
- Does the zero-based budget identify and evaluate the need of other activities conducted by the CPUC under what it considers its broader legislative authority?

California Beverage Container Recycling Fund (BCRF). Because the most recent Department estimates for when the cash balance of the BCRF will permanently fall below the prudent reserve has been extended to after 2017-18, the Administration did not re-introduce another major reform in the 2015-16 budget. The Legislature should continue to monitor this Fund closely and ask the Department of Resources Recycling and Recovery for an update on the Fund Condition this Spring and the status of discussions with stakeholders on a longer term fix to the problem.

State Parks. The Legislature may wish to engage with the Department on what measures/initiatives it has already undertaken related to Parks Forward preliminary recommendations and what other steps it is contemplating.



GENERAL GOVERNMENT

The General Government section includes departments, commissions, and offices responsible for oversight of various policy areas along with issues that are statewide in nature such as revenues, bonds, housing, local government, and pension issues.

Major Issues in General Government

- **Housing.** The end of redevelopment eliminated \$1 billion in funding for affordable housing statewide. The 2014 Budget Act, through the General Fund and cap and trade funding, included the first investments in housing since the Housing Bond was passed in 2006. The challenge for the Legislature will be how to move the spotlight back on housing and in particular how to build on last year's one-time investment in affordable housing to provide a broader investment and a more stable funding source for housing.
- **Investing in the Arts.** For the past two years, the Assembly has proposed additional one-time funding for the Arts Council. The Arts Council's proposed budget in 2015-16 is even lower than the proposed budget for the past two years, and far below what the budget was when it was at its peak. The investment in the arts yields many benefits for our youth as well as our communities and the Legislature may wish to consider continuing to prioritize this issue.
- **Workforce Investment Act.** The 2014 Budget Act included funding \$390.8 million federal funds, with \$356.3 million allocated to 49 local workforce investment boards to target job and workforce services to youth, adults, and dislocated workers, and \$34.5 million for program oversight and discretionary programs. Additional funding is expected in 2015-16, and the Legislature may want to continue to monitor the federal guidelines in order to better understand how California can shape its program.
- **County Veteran's Services Officers (CVSO) Are a Vital Resource to Veterans.** While the federal government has made progress addressing the backlog for veterans benefit claims, the backlog remains sizable, with almost 250,000 applications awaiting the determination of the US Department of Veterans Affairs. The 2014-15 Budget provided an additional \$3 million General Fund to support CSVOs funding for counties to help California Veterans get the federal benefits they deserve. CVSOs link veterans to their federal benefits and assist the veteran community in applying for and maintaining available benefits and entitlements to which they may be eligible. It is expected that this investment will generate \$47 million in federal benefits a year.

- **Will California Meet the Needs of Veterans in Terms of Capacity and Quality of Care?** As the demographics of our veteran population is changing, particular attention to the quality of services available for our vets is important. Vietnam Era veterans are rapidly becoming aged and disabled. Gulf War veterans are a rapidly expanding group entering our homes with complex mental, social, and medical needs. California has approximately 18,000 homeless veterans and is expecting 30,000 discharged veterans per year, over the next few years. This means California will need to monitor the capacity and quality of Veterans Homes to ensure they are equipped to handle the needs of returning veterans.
- **Recent Veterans Numbers Grow.** As the Veterans Homes have an admission's criteria that residents must be age 55 or older, the new era of Iraq and Afghanistan veterans are not currently eligible for services at these facilities. These veterans will nonetheless require medical care, education, and pension benefits, and California will need to make sure that the proper infrastructure is in place to link veterans to the benefit services they require.

Governor's January Budget Proposal in General Government

Major Provisions

- **Improving the State's Civil Service System.** The *Budget Summary* also discusses administrative efforts to focus 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.
- **Workforce Investment Act.** The budget anticipates discretionary funding in 2015-16 to increase after the federal guidelines for the new Workforce Act is released in early 2015. The budget anticipates that additional details will be outlined in the May Revise.
- **Housing.** The Governor's budget does not propose any new funding for housing. The *Budget Summary* is silent on the housing policy area.

CALIFORNIA STATE TEACHER'S RETIREMENT SYSTEM (CALSTRS)

The Governor's budget includes \$1.9 billion General Fund in 2015-16 for CalSTRS in alignment with the funding strategy approved in the 2014 Budget Act to address the \$74 billion unfunded liability. The contributions to the system in 2015-16 will increase by 4.9 percent for the state, 9.2 percent for most teachers, and 10.7 percent for school districts.

Key Provisions

- **Investment Portfolio Complexity.** CalSTRS is requesting permanent funding augmentation of \$2,705,193 and 10 permanent positions to establish positions to address an increase in internal management and the growing complexity of the investment portfolio.
- **CalSTRS Member Service Center Development and Operations.** CalSTRS requests eight full-time permanent positions and an augmentation of \$3,269,592 for 2015-16. CalSTRS also requests a permanent augmentation of \$1,001,120 for 2016-17 and beyond to establish and staff the San Diego Member Service Center.
- **Technology Infrastructure and Licenses.** CalSTRS requests a permanent annual augmentation of \$1,576,925 for software licenses and support, and \$2,191,440 to cover the refresh costs of CalSTRS technology infrastructure for a total of \$3,768,365 in operating expenses and equipment.
- **Enterprise Information Management.** CalSTRS requests a permanent funding augmentation of \$435,859 and four permanently authorized positions for the Enterprise Information Management program.

CALIFORNIA PUBLIC EMPLOYEES RETIREMENT SYSTEM (CALPERS)

The Governor's budget includes \$25.9 billion for CalPERS in 2015-16, an increase of \$1.6 billion or 6.5 percent from the current year. The budget includes \$5 billion (\$2.9 billion General Fund) in 2015-16 for state contributions to CalPERS for state pension costs. In February 2014, the CalPERS board adopted demographic assumptions that reflect a mortality increase of 2.1 years for males and 1.6 years for females.

EMPLOYEE COMPENSATION

The Governor's budget includes an additional \$560 million (\$200 million General Fund) in 2015-16 for employee compensation and health care costs for active state employees. This includes the costs for collectively bargained salary increases for many of the state's rank-and-file employees, and state managers and supervisors. Costs also include anticipated 2016 calendar year health care premium increases.

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT (HCD)

The Governor's budget includes \$350.9 million for HCD in 2015-16, a decrease of \$268.8 million or 43 percent from the current year. The 43 percent reduction can be attributed to the one-time funding for Multi-Family Housing Program (MHP) and the completion of the 2006 housing bond proceeds. HCD is funded from General Fund, special funds, and reimbursements.

Key Provisions

- **Funding for Housing Element Reviews.** The Department of Housing and Community Development is requesting \$871,000 (General Fund) to fully fund a combined total of seven existing positions that are currently funded through various fund sources that were established as temporary funding solutions. The seven positions will have a workload dedicated to housing element review and enforcement activities, AB 32 and SB 375 implementation, and development of Sustainable Housing Outcomes.
- **Enterprise Zone Program Elimination and Redirection.** This proposal requests a budget reduction of six positions and \$987,000 from the Enterprise Zone Fund for 2015-16 and a reduction of seven positions and \$1,181,000 for 2016-17 through 2019-20, to phase out the Enterprise Zone Program eliminated by AB 93 (Chapter 69, Statutes of 2013).
- **Completion of Proposition 1C Local Assistance.** HCD is requesting an extension of the liquidation period for new Infill Infrastructure Grants (IIG) awards until June 30, 2020, and new Transit Oriented Development (TOD) awards until June 30, 2019 to provide sufficient time for completion of projects.
- **Recycled Water Systems for Residential Structures.** HCD is requesting expenditure authority and position authority to perform the requirements of Chapter 606, Statutes of 2014 (AB 2282, Gatto).

DEPARTMENT OF HUMAN RESOURCES (CALHR)

The Governor's budget includes \$96.7 million for CalHR in 2015-16, an increase of \$779,000 million or less than 1 percent from the current year. CalHR is funded with General Fund, special funds, and reimbursements.

Key Provisions

- **Federal Affordable Care Act (ACA) Mandates – Policy and Compliance.** CalHR is requesting two permanent positions and \$426,000 in reimbursement authority for 2015-16, and \$408,000 for 2016-17, to comply with provisions of the federal ACA and address related health policy issues, including addressing the state's unfunded liabilities for Other Post-Employment Benefits.

- **Veteran Opportunity in the Workforce and the State.** Chapter 645, Statutes of 2014 (AB 1397) requires CalHR to collect statistical information on veterans seeking civil service employment, veterans in the state civil service system, and veterans separating from state civil service. It also requires CalHR to maintain a tracking system to provide data for the analysis of veteran utilization within the state civil service.

CalHR is requesting one two-year limited-term position and \$135,000 in 2015-16, \$133,000 in 2016-17, and \$20,000 for ongoing costs.

- **Trailer Bill Language for Additional Appointments.** Government Code Section 19210 (b) requires CalHR to propose legislation to establish the state's policy regarding the use of additional appointments. The proposed trailer bill language will establish CalHR's authority to set policies directing the appropriate use of additional appointments.
- **Long-term Delegation Compliance Monitoring.** CalHR is requesting five permanent positions and \$540,000 in 2015-16 and ongoing, to address workload resulting from Goal No. 1 of CalHR 2014-2018 Strategic Plan, which incorporates the Governor's Reorganization Plan No. 1 of 2011, to provide a more delegated decision-making to line agencies under a system of unified oversight, transparency, and accountability.

STATE CONTROLLER'S OFFICE (SCO)

The Governor's budget includes \$198.7 million for SCO 2015-16, a decrease of \$1.3 million or less than 1 percent from the current year. SCO is funded with General Fund and special funds.

Key Provisions

- **State Government Reporting.** The SCO requests 5.3 permanent positions and \$592,000 in 2015-16 and \$581,000 ongoing to address the increased reporting workload associated with the preparation of the annual Budgetary/Legal Basis Report (BLBR) and the Comprehensive Annual Financial Report (CAFR).
- **Payroll Audits.** The SCO requests five permanent positions and \$701,000 in 2015-16, and ongoing to perform audits of payroll controls and payroll records. The audits are performed to ensure compliance with the SCO's decentralized legacy payroll system, processes, and practices.
- **Special Fund Review and Reporting Workload.** This request is for 1.5 permanent positions and \$162,000 in 2015-16 and ongoing to continue the detailed analyses and reporting of the State's 570 special funds.

- **Property Tax Postponement (PTP) Program Reinstatement.** The SCO requests 10.2 permanent positions, 6.7 two-year limited-term positions and \$1,715,000 in 2015-16 from the Senior Citizens and Disabled Citizens Property Tax Postponement Fund for the reinstatement and administration of the Property Tax Postponement program pursuant to AB 2231 (Chapter 703, Statutes of 2014).
- **21st Century Project Legal Efforts.** The SCO requests eight one-year limited-term positions and \$12,544,000 in 2015-16 to support ongoing legal activities as a result of the 21st Century Project.

STATE TREASURER'S OFFICE (STO)

The Governor's budget includes \$29.7 million in 2015-16 for STO, a decrease of \$1 million or 3.3 percent from the current year. STO is funded with General Fund, reimbursements, and Central Service Cost Recovery Fund.

Key Provision

- **Technical Amendment – Health Facilities Construction Loan Insurance Program.** The STO requests budget trailer bill language to make a technical amendment to the Health and Safety Code section 129160 to expressly state that any payments made on any debentures issued by the STO pursuant to section 129160 are continuously appropriated without regard to fiscal years.

CALIFORNIA ALTERNATIVE ENERGY AND ADVANCED TRANSPORTATION FINANCING AUTHORITY (CAEATFA)

The Governor's budget includes \$4.9 million in 2015-16 for CAEATFA, a decrease of \$29 million from the current year. The changes are attributed to funding related Renewable Resource Trust Fund and the Energy Resources Program Account that were included as part of the 2012 and 2013 Budget Acts.

Key Provision

- **CAEATFA Administration of California Hub for Energy Efficiency Financing (CHEEF) Pilot Programs.** This request includes the following increased reimbursement and expenditure authority in the amount of \$1,535,000 for 2015-16; \$1,950,000 in reimbursement and expenditure authority for 2016-17; three limited-term positions for 2015-16; and seven limited-term positions in 2016-17. These resources are to continue the administration of the ratepayer-funded CHEEF Pilot Program approved by the California Public Utilities Commission and authorized in the 2014 Budget Act.

SECRETARY OF STATE (SOS)

The Governor's budget proposes total spending of \$124.666 million, an increase of 9.2 percent from the current year for the Secretary of State's office. The budget includes proposed staffing totals 564.3 personnel.

Key Provisions

- **California Business Connect Project.** SOS is requesting an augmentation of \$7.759 million for the continuation of the California Business Connect project. Of these funds, \$6.759 million from the Business Fees Fund authority and \$1.0 million from Business Programs Modernization Fund authority. The total project costs for 2015-16 total \$10.377 million; of which \$2.896 million will be funded through the use of existing resources within the project's current budget.
- **Help America Vote Act Spending Plan.** SOS is requesting \$2.976 million in expenditure authority for 2015-16 from the Federal Trust Fund to continue implementation of the statewide mandates of the Help America Vote Act of 2002.
- **Help America Vote Act - VoteCal.** SOS is requesting \$34.338 million in spending authority in 2015-16 from the Federal Trust Fund to continue its development and implementation of VoteCal.
- **Voting System Testing and Approval.** SOS is requesting one position and \$305,000 in expenditure authority for the continuation of testing and approving voting systems pursuant to the mandates of the Help America Vote Act of 2002.
- **Ballot Measure Contributor Data for Voter Information Guide.** SOS is requesting one position, one full-time position and one 0.25 part-time position and an augmentation of \$135,000 in 2015-16 and \$125,000 ongoing in General Fund expenditure authority to be used to compile new, mandated data for the statewide ballot pamphlet.

CALIFORNIA HORSE RACING BOARD

The Governor's budget includes \$13.2 million in 2015-16 for the Horse Racing Board, an increase of \$1.2 million or 9.5 percent from the current year. The Board is funding primarily through the Horse Racing Fund.

Key Provision

- **Equine Drug Testing.** The California Horse Racing Board is requesting a \$1.2 million augmentation from the Horse Racing Fund in 2015-16, and ongoing, to fund increased costs of the equine drug testing program.

DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL (ABC)

The Governor's budget includes \$60.6 million in 2015-16 for ABC, an increase of \$55,000 or less than 1 percent from the current year. ABC is funded primarily through reimbursements and the Alcoholic Beverage Control Fund; there is no General Fund impact.

Key Provision

- **Administration – Technical Adjustment.** The Alcoholic Beverage Control is requesting a technical adjustment to the Department's position authority by establishing nine permanent positions that currently temporary. No funding appropriation augmentation is required.

DEPARTMENT OF BUSINESS OVERSIGHT

The Governor's budget includes \$89.6 million in 2015-16 for the Department of Business Oversight, an increase of \$3.3 million or 3.8 percent from the current year. The Department of Business Oversight is funded Special Funds and Reimbursements; there is no General Fund impact.

Key Provision

- **Convert Consumer Services Limited Term to Permanent Positions.** The Department of Business Oversight requests \$401,000 to convert three limited-term positions to permanent within the Consumer Services Office.

DEPARTMENT OF GENERAL SERVICES (DGS)

The Governor's budget includes \$1.05 billion in 2015-16 for DGS, a decrease of \$1.6 million or less than 1 percent from the current year. DGS is funded through the General Fund and special funds.

Major provision

- **2015 Infrastructure Plan.** The 2014 Budget Act included \$2.5 million for DGS to analyze the condition of buildings in the Sacramento region and determine the best course of action to address the state's infrastructure deficiencies and regional needs. A proposed plan of action will be completed by July 2015 but initial results of the study could be released as early as spring of 2015. The budget includes \$5 million to DGS to address critical deferred maintenance infrastructure needs.

Key Provisions

- **Site remediation and investigations.** There are two BCPs under DGS that address site remediation and investigations. Those BCPs are summarized below:
 - **Mercury Cleaners Site Remediation.** DGS is requesting a one-time funding augmentation of \$9.319 million in 2015-16 to continue the remediation of the Mercury Cleaners building site, a state-owned property. There will be a request

for General Fund expenditure authority in 2016-17 for additional remediation and continuing requests each year thereafter for a period of 20 years.

- **Dharma Realm Ukiah – Hazardous Materials Investigation.** DGS Project Management and Development Branch is requesting one-time General Fund authority of \$1.115 million in 2015-16 for investigation and characterization of the Dharma Realm site, a property previously owned by the state.
- **High Speed Rail Program.** DGS is requesting to permanently establish five limited-term positions and \$841,000 in Service Revolving Fund expenditure authority to meet the workload associated with the California High Speed Rail Authority project.
- **Statewide Travel Program.** DGS Office of Fleet and Asset Management is requesting an augmentation of \$273,000 in Service Revolving Fund expenditure and two permanent positions to address the projected workload increase related to Management Memorandum issued February 6, 2014. The Memorandum requires state agencies to make all travel arrangements through the Statewide Travel Program in addition to the implementation of a managed lodged program.
- **Implementation of Legislation.** There are three budget change proposals (BCP) that deal with the implementation of legislation. The BCPs are summarized below:
 - **Statewide Disability Access and Education Program.** DGS Division of the State Architect is requesting a three-year extension of one limited-term position and \$132,000 in Disability Access and Education Revolving Fund expenditure authority to provide the resources to meet the legislative mandates from Chapter 383, Statutes of 2012 (SB 1186, Steinberg).
 - **School Employee Dismissal Hearings.** This request is for an augmentation of \$2,246,000 in Service Revolving Fund expenditure authority and 13.0 positions in 2015-16. This is a result of an increase in workload created by the enactment of Chapter 55, Statutes of 2014 (AB 215, Buchanan).
 - **California Building Standards Commission Environmental Quality Act Study and Workload Augmentation.** The California Building Standards Commission is requesting a one-time augmentation in 2015-16 of \$305,000 in Building Standards Administration Revolving Fund expenditure authority. This is in accordance with the development of green building standards for mandatory recycled water systems associated with Chapter 606, Statutes of 2014, (AB 2282, Gatto).

DEPARTMENT OF CONSUMER AFFAIRS

The Department of Consumer Affairs (DCA) is responsible for promoting and protecting the interests of millions of California consumers by establishing minimal competency standards for approximately 250 license categories involving approximately three million businesses and professionals.

The Governor's budget proposes total spending of \$575.712 million (non-General Fund) for DCA in 2015-16, a decrease of 5.7 percent from the current year. The budget proposed staffing is 3,438.7 personnel.

Key Provisions

- **Increase Position Authority in Licensing and Examination Units.** The Board of Behavioral Sciences is requesting a budget augmentation in the amount of \$148,000 in fiscal year 2015-16 and \$132,000 in 2016-17 for two full-time positions. The Board also is requesting an increase in time-base for two half-time positions to avoid serious delays in its Licensing Unit. The increase in time-base will be funded via internal redistribution of existing resources.
- **Senior Programmer to Replace Information Technology Consultant.** The Bureau of Real Estate Appraisers (BREAs) requests position authority to establish a one permanent position for a Senior Programmer Analyst-Specialist to be funded through an internal redirection and a budget reduction of \$66,000 in 2015-16 and ongoing to reflect the savings from the current Information Technology (IT) Consultant contract.
- **Request for Enforcement and Licensing Positions to Implement Assembly Bill 2220.** AB 2220 requires all private patrol operators (PPOs) to carry a minimum of \$1 million in insurance coverage for any one loss of occurrence due to bodily injury, including death, or property damage, or both. The Bureau of Security and Investigative Services is requesting funding of \$140,000 in FY 2015-16, \$235,000 in FY 2016-17, and \$132,000 in FY 2017-18 and ongoing to support the following positions that will be needed to implement AB 2220 (Chapter 423, Statutes of 2014):
 - 0.5 permanent Program Technician II position to review, monitor, and process the liability insurance policies submitted by PPO licensees and applicants.
 - 1.0 two-year Limited Term Associate Governmental Program Analyst (AGPA) to educate and investigate PPO licensees who fail to comply with the liability insurance requirement.
 - 1.0 permanent AGPA position to conduct compliance inspections of PPO licenses who employ armed security guards for their firearm activities.

- **Request for Positions and Budget Augmentation to Implement Senate Bill 1247.** SB 1247 extends the sunset date for the Bureau for Private Postsecondary Education (BPPE) from January 1, 2015 until January 1, 2017. BPPE requests a special fund budget augmentation of \$1,915,000 in 2015-16, \$1,718,000 in 2016-17, and \$1,077,000 in 2017-18, and ongoing to fund 10.0 permanent positions and 5.0 two-year limited term positions to implement the provisions of SB 1247 (Chapter 840, Statutes of 2014).
- **Examination Development for Court Reporters Board.** The Court Reporters Board of California requests a special fund budget augmentation of \$82,000 for 2015-16 and ongoing to fund examination development workshops in association with the Board's English and Professional Practice license examinations.
- **Establish an Ongoing Appropriation of \$150,000 in the Specialized License Plate Fund.** The Veterinary Medical Board requests a permanent ongoing appropriation of \$150,000 in the Specialized License Plate Fund within the Department of Motor Vehicles for the purpose of funding grants to providers of no-cost or low-cost animal sterilization services.
- **New Requirements for Dental Professionals.** AB 1174 expands the scope of practice for registered dental assistants in extended functions, registered dental hygienists, and registered dental hygienists in alternative practice and allows for increased access to dental care via a teledentistry team to improve the oral health of consumers who may not otherwise have access to such care. The implementation of AB 1174 requires the two following proposals:
 - The Dental Board of California is requesting 1.0 full-time AGPA and 1.0 full-time Management Services Technician and \$180,000 in FY 2015-16 and \$164,000 ongoing to implement the mandates of AB 1174 (Chapter 662, Statutes of 2014).
 - The Dental Hygiene Committee of California is requesting a 1.0 Staff Services Analyst, \$86,000 in FY 2015-16 and \$78,000 ongoing to implement the mandates of AB 1174.

DEPARTMENT OF TECHNOLOGY

The Governor's budget includes \$373 million for the Department of Technology in 2015-16, a decrease of \$6.5 million or 1.7 percent from the current year. Most of the funding for the Department is through reimbursements and charges made to state departments for services; the Department receives only \$4.8 million General Fund for its support. The Department of Technology is the central control agency for the purchase of IT products and services for the State and also provides telecommunications, data center and cloud-based computer services to various state departments.

Major Provision

- **IT Project Management.** The Budget references a forthcoming proposal that will expand the Department of Technology's role in managing large IT projects. Last year, the Legislature required the Department to provide a report that will outline the Department's role in assisting with these large projects and a budget proposal is anticipated in the Spring or at May Revision that will provide resources associated with this effort.

Key Provisions

- **Telecom Procurement.** The Budget adds six positions to the Department of Technology's budget for telecom procurement. These additional positions were added after assessing the workload associated with the transfer of this function from the Department of General Services to the Department of Technology.
- **Baseline Adjustment Proposals.** The Budget includes several budget adjustments to true-up the expenditure authority for the Department to reflect the workload associated with servers, mainframe usage, and network capacity reconciled with unspent prior-year expenditure authority. The net result of this proposal is a reduction of \$5.9 million in expenditure authority and the establishment of two new positions going forward.
- **Gold River Data Center Power and Cooling Capital Proposal.** The Budget includes \$6.7 million to begin work on installing additional cooling capacity at the Gold River Data Center in Rancho Cordova.

FI\$CAL

The Governor's budget includes \$135.4 million General Fund for the Fi\$Cal project, which is currently replacing the State's IT system for accounting and budget purposes. Implementation of the project is currently underway and is expected to continue until 2017.

CITIZENS REDISTRICTING INITIATIVE COMMISSION

The "Voters First Act" Proposition 11 and the "Voters First Act for Congress" Proposition 20 reformed the redistricting process and established an independent 14-member Citizens Redistricting Commission to draw the decennial district boundaries for California's Congressional delegation, State Senate, State Assembly, and Board of Equalization.

The Governor's budget proposes total spending of \$87,000 General Fund, a decrease of 18.7 percent from the current year.

FAIR POLITICAL PRACTICES COMMISSION

The Fair Political Practices Commission has primary responsibility for the impartial administration, implementation, and enforcement of the Political Reform Act of 1974.

The Governor's budget proposes total spending of \$10.204 million, an increase of 0.5 percent from the current year. The budget includes staffing of 81.3 personnel.

POLITICAL REFORM ACT OF 1974

The budget for the Political Reform Act of 1974 identifies the amounts required to be appropriated by the Legislature to the Fair Political Practices Commission to carry out its duties under the Act, the amounts to be appropriated to other state agencies to carry out their duties under the Act, and, for informational purposes, the continuing appropriation made by the Act to the Commission, adjusted for any cost-of-living change.

The Governor's budget proposes total spending of \$2.631 million to be distributed to the Secretary of State, Franchise Tax Board, and Department of Justice.

ALFRED E. ALQUIST SEISMIC SAFETY COMMISSION

The mission of the Alfred E. Alquist Seismic Safety Commission is to lower earthquake risk to life and property of Californians. The Commission works with federal, state, and local agencies, as well as the private sector, on a variety of activities that guide and stimulate earthquake risk reduction and management.

The Governor's budget proposes total spending of \$3.38 million, an increase of 6.1 percent from the current year. The budget proposes staffing of 6.5 personnel.

CALIFORNIA DEPARTMENT OF INSURANCE (CDI)

The Governor's budget includes \$261 million in 2015-16, for CDI, an increase of \$3.9 million or 1.5 percent from the current year. CDI is funded through the General Fund, federal fund, special funds and reimbursements.

Key Provisions

- **Health Insurance Reform.** This request includes a special fund expenditure of \$1,005,000 in 2015-16 and ongoing to address the continuing workload associated with health insurance reform. The proposal converts two-year, limited term expenditure authority approved by the Legislature in 2011-12 and 2013-14 into permanent funding to allow CDI to continue its work in the area of health insurance reform.

- **Health Policy Form Review for Affordable Care Act (ACA) Compliance.** CDI is requesting an increase in special fund expenditure authority of \$280,000 (Insurance Fund) in 2015-16, and \$264,000 (Insurance Fund) in 2016-17 and ongoing, for two permanent positions to maintain the department's ability to provide timely review of health insurance policies for compliance with the requirements of the ACA.
- **Worker's Compensation Fraud Program.** CDI is requesting special fund expenditure authority increase from the Insurance Fund in 2015-16 of \$5,417,000 (State Operations \$2,190,000 and Local Assistance \$3,227,000) and ongoing to fund workers' compensation fraud investigation and prosecution workload increases. CDI is also requesting 15 permanent positions in 2015-16 and 18 permanent positions ongoing to support the workload.
- **CDI Menu Modernization Project (CMMP) – Year 2.** CDI is requesting a one-time increase of expenditure authority in 2015-16 of \$2,777,000 (\$1,527,000 General Fund and \$1,250,000 Insurance Fund). The increase will support four limited-term positions and 3.5 temporary help position authority to complete the second year of implementation of an approved five-year project to replace/upgrade its legacy CDI menu.
- **Cycle IV, Federal Funds.** CDI is requesting a Federal Funds appropriation of \$589,000 (\$452,000 in 2015-16 and \$137,000 in 2016-17). Federal funding is necessary to allow CDI to draw down the funds.

CALIFORNIA ARTS COUNCIL

The Governor's budget includes \$4.9 million in 2015-16 for the California Arts Council, a decrease of \$7.1 million or 59 percent from the current year. The decrease can be attributed to one-time funding investments in the Arts Council. The Arts Council is funded through the General Fund, special funds, and reimbursements.

CALIFORNIA SCIENCE CENTER

The Governor's budget includes \$32.4 million in 2015-16 for the California Science Center, an increase of \$1.7 million or 5.7 percent from the current year. The California Science Center, the Office of Exposition Park Management, and the California African American Museum (CAAM), are all located in Exposition Park. The California Science Center is funded through the General Fund, Exposition Park Fund, and reimbursements.

Major Provision

- **2015 Infrastructure Plan.** The Governor's budget does not propose any new state funding for the Science Center's Phase III. Instead, it recognizes the Foundation's plan to construct the expansion of the Phase II Ecosystems facility and the new Phase III Air and Space Center facilities. The schedule and timing depend on donations. Once that is complete, the Science Center estimates \$4 million per year and 24 new positions will be needed.

Key Provisions

- **California African American Museum.** The California African American Museum is requesting \$176,000 (\$115,000 Exposition Park Improvement Fund) to provide funding for a competitive recruitment of a new Executive Director and improve energy and water use efficiency and increase museum safety and security.
- **Exposition Park Public Safety Staffing Augmentation.** The Office of Exposition Park Management is requesting \$1.4 million to provide funding to continue management of the Department of Public Safety by the California Highway Patrol.
- **Phase III Air and Space Center.** The California Science Center Phase III will be the home of the Space Shuttle Endeavour. The BCP requests trailer bill language to authorize the Phase III Project for the purpose of the Foundation developing, constructing, equipping and furnishing the project, and acknowledgement of future state operating support costs upon completion of Phase III Project.

EMPLOYMENT DEVELOPMENT DEPARTMENT (EDD)

The Governor's budget includes \$14 billion in 2015-16 for EDD, an increase of \$92.9 million or less than 1 percent from the current year. EDD is funded through the General Fund, special funds, and reimbursements.

Major Provisions

- **Permanent funding.** The budget makes permanent the \$10 million one-time increase to the Employment Training Fund.
- **Unemployment Insurance Caseloads.** Additionally, adjusts the estimated UI 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.
- **Disability Insurance.** The budget also 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.
- **Workforce Investment Act.** The Governor's proposal 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.
- **UI Trust Fund.** The budget includes \$184.4 million General Fund for the interest payment associated with the loan of federal funds to the California Unemployment Insurance Trust Fund.

Key Provisions

- **Capital Outlay – Crenshaw Blvd. Building, Los Angeles.** This proposal requests the authority to exercise the lease purchase option to acquire the building located at 5401 Crenshaw Blvd. Since EDD will be acquiring real property on behalf of the state, capital outlay acquisition authority is required to exercise this lease purchase option for the state.
- **Unemployment Insurance Augmentation 2015-16.** EDD requests \$39.7 million General Fund and \$8.2 million Contingent Fund to support 594 position equivalents for 2015-16 to continue to support Unemployment Insurance Program service levels.

DEPARTMENT OF INDUSTRIAL RELATIONS (DIR)

The Governor's budget includes \$619.6 million in 2015-16 for DIR, an increase of \$11.6 million or 1.9 percent from the current year. DIR is funded through the General Fund, special funds and reimbursements.

Key Provisions

- **Division of Occupational Safety and Health (DOSH) and Safety Inspectors.** This proposal requests an increase of 24.5 positions in the current budget year and \$4.6 million with an ongoing need of 44.0 positions and \$7.1 million in resources to achieve increase enforcement inspectors in high hazard industries; improve performance in meeting state and federal mandates and inspecting high-risk worksites; and bring California's total rate of enforcement inspections in line with the national average.
- **Elevator Public Safety Unit.** DOSH requests an increase in budget year authority of \$4.4 million and 27.5 positions to reduce inspection backlogs and help the division meet permitting mandates.
- **2015-16 Legislative Proposals.** The DIR requests 9.0 positions and \$1.011 million in 2015-16, and \$940,000 ongoing, to fulfill provisions of various legislative proposals including AB 1522 (Chapter 317, Statutes of 2014), AB 2272 (Chapter 900, Statutes of 2014), SB 1299 (Chapter 842, Statutes of 2014) and SB 1300 (Chapter 519, Statutes of 2014).

AGRICULTURAL LABOR RELATIONS BOARD (ALRB)

The Governor's budget includes \$9.4 million in 2015-16 for the ALRB, an increase of \$1.1 million or about 14 percent from the current year. ALRB is funded through the General Fund and the Labor and Workforce Development Fund.

Key Provisions

- **Board and General Counsel Program Support.** The ALRB requests approximately \$1.6 million General Fund and 13 positions to support and expand ALRB services to farmworkers, improve the timelines of hearings, and increase efficiency and accountability.

DEPARTMENT OF VETERANS AFFAIRS

The Governor's budget proposes total spending of \$426,654 million (\$357,138 million General Fund) for the Department of Veterans Affairs in 2015-16, an increase of 8.2 percent from the current year. Proposed staffing totals 3,267.7 personnel.

California is home to 1.8 million veterans, more than any other State and about 8 percent of the nation's veteran population. California anticipates receiving an additional 30,000 discharged members of the armed services each year for the next several years. Historically, the largest demand for benefits and services for veterans occurs immediately after discharge and again as the veteran population ages and requires greater access to medical facilities and long-term care services. With the substantial number of veterans under the age of 30 leaving the military after deployments to the wars in Iraq and Afghanistan, they're coupled with a considerably large population of Vietnam veterans who are now approaching a period in their lives where they will need greater access to medical and long-term care.

The California Department of Veterans Affairs (CDVA) promotes and delivers benefits and services to the state's veterans and their families. The department provides:

- Home and farm loans through the Cal-Vet Farm and Home Purchase to qualifying veterans using proceeds from the sale of general obligation and revenue bonds.
- The operation of State Veterans Cemeteries.
- Assistance for eligible veterans and their dependents to obtain federal and state benefits by providing claims representation, subventions to County Veterans Services Officers are veterans, and county employees who are there to assist the veteran community in applying for and maintaining available benefits and entitlements to which they may be eligible, and direct educational assistance to qualifying dependents.
- Operation of Veterans' Homes in Yountville, Barstow, Chula Vista, Fresno, Greater Los Angeles, Redding, and Ventura County with several levels of long-term care and assisted living.

Major Provisions

- **Residential Care and Clinical Training.** \$3,599,000 General Fund for 45 permanent positions in 2015-16 to address the lack of residential care staff which directly impacts the health and welfare of residents at the Veterans Homes. Additionally, one-time funding of \$796,000 General Fund to provide statewide training for clinical staff.
- **West Los Angeles Food Service.** \$1,608,000 General Fund and 65.5 positions in budget year and \$3,165,000 General Fund and 106 positions ongoing for the conversion of contracted food service in the Veterans Home of California-West Los Angeles to civil servants.
- **Central Coast Veterans Cemetery Operations.** \$254,000 (\$217,000 California Central Coast State Veterans' Cemetery at Fort Ord (Operations Fund) \$37,000 Federal Trust Fund) and 2.6 positions in 2015-16 and \$452,000 (\$17,000 Operations Fund, \$435,000 Federal Trust Fund) and five positions ongoing to operate the California Central Coast Veterans Cemetery.

Key Provisions

- **Capital Outlay Projects.** The Department has requested three capital outlay projects in the budget:
 - **Chilled Water Distribution System Renovation.** The Department requests an appropriation of \$2,236,000 for the working drawings and part of the construction phase of the Yountville Chill Water Distribution System Renovation. The project will correct system deficiencies and increase chiller capacity which will ensure the facility has the required chiller capacity to maintain a proper temperature throughout the campus to protect the health and safety of the elderly and/or disabled veteran residents. The requested amount of \$2,236,000 will be utilized in conjunction with \$497,000 from the Veterans' Home Bond and \$3,665,000 from the Federal Trust Fund for a total project cost of \$6,398,000.
 - **Steam Distribution System Renovation.** The Department requests \$3,387,000 General Fund for the preliminary plans, working drawings and construction phases of the Yountville Steam Distribution System Renovation. This project includes replacement of underground lines and valves and removal of badly deteriorated asbestos insulation that is a safety hazard. Renovation of the system will ensure a safer and more energy efficient operation and the uninterrupted availability of steam for the facility's critical daily operations.

- **Igo Cemetery Water System Upgrade.** The Department requests \$525,000 General Fund to improve the water pressure system to create an independent and free-standing upgraded fire sprinkler mechanization system at the Northern California Veterans Cemetery in Igo, California. This upgrade will conform to State Fire Marshal requirements and protect the Veterans Memorial Building should a fire or other related emergency occur.

Staff Comment and Analysis of Governor's Budget Proposal

The budget proposal includes various proposals for the departments that fall under the umbrella of General Government. This year, the Governor continues to focus on unfunded liabilities consistent with past efforts to address the public employees' retirement fund along with the unfunded liability for the California State Teachers' Retirement System.

- **Investment in Housing.** The budget is silent on investing in housing. Housing funding has been cobbled together over the years, but with the housing budget decreasing by 43 percent just this year, it may be time to really think about what sort of approach the Legislature should take with this issue area.
- **Funding for the Arts.** The Legislature has placed additional funding for the Arts Council for the past two years. However, this year the Governor's budget includes no additional support and is somewhat disappointing. The Legislature will have to continue to verbalize the important role that Arts play in the community to keep the issue elevated.
- **Program Evaluations.** In the past years, the Legislature has enacted numerous programs in the General Government arena that address issues related to energy efficiency and tax credits. The Legislature may wish to develop performance standards to measure the programs' effectiveness in order to either improve or eliminate those that are working and not working.
- **Continued Support of the County Veterans Services Officers.** The Assembly has previously funded CVSOs with the acknowledgment that their efforts are very successful in connecting younger veterans to federal benefits, employment, housing and other services. From March 2013 through September 2014, the backlog has been reduced by 369,082 claims, a 60 percent decrease. The total inventory of claims has dropped from 883,930 in July 2012 to 515,621 in September 2014. The California State Assembly should continue to invest in the CVSO program as increases in funding create a significant boost in the CVSO's and CalVet's ability to connect veterans in their communities with the expansion of outreach activities, thereby linking more veterans with their community-based system of care and local service providers.

- **Improving Quality of our Veterans Homes.** The mission of the Homes Division within CalVet is to provide premier care to our aged, homeless, and disabled Veterans in a home environment that fosters dignity for our Nation's heroes – all with increased efficiencies. The Assembly should continue to monitor the effectiveness and efficiencies of the Veterans Homes and make adjustments where necessary in order to ensure the highest quality of services in the Veterans Homes.
- **Recent Veterans May Lead to a Change in Services.** Due to the two most recent wars, the demographic of veterans has rapidly changed. Veterans Homes are not open to veterans under 55, and these younger veterans are a growing sect within our veteran's population. These younger veterans are coming back with higher rates of disabilities, and thus will have long-term needs and challenges that will need to be addressed by the State. The challenge for the Legislature will be to identify the needs of this growing population and make sure that adequate resources and services are provided to these recent veterans.
- **Status of the Kitchen Construction at Veterans Home of California- West Los Angeles.** The Budget Act of 2014 included an appropriation of \$770,000 to expedite the construction timeline with an estimated completion date of fall 2015. The construction of the new full-service kitchen facility remains on track. The working drawing phase met its December 5 milestone and official advertisement of the kitchen construction project began December 18. The Assembly should continue to monitor the construction and the facility's attainment of project milestones in order to ensure that the facility meets its fall 2015 completion date.



RETIREE HEALTH CARE UNFUNDED LIABILITY

Major Issues in Retiree Health Care

- **Addressing Retiree Health Benefits.** The Assembly should discuss how to pay for the unfunded liability related to health care benefits. The unfunded liability is estimated to be \$72 billion and will likely grow if left unaddressed. The Assembly should discuss fair employee contributions through collective bargaining and proportionate share of General Funds, Special Funds, and Federal funds to address the liability.

Governor's January Budget Proposal in Retiree Health Care

Major Provisions

- **Retiree Health Care Costs.** The *Budget Summary* includes nearly \$1.9 billion for retiree health care benefits for 2015-16, which is consistent with the Administration's actions to pay for retiree health care on a pay-as-you-go basis. The Governor's budget discusses the \$72 billion in unfunded liability for retiree health care benefits and how the current pay-as-you-go method does not address the unfunded liability.

In addition, the budget proposes to make health care costs more affordable to the state and its employees. The Governor's plan proposes to address the unfunded liability as well as proposes legislation to 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 cost sharing as labor contracts come up for renewal.
- **Balance benefits with costs.** The proposal 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 proposes legislation that 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.** The proposal includes legislation that would address several measures to boost transparency and accountability.

Staff Comment and Analysis of Governor's Budget Proposal

This year, the Governor continues to focus on unfunded liabilities consistent with past efforts to address the public employees' retirement fund along with the unfunded liability for the California State Teachers' Retirement System. Addressing the unfunded liability for retiree health care benefits will eliminate risk in the state budget.

- **Where are the details of Retiree Health Care?** The *Budget Summary* discusses the unfunded liability in two parts. The first part discusses the need to prefund the retiree health care benefits. The second part includes various proposed legislation to make various policy changes. The trailer bill language is slowly being released by the Department of Finance, but the Assembly will have to analyze the legislation, either thru the budget or policy process.
- **Budget Blueprint Addresses Unfunded Liability.** The Budget Blueprint calls for employee contributions through collective bargaining as well as a share of General Fund to address the liability. The Assembly will have to evaluate the Governor's proposal and decide whether there are alternative scenarios that will call for fair employee contributions through collective bargaining while providing proportionate shares of General Funds, Special Funds, and Federal Funds.



LOCAL GOVERNMENT

The Local Government section includes departments, commissions, and offices including issues such as the oversight of redevelopment and state mandates.

Major Issues in Local Government

- **Redevelopment.** Since the dissolution of redevelopment agencies there have been several discussions regarding the process for dissolution, including what comes after redevelopment and why is the process taking so long? Last year, a legislative proposal was introduced through the budget to provide additional tools for local agencies through Infrastructure Financing Districts (IFDs), but the legislation was ultimately addressed outside the budget process. What other tools do local agencies need to address their infrastructure needs, and is the IFD language (SB 628, Beall) the only solution? The second issue with regard to the dissolution process, is why the process is taking longer than envisioned in AB 1484 (Committee on Budget, 2012). This year, the Governor included in his January Budget, a proposal to streamline the process. Stakeholders are waiting for trailer bill language to further analyze what the Department of Finance is proposing and how that will affect the localities and pending lawsuits.
- **State Mandate Process.** Each year, the Governor proposes to fund and suspend mandates as part of the budget process. Very few are funded and most are suspended. The Legislature may want to consider what criteria should be used to evaluate state mandates proposed to be funded and suspended through the budget process?

Governor's January Budget Proposal in Local Government

The Governor's proposal in Local Government builds upon past actions in the issue areas related to both the dissolution of redevelopment and state mandates. In the area of redevelopment, the Governor's budget proposes legislation that would streamline the dissolution process and create a "Last and Final" process later this year. For state mandates, the Governor's proposal discusses paying down pre-2004 mandates, included in the "Wall of Debt", and remains consistent in terms of funding and suspending state mandates with previous years. The Governor does propose suspending one mandate that will be discussed briefly in this section, as well as the health and human services section.

REDEVELOPMENT

The Governor's budget includes \$12.2 million for the Local Government Audits and Review Unit in 2015-16, a decrease of \$2.2 million or 15 percent from the current year. The Local Government Audits and Review's objective is to protect core public services and ensure proper collection of former redevelopment agency tax increment and liquidation of property assets for distribution to local taxing entities.

Major Provisions

- **Savings from Redevelopment Elimination.** The Governor's budget anticipates that in 2014-15 and 2015-16 combined, cities will receive an additional \$580 million, counties \$660 million, and special districts \$200 million. The budget anticipates that ongoing property tax revenues of more than \$900 million annually will be distributed to cities, counties and special districts. This is an increase from last year's budget, which anticipated \$700 million ongoing.
- **Simplifying the Dissolution Process.** The *Budget Summary* document discusses the administration's proposal to introduce legislation to transition the state away from the current dissolution process. The administration includes objectives including:
 - Minimizing the potential erosion of property tax residuals during the transition.
 - Clarifying various provisions in the statute to eliminate ambiguity.
 - Maintaining the expeditious wind-down of the former redevelopment agencies while adding new incentives for substantial compliance with the law.

The Budget proposes to address the following process changes:

- Transition all successor agencies from a biannual Recognized Obligation Payment Schedule (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 (FOC), are in agreement with Finance on what items qualify for payment, and meet other conditions.

Clarifies the following:

- Former tax increment caps and Redevelopment Agencies (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.
- 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.

COMMISSION ON STATE MANDATES (COSM)

The Governor's budget includes \$48.8 million for the COSM in 2015-16, a decrease of \$622.6 million or 92.7 percent from the current year. The decrease can be attributed to the pre-payment of the Pre-2004 mandates included in last year's budget. Last year's budget included \$100 million, and anticipates a trigger payment at the May Revise in 2015 of an additional \$553 million in the current budget year.

Major Provisions

- **Suspension of New Mandate.** The Budget proposes to suspend the Interagency Child Abuse and Neglect Investigation Reports mandate. The budget proposes to create a \$4 million optional grant program, administered by the Department of Social Services, as a substitute funding mechanism. The COSM adopted a cost estimate of \$90.3 million, which affects agencies' costs to comply with this mandate from 1999 to 2011. This mandate will be discussed further under the Human Services section of the budget.
- **Status of Trigger Mechanism for Pre-2004 Mandates.** The 2014 Budget Act made \$100 million repayment on the pre-2004 mandate debt owed to counties, cities, and special districts. For the remaining \$800 million, the 2014 Budget Act included a trigger mechanism that will be used at the 2015 May Revision. The budget estimates that the trigger mechanism will result in a \$553 million payment toward the mandate debt for counties, cities, and special districts.
- **Mandates to be Funded.** The budget makes a one-time payment of \$9.6 million to fund the back costs that local agencies accrued from 2001 to 2013 while performing activities under the Public Records Act (PRA) mandate. The voters approved Proposition 42, which placed the PRA in the Constitution and removed the state's ongoing responsibility to fund the mandate. Additionally, the budget provides \$218,000 to fund the Accounting for Local Revenue Realignment mandate which involves county administration of funding changes in 2003 through 2004 that addressed budget shortfalls at the time.

The budget continues to fund mandates that are related primarily to law enforcement and property tax.

<u>Proposed to be Funded</u>	2015-16 Proposed Budget Bill (\$ in 000s)
Accounting for Local Revenue Realignment (new)	218
Allocation of Property Tax Revenues	530
California Public Records Act	9,674
Crime Victims' Domestic Violence Incident Reports	178
Custody of Minors - Child Abduction and Recovery	12,216
Domestic Violence Arrest Policies	7,481
Domestic Violence Arrests and Victims Assistance	1,467
Domestic Violence Treatment Services	2,082
Health Benefits for Survivors of Peace Officers and Firefighters	1,816
Local Agency Ethics	36
Medi-Cal Beneficiary Death Notices	10
Peace Officer Personnel Records: Unfounded Complaints & Discovery	704
Rape Victim Counseling	351
Sexually Violent Predators	7,140
Threats Against Peace Officers	3
Tuberculosis	8
Unitary Countywide Tax Rates	260
Total Funded Costs	44,174

PAYMENT IN LIEU OF TAXES

- **Payment in Lieu of Taxes.** The budget includes \$644,000 General Fund for in-lieu fee payments to counties. Historically, the Department of Fish and Wildlife made payments to counties to compensate local governments for the property tax revenue that would have otherwise been collected had state-owned properties remained in private ownership. These payments were paid until the 2002 Budget Act eliminated the funding to achieve General Fund savings.

Staff Comment and Analysis of Governor's Budget Proposal

The budget proposal includes reoccurring themes for local government from dissolution of redevelopment to an approach to state mandates. The Assembly has discussed the dissolution of redevelopment for a number of years. The recent concerns about the process include an efficiency and proper oversight. For state mandates, there continues to be the challenge of determining how to fund and suspend mandates through the budget process.

- **Redevelopment Process Improvements?** The discussion in the *Budget Summary* alludes to additional language to provide process improvements for the redevelopment process. It is unclear at this time what those changes will be and how they will work with lawsuits that currently pending in the courts.

- **State Mandates a Piecemeal approach?** The budget addresses mandates on a mandate by mandate basis. In past years, the Governor only has funded mandates related to public safety and property taxes, and suspended all other mandates. With this mandate by mandate approach, the Legislature has had to deal with mandates on an individual basis, including the Public Records Act (PRA). The PRA mandate was taken off the list of mandates, only after it went to the ballot. Will the future of mandates process include taking mandates to the voters to remove the state's ongoing funding responsibility for costs? The Legislature may wish to consider if there is a better approach.



REVENUES

The Administration's budget forecasts total General Fund revenue of \$108 billion in 2014-15, which is 2.4 percent higher than the 2014 Budget Act and \$113.3 billion in 2015-16 or 1 percent higher than the 2014 Budget Act. The budget projects an overall revenue increase of \$4 billion above the 2014 Budget Act. This reflects an increase of \$500 million over forecast for 2013-14, an increase of \$2.5 billion for 2014-15, and forecasts \$1 billion greater for 2015-16.

The Budget assumes the continued moderate expansion of the economy. However, the budget does point to the fact that in post-war period, the average expansion has been about five years and we are currently nine months past that period.

Major Issues in Revenues

- **Passage of Proposition 2.** The passage of the Rainy Day Fund (Proposition 2) in November 2014, has moved the State to a long-term balanced budget. The act amends the State Constitution to require that when capital gains revenues are projected to be greater than 8 percent of General Fund tax revenues, that windfall revenue will be used to pay off General Fund debts and build up the State's Rainy Day Fund. Proposition 2 deposits funds into the State's Rainy Day Fund based on a series of formulas. The budget includes a total budget reserve of \$3.4 billion, including a \$1.2 billion rainy day fund under Proposition 2. The budget also includes \$1.2 billion to pay off loans from special funds and past liabilities from Proposition 98.
- **Expiration of Proposition 30.** Fiscal Year 2015-16 will be the last year with full revenues from Propositions 30 (November 2012). The quarter-cent sales tax increase under Proposition 30 will expire at the end of 2016, and the income rates on the State's wealthiest will expire at the end of 2018. Proposition 30 provided time for the economy to recover over the short-term, while other measures such as Proposition 2, will provide long-term stability.
- **Cash Management.** In the past, budgets have used gimmicks and mechanisms to manage cash during tough fiscal years. With an emphasis on paying down debt and liabilities, this budget is now stable and does not include those gimmicks from the past. Although the budget is balanced, the budget continues its policy of short term borrowing, only because receipts and disbursements occur unevenly throughout the fiscal year. The short-term borrowing for cash flow purposes does not indicate fiscal weakness.

Governor's January Budget Proposal in Revenue

Personal Income Tax

- The personal income tax is the state's largest single revenue and is estimated to account for 66.3 percent of all General Fund revenues in 2015-16. The budget estimates that personal income tax 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. Additionally, the budget 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

- The budget projects the sales and use tax 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. Receipts from the sales tax are expected to contribute 22.2 percent of all General Fund revenues in 2015-16.

Corporation Tax

- The Corporation tax is estimated to contribute 9 percent of all General Fund revenues in 2015-16. The budget estimates that Corporation tax revenues were \$8.9 billion in 2013-14 and are expected to increase by 8.6 percent to \$9.6 billion in 2014-15. In 2015-16, they are expected to increase by 5.8 percent to 10.2 billion.
- To date, Corporation tax receipts have exceeded the forecast in the 2014 Budget Act by \$1.1 billion due to lower refunds and higher estimated payments.

Infrastructure - Debt Service

- The budget estimates General Fund debt service expenditure will 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 the Water bond over the next year.

BOARD OF EQUALIZATION (BOE)

The Governor's budget includes \$577.9 million for the BOE in 2015-16, a decrease of \$4.3 million or 0.7 percent from the current year. The BOE is funded with General Fund, special funds, and reimbursements.

There are no new proposals in the budget associated with the Board in the January Budget proposal but it anticipated that there will be proposals in April and May. The Assembly requested supplemental reporting language as part of the 2014 Budget Act from the BOE on the methods used to allocate costs for the Cigarette and Tobacco Products Tax Program and for the Cigarette and Tobacco Products Licensing Program among various funds, including the California Children and Families Trust Fund.

FRANCHISE TAX BOARD

The Governor's budget includes \$698.9 million for the Franchise Tax Board in 2015-16, a decrease of \$30.9 million or 4.4 percent from the current year. The Franchise Tax Board is funded with General Fund, special funds, and reimbursements.

Key Provisions

- **Mainframe Workload Growth.** FTB requests an augmentation of \$8.6 million General Fund and \$354,000 Special Fund in 2015-16, and \$1.8 million GF and \$73,000 Special Funds in 2016-17, for replacement of the mainframe's central processing unit, additional memory, storage space, and software to meet workload growth projections.
- **Enterprise Data to Revenue (EDR) Project Proposals.** There are two BCPs related to the EDR project at FTB. They are summarized below:
 - **EDR Project – Program.** FTB requests \$2.5 million, 25 permanent positions and 8 two-year positions in 2015-16 to support the Fraud program and the Authenticated Live Chat program associated with the EDR project. The EDR project is implementing enhanced fraud modeling tools that will allow FTB to better detect fraudulent activity and stop an additional \$40 million in refund and identity theft fraud returns from being issued to fraud perpetrators.
 - **EDR Project – IT.** FTB requests \$44.7 million and 20 three-year limited-term positions in 2015-16 to continue implementation of the EDR project. This is the fifth year of a five and a half year project.
- **AB 1424 – Top 500 Income Tax Delinquencies in CA.** FTB requests six permanent positions to replace six expiring three-year limited term positions and \$600,000 General Fund. The current positions will expire on June 30, 2015.

GOVERNOR'S OFFICE OF BUSINESS AND ECONOMIC DEVELOPMENT (GO-Biz)

The Governor's budget includes \$23.5 million for GO-Biz in 2015-16, a decrease of \$1.8 million or 7.4 percent from the current year. GO-Biz is funded with General Fund, special funds, and reimbursements.

Key Provision

- **Film and Tax Credit Program.** The budget includes \$1,152,000 General Fund and nine positions in 2015-16, and \$802,000 ongoing to administer the Film and TV Tax Credit Program.

Staff Comment and Analysis of Governor's Budget Proposal

This budget proposal continues to prioritize paying down debt and building a rainy day reserve, which have been part of the Governor's plan since he came into office. The budget continues to place an emphasis on paying down the "wall of debt", which includes outstanding debts and liabilities.

- **Reserve.** The budget continues to build the state's reserve. The Governor's budget includes a regular reserve of \$500 million. Additionally, Proposition 2, the Rainy Day Fund includes \$2.8 billion (an additional \$1.2 billion on top of what was deposited in 2014-15), for a combined reserve of \$3.3 billion.

Proposition 30. The Governor's budget does not include any Proposition 30 revenue projections beyond its expiration. The budget discusses how the phasing out of Proposition 30, with the increase in sales tax expiring at the end of 2016 and the increase on personal income tax expiring the following year, will allow for a phasing out of Proposition 30 and hopefully less of an impact on the budget had they both expired in the same year. The Legislature may wish to consider whether the State has taken enough measures to ensure fiscal stability in the absence of Proposition 30?



PUBLIC SAFETY

California's public safety system is comprised of numerous departments, agencies, offices, boards, commissions, programs, and branches of government. The most prominent of which include: The Judicial Branch, The California Department of Corrections and Rehabilitation, The California Highway Patrol, The California Office of Emergency Services, The Department of Justice, The California Victim Compensation and Government Claims Board, The Board of State and Community Corrections, The Commission on Peace Officer Standards and Training, The California Military Department, and local law enforcement programs.

In recent years, California's public safety system, along with the role state government plays in it, has evolved at a rapid pace. Although there have been many significant changes to state law in the public safety realm, none are projected to have as much impact as AB 109 (The Public Safety Realignment of 2011), Proposition 36 (Three Strikes Reform), and Proposition 47 (Sentencing and Penalty Reform).

As the Budget Committee considers Public Safety policy this year, it helps to be mindful of the state's current and historical role in public safety, constraints placed on the state by the Federal Court, and the current state of relations between law enforcement and the citizens of California.

AB 109 (The Public Safety Realignment of 2011)

This piece of legislation has been instrumental in helping California close the revolving door of low-level inmates cycling in and out of state prisons. This piece of legislation also serves as the cornerstone of California's solution for reducing the number of inmates in the state's 33 prisons to 137.5 percent of system-wide design capacity by 2016, as ordered by the U.S. Supreme Court. Contrary to some media reports, no inmates were transferred from state prison to county jails or released early.

AB 109 can be divided into two components, Custody and Community Supervision.

Custody

Effective October 11, 2011, the Public Safety Realignment shifted funding and responsibility for housing non-violent, non-sexual, and non-serious offenders and parole violators from the state to county jurisdictions.

Community Supervision

Effective October 2011, county-level agencies assumed supervisory responsibilities for new non-violent (irrespective of prior convictions), non-serious (irrespective of prior convictions), and some sex offenders upon release from state prison. The California Department of Corrections and Rehabilitation (CDCR) continues to have jurisdiction over all current parolees who were released on state parole prior to October 2011. For state prison inmates released after October 2011, county-level supervision responsibilities do not include the following offender populations as they continue to be supervised by the CDCR:

- Inmates paroled from life terms to include third-strike offenders:
- Offenders whose current commitment offense is violent or serious, as defined by California's Penal Code §§ 667.5(c) and 1192.7(c).
- High-risk sex offenders, as defined by the CDCR.
- Mentally Disordered Offenders.

Proposition 36 (Three Strikes Reform)

Proposition 36, passed by the voters in November 2012, offers an opportunity for eligible California prison inmates sentenced under California's prior Three Strikes law for non-serious, non-violent crimes to seek a sentence reduction from their sentencing courts. Specifically, Proposition 36:

- Revises the three strikes law to impose life sentence only when the new felony conviction is "serious or violent."
- Authorizes re-sentencing for offenders currently serving life sentences if their third strike conviction was not serious or violent and if the judge determines that the re-sentence does not pose unreasonable risk to public safety.
- Continues to impose a life sentence penalty if the third strike conviction was for "certain non-serious, non-violent sex or drug offenses or involved firearm possession."
- Maintains the life sentence penalty for felons with "non-serious, non-violent third strike if prior convictions were for rape, murder, or child molestation."

As of December 10, 2014, 1,939 of those eligible have been resentenced and released from prison.

Proposition 47 (Sentencing and Penalty Reform)

On November 4, 2014, California voters passed Proposition 47, which requires misdemeanor rather than felony sentencing for certain property and drug crimes. Proposition 47 also permits inmates previously sentenced for these reclassified crimes to petition for resentencing.

As of December 4, 2014, 132 inmates had been resentenced and released from prison. Under Proposition 47, it is estimated that the 2015-16 institution average daily population will be reduced by approximately 1,900 inmates as a result of resentencing and avoided new admissions.

Proposition 47 requires that state savings resulting from the proposition be transferred into a new fund, the Safe Neighborhoods and Schools Fund. The new fund will be used to reduce truancy and support drop-out prevention programs in K-12 schools, increase victim services grants, and support mental health and substance use disorder treatment services. The Director of Finance is required, on or before July 31, 2016, and on or before July 31 of each fiscal year thereafter, to calculate the state savings for the previous fiscal year compared to 2013-14. Actual data or best estimates are to be used and the calculation is final and must be certified to the State Controller's Office no later than August 1 of each fiscal year. The first transfer of state savings to the Safe Neighborhoods and Schools Fund will occur in 2016-17 after the Department of Finance calculates savings pursuant to the Proposition.

Major Issues in Public Safety

- **There Will Be Growing Pains Associated With Recent Sentencing Law Changes.** Since implementation of the Public Safety Realignment of 2011, countless measures have been introduced to address its perceived shortcomings. Many of these measures, although well intentioned, would have undermined the Public Safety Realignment and further exacerbated the state's struggle to meet the Federal Court's order to reduce the state's prison population. Considering this, the Assembly has remained diligent in considering which measures to support and which measures to set-aside. Similarly, the Assembly will need to continue exercising restraint when considering proposals that could undermine 1) recent gains in prison population reduction and 2) significant law changes including Proposition 36 and Proposition 47.
- **Judicial Branch Funding.** Over the past several years, the Judicial Branch has been masterful in identifying operational changes that make carrying out the Branch's mission much more cost effective. While acknowledging the courts' successes in becoming more efficient, it is clear that the trial courts portion of the branch is still greatly underfunded and in need of additional resources. In recent history, the Branch has increasingly relied on new fines and fees to bridge the existing funding gap. Unfortunately, this reliance on new fines and fees is having a disproportionately negative impact on the state's poorest and most vulnerable residents along with the state's business community. Further, much of the revenue projections tied to these new fines and fees have not materialized prompting many to suggest that the state has reached, and surpassed, the courts' clientele's ability to shoulder new fees and fines.

In order to aid the Branch in pivoting from its heavy reliance on fees and fines, the Assembly may wish to consider targeted funding restorations tied to the Judicial Branch's adoption of new policies that ensure greater fiscal accountability and transparency.

CALIFORNIA DEPARTMENT OF CORRECTIONS AND REHABILITATION

The *Governor's Budget Summary* includes several pages of discussion that meanders through numerous facets of California's public safety system to explain the CDCR's progress and strategies for meeting the Federal Court's order to reduce the state's prison population to 137.5-percent of system-wide design capacity by February 2016. However, in an unanticipated twist, the CDCR recently announced success in meeting the Courts' order to reduce the state's prison population restriction a year early (in January 2015).

For the CDCR's 2015-16 budget, the Governor proposes total funding of \$10.283 billion (\$10 billion General Fund and \$275 million other funds). This amount is \$160 million, or two percent, above the amount budgeted in 2014-15. The primary driver of CDCR's costs is inmate population and the associated healthcare, facilities, and guarding costs. To the extent that California wishes to redirect more of its limited resources from the CDCR to other priorities, the state must continue the current trend of finding effective alternatives to incarceration.

CDCR Adult Inmate Population

Housing Category	2014-15	2015-16
CDCR Facilities	118,972	116,647
California City	2,331	2,381
Community Correctional Facilities	4,193	4,523
Out of State Correctional Facilities	8,922	8,988
Department of State Hospitals	308	308
Elderly Parole	26	26
Medical Parole	27	27
Female Rehabilitative County Corr. Center	52	52
Non Violent 2nd Striker 50%	248	1,556
Prisoner Mother Program	22	24
Reentry Bed Expansion	186	186
SB 260 (sentence review for youth after 15yrs)	89	89
Proposition 47	470	1,915
2 for 1 credits for min. custody	51	280
Total Adult Inmate Population	135,897	137,002

**Note: Figures do not include expected decreases associated with the passage of Proposition 47.*

Major Provisions

- **Coleman Use of Force and Conditions of Confinement.** The Governor's Budget includes \$12.979 million (General Fund) and 56.9 positions in 2014-15 and \$41.992 million (General Fund) and 290.4 positions in 2015-16 and ongoing. These resources are requested to implement and enhance CDCR programs and policies consistent with the *Coleman v Brown* court orders dated July 12, 2013 , April 10, 2014, August 11, 2014, and August 29, 2014 concerning CDCR's mentally ill inmate-patient population.

Coleman v. Brown is a class action lawsuit filed in 1990 in which the plaintiffs alleged CDCR provided an unconstitutional level of mental health care to inmate-patients. In 1995, the federal court issued a permanent injunction and appointed a Special Master to monitor the CDCR's compliance with court-ordered relief. Since the initial lawsuit, the court has issued hundreds of orders, including orders requiring 1) changes to the CDCR's Use of Force policies and conditions of confinement for mentally ill inmate-patients, 2) changes to the CDCR's policies on inpatient care for condemned inmates, and 3) changes to the CDCR's policies on segregated housing.

- **Parole Calculation Correction.** The Governor's Budget proposes \$14.6 million (General Fund) and 92.6 additional positions in 2015-16 and ongoing to meet caseload ratios as collectively bargained for Bargaining Unit 06 and Consistent with the California Parole Supervision and Reintegration Model. The Administration also contends that this adjustment will improve the ability of the CDCR's Parole Division to implement Evidence Based Practices.
- **Armstrong Accessibility.** The Governor's Budget proposal includes a two year limited-term augmentation of \$14.6 million (General Fund) and 92.6 positions for 2015-16 and 2016-17 to construct Americans with Disabilities Act (ADA) improvements at 14 prisons. These improvements are consistent with plans developed by the CDCR's Disability Placement Program and satisfy the concerns of the plaintiffs in the Armstrong v. case. Failure to complete these upgrades would likely result in costly litigation.

The Armstrong class action lawsuit was filed in 1994 under the Americans with Disabilities Act and the Rehabilitation Act on behalf of inmates and parolees with disabilities. A plan is in place to assist the department with compliance and has been since 1999. Plaintiff's counsel conducts ongoing monitoring of the prisons, and the Court has issued further orders since that time related to the manner in which the CDCR tracks and provides reasonable accommodations for inmates and parolees who are disabled.

- **Career Technical Education.** The Governor's Budget proposal includes an ongoing augmentation in the amount of \$2.6 million (General Fund) for the CDCR to continue contracts with the California Prison Industries Authority's (CALPIA) Career Technical Education (CTE) Program. This funding would support CTE programming for 342 inmates (228 females and 114 males). The proposed funding would allow the continuation of twelve CTE programs for inmates. These programs include: organized labor partnered/sponsored pre-apprenticeship programs in carpentry, construction labor, ironworking, and facilities maintenance. Additional programs proposed for funding by this request include marine technology, computer-aided design, and computer coding.

- **Youth Offender Security Placement – AB 1276 (Ch. 590, Statutes of 2014).** The Governor's Budget proposal includes \$1.181 million (General Fund) and 8.0 positions to implement the provisions of AB 1276 (Bloom). Specifically, this request would support personnel and additional training costs.

AB 1276 requires the CDCR to conduct a youth offender Institutional Classification Committee (ICC) review at reception to provide special classification consideration for every youth offender. The purpose of the ICC review is to identify and house suitable offenders under 22 years of age in lower custody level facilities whenever possible.

- **Workforce Development.** The Governor's Budget proposal includes \$872,000 (General Fund) and 8.0 positions to bolster the existing five member California Correctional Health Care Services (CCHCS) Workforce Development Unit's recruitment and retention of health care staff.

The recruitment and retention of health care staff has been identified by the federal courts (in the Plata and Coleman cases) as an area of deficiency. As such, the federal courts have ordered the CCHCS to increase recruitment and retention efforts and report back on a tri-annual basis. The requested resources would likely move California toward addressing the courts' concerns.

- **Quality Management Expansion.** The Governor's Budget proposal includes a \$4.9 million (General Fund) augmentation and 30.0 new positions to support the full implementation of a Quality Management (QM) team that will track, analyze, and report and analyze inmate and system data to determine whether health care (system-wide or at individual prisons) is adequate.
- **California Health Care Facility Staffing.** The Governor's Budget proposal includes a \$76.4 million (General Fund) augmentation and 714.7 new positions to support the necessary level of medical staffing at the new California Health Care Facility in Stockton (CHCF).

The CHCF was opened in 2013 to house the 1,722 of the CDCR's most, medically, high risk patient-inmates. Considering that CHCF is the CDCR's first facility designed with this type of mission, the CDCR hired a consulting firm to study and identify staffing needs. The requested resources are consistent with the consultant's reported findings.

Other Key Issues in CDCR

- **Food Rate Adjustment – Increase in Religious Diets.** The Governor's Budget proposal includes \$1.943 million (General Fund) to support the increased number of religious diets.
- **California Medical Facility – Kitchen for Americans with Disability Act Dormitory Housing Unit.** The Governor's Budget proposal includes \$580,000 (General Fund) and 3.5 positions in 2015-16 to upgrade and reactivate an existing kitchen to feed inmates in wheelchairs.

- **California Correctional Center, Susanville – Arnold Unit and Antelope Camp Kitchen/Dining Replacement.** The Governor's Budget proposal includes \$997,000 (General Fund) to support the *working drawings phase* for the replacement of two existing kitchen/dining buildings. The proposed projects would address identified need at the California Correctional Center, Susanville on the Arnold Unit and Antelope Camp living units (both built in the 1980's). The kitchens on these living units have surpassed their expected useful lifespan by 20 years and have exceeded the point of economical repair. The CDCR contends that these buildings also present a health and safety risk to inmates and staff. The overall cost of these two pre-engineered metal kitchen/dining buildings, along with a loading dock and related paving, is projected to be \$16.2 million.
- **Deuel Vocational Institution – Solid Cell Fronts.** The Governor's Budget proposal includes \$792,000 (General Fund) to support the *working drawings phase* for the replacement of the barred cell fronts in the Administrative Segregation Unit (ASU) at Deuel Vocational Institution (DVI) with solid cell fronts. This project will also address heating/ventilation issues, electrical system issues, asbestos issues, lead paint concerns, and the addition of a fire/smoke detection system. The ASU at DVI contains 144 cells and six showers that do not currently have solid cell fronts. The proposed modifications would also address suicide risk concerns raised in the Coleman v. Brown court case. The overall cost of this project is estimated to be \$9.4 million.
- **San Quentin State Prison – New Boiler Facility.** The Governor's Budget proposal includes \$18.071 million (General Fund) to support the *construction phase* for a new high pressure boiler at San Quentin State Prison (SQSP). The proposed Boiler replacement is required for compliance with the Bay Area Air Quality Management District (BAAQMD) regulations for gas-fired boiler emission. Failure to move toward compliance with BAAQMD regulations could result in the CDCR being assessed upwards of \$5 million in fines and \$2.2 million in fines each year until compliance is met. The overall cost of this project is estimated to be \$18.671 million.
- **Statewide Budget Packages and Advance Planning.** The Governor's 2015-16 budget proposal includes \$500,000 (General Obligation Bond Funds) to support workload associated with planning capital outlay projects at youth and adult correctional facilities. This workload consists of site assessments, environmental reviews, and the development of scope, cost, and schedule projections.

BOARD OF STATE AND COMMUNITY CORRECTIONS

The Governor's budget includes \$171 million for the Board of State and Community Corrections (BSCC) in 2015-16, a decrease of \$19.631 million or -10 percent from the current year.

Key Provisions

- **County Facilities Construction.** The Governor's Budget proposal includes an augmentation of \$299 million (General Fund) and 2.0 positions to perform the state's workload related to administering financing programs for local criminal justice facility construction projects. Specifically, these resources are being requested based on new workload associated with SB 863 (Chapter 37, Statutes of 2014).

SB 863 authorized \$500 million in state financing for local criminal justice facilities. This \$500 million supplements the \$1.7 billion approved for local criminal justice facility construction since 2007.

- **City Law enforcement Grants.** The Governor's Budget continues a \$40 million (General Fund) allocation for front-line law enforcement activities. There are few parameters for the use of this funding. Initially, this funding was identified as a way of mitigating the impact of the "Great Recession" on local law enforcement agencies. However, in the current climate of financial recovery, The Assembly may wish to consider redirecting this funding and/or targeting it toward local law enforcement priorities.

JUDICIAL BRANCH

The Governor's budget includes \$3.474 billion (\$1.585 billion General Fund) for the Judicial Branch in 2015-16, an increase of \$181.011 million or 5.5 percent from the current year.

Major Provision

- **Proposition 47 Workload.** The Governor's Budget proposal includes \$26.9 million (General Fund) in 2015-16 and \$7.6 million in 2016-17 to support workload increases associated with the passage of Proposition 47 (The Safe Neighborhoods and Schools Act) by voters in 2014.

Amongst other things, Proposition 47 - 1) reduced most possessory drug offences and theft of property valued under \$950 to straight misdemeanors, 2) created a process for individuals currently serving sentences for these offences to petition the courts for resentencing, and 3) created a process for individuals who have completed sentences for these offenses to apply to the court to have these crimes reclassified as misdemeanors.

Other Key Issues in the Judicial Branch

- **Discontinue the \$20 million transfer from the State Trial Court Improvement and Modernization Fund (IMF) to the Trial Court Trust Fund.** The Governor's Budget proposal includes the elimination of the annual transfer of \$20 million from the State Trial Court Improvement and Modernization Fund to the Trial Court Trust Fund.

The Judicial Council contends that this proposal will avoid eliminations, or significant reduction, to important statewide projects and programs funded by the IMF. While the Judicial Council's contention is likely correct, the Assembly may wish to explore how this proposal fits into the trial court funding scheme and whether it will be offset by other funding directed to trial courts.

- **State Judiciary Rent Increases.** The Governor's Budget proposal includes \$934,000 (General Fund) to support rent increases at the Supreme Court (\$115,000), the Court of Appeal (\$377,000), the Judicial Council (\$319,000), and other Judicial Branch Facilities (\$123,000).

CALIFORNIA HIGHWAY PATROL

The Governor's budget includes \$2.240 billion for the California Highway Patrol (CHP) in 2015-16, an increase of \$48.815 million or 2 percent above the current year.

Key Provisions

- **Integrated Database Management System Funding.** The Governor's Budget proposal includes a one-time augmentation of \$894,000 (Motor Vehicle Account) to cover cost increases associated with the Department's use of the California Department of Technology's Integrated Database Management System (IDMS). This proposal reflects the CHP's proportionate share of the statewide IDMS cost.

In recent years, many departments have updated and migrated their data systems off of the IDMS platform resulting in increased costs for the remaining departments. For 2015-16, the CHP's total share of costs for the statewide IDMS is \$1.841 million (\$894,000 above the previously budgeted amount of \$947,000).

The IDMS currently supports all four of the CHP's 20+ year old mission critical Legacy systems.

Considering the potential risks associated with outdated information systems and the shrinking number of personnel trained to maintain and operate these antiquated systems, The Assembly may wish to inquire about the CHP's long term plans.

- **Relocation of Chico and Stockton Area Offices.** The Governor's Budget proposal includes a \$5.816 million augmentation (Motor Vehicle Account) to complete the relocation of the Chico and Stockton Area Offices to new, build-to-suit facilities. The relocation of these offices was approved in past year budgets (Chico in 2009-10 and Stockton in 2012-13).

- **Statewide Area Office Replacement Program.** The Governor's Budget proposes \$136.178 million (Motor Vehicle Account) in 2015-16 to begin the replacement of five area offices with seismic safety needs and other infrastructure deficiencies. This request also includes \$1 million to develop budget packages and to select sites for up to 25 area office projects.

This proposal is mainly driven by the need to modernize and expand existing facilities to account for personnel growth and to provide adequate space for required functions. The Essential Services Building Seismic Safety Act of 1986 requires fire stations, police stations, emergency operations centers, CHP offices, sheriff's offices, and emergency communication dispatch centers to be designed to minimize fire hazards and to resist, as much as practical, the forces of wind and earthquakes.

In recent seismic reviews of ten area offices and one division office built between 1960 and 1988, all were found to have seismic safety deficiencies. Most of the facilities with seismic issues are also undersized due to population growth and policy changes. New field offices are typically three to four times larger than the existing offices, and existing sites generally do not have the capacity to expand to meet these needs. As a result, a majority of the older offices will need either a new location or the acquisition of adjacent parcels.

This proposal includes funding for the following projects:

- Crescent City Area Office Replacement Facility - \$21.305 million
- Quincy Area Office Replacement facility - \$27.254 million
- San Diego Area Office Replacement Facility - \$32.855 million
- Truckee Area Office Replacement Facility - \$29.448 million
- Santa Barbara Area Office Replacement Facility - \$24.316 million

CALIFORNIA MILITARY DEPARTMENT

The Governor's budget includes \$159.967 million (\$47.341 General Fund) for the California Military Department (CMD) in 2015-16, an increase of \$3.423 million or 2 percent from the current year.

Major Provision

- **Stockton Youth ChalleNGe Academy.** The Governor's Budget proposal includes a request for \$4.5 million in additional Federal Fund expenditure authority and 32 permanent positions in 2015-16 in support of the Stockton Youth ChalleNGe Academy.

The Youth ChalleNGe program is a California National Guard program intended to intervene and reclaim the lives of unemployed 16-18 year old high school dropouts. The program is funded by a 75% investment by the federal government and a matching 25% investment from the state. The state matching funds (\$1.5 million General Fund) linked to this proposal were approved in the 2014-15 Budget.

- **STARBASE – Sacramento, Los Alamitos.** The Governor's Budget proposal includes a request for \$400,000 in additional Federal Fund expenditure authority and 4 permanent positions in 2015-16. This proposal would support the Sacramento and Los Alamitos Science, Technology, Engineering, and Math (STEM) programs. The proposed infusion of federal funds is intended to bring the Sacramento and Los Alamitos into compliance with federal Department of Defense staffing requirements.
- **Air National Guard Security Positions.** The Governor's Budget proposal includes a request for \$1.291 million in additional Federal Fund expenditure authority and 15 permanent positions in 2015-16. This proposal would increase security forces to the maximum allowable as funded by the Federal National Guard Bureau.

This proposal would address identified security vulnerabilities at several Air National Guard bases (March Air Reserve Base in Moreno, Moffett Federal Airfield in Mountain View, and Channel Island Air National Guard Station near Oxnard).

- **Consolidated Headquarters Complex.** The Governor's Budget proposal includes a request for \$8.831 million (General Fund) in 2015-16 to acquire 30 acres at Mather Field (Sacramento). This land acquisition is necessary to implement the CMD's plan to house its headquarters staff in one location and to meet anti-terrorism, and force protection safety standards set for military buildings.

The CMD's headquarters staff are currently housed in several buildings located throughout Sacramento, Camp Roberts, and Camp San Luis Obispo. Considering this, this plan would also result in efficiencies associated with travel, and lease costs. Total project cost is expected to be \$113.1 million

Other Key Issues in CMD

- **Military Family Relief Fund Transfer – AB 2664 (Ch. 653, Statutes of 2014).** The Governor's Budget proposal includes a \$250,000 augmentation (Military Department Support Fund) to provide cash grants from the California National Guard Military Family Relief Fund (CNGMFRF).

AB 2664 established the CNGMFRF as an account within the California Military Department Support Fund (CMDSF) for the purpose of providing financial aid grants to eligible members of the California National Guard who are California residents and who have been called to active duty. This bill also transfers any and all monies remaining in the California Military Family Relief Fund (CMFRF) to the California Military Department Support Fund and requires those moneys to continue to be disbursed in accordance with the original intent of the contributions made by taxpayers.

- **Program Consolidation.** The Governor's Budget proposal includes a proposal to consolidate all existing CMD programs into two newly created programs (6911 National Guard Program and 6912 Youth and Community Programs).

This proposal is intended to provide greater operational flexibility for the department; however, it could also limit the legislatures control over how funds are expended.

- **Special Olympics.** The Governor's Budget proposal includes an augmentation of \$779,000 (General Fund) to cover State Active Duty costs associated with the 2015 Special Olympics World Games.

The 2015 Special Olympics World Games will be held in Los Angeles. The requested resources will support the following CMD missions:

- Uniform Distribution and Accreditation for 20,000 personnel. (\$14,669.62).
- Transportation of equipment (\$31,121.62).
- Manning of Operations Centers (\$117,991.56).
- Radio Distribution and maintenance (\$87,715.07).
- Golf cart distribution and maintenance (\$81,551.34).

- Setup of venues (\$158,443.07).
 - Logistics support, setup, teardown of Opening Ceremonies, Closing Ceremonies, and families reception (\$18,897.32).
 - Setup and tear down of IT equipment (\$9,163.63).
 - Ice distribution to hydration stations at all venues/hubs (\$29,047.16).
 - Manning of Logistics Operations Compound; receiving equipment, supplies, etc, managing logistics traffic and distribution to venues: (\$150,158.51).
 - Buses (\$40,320).
 - Per diem for graveyard shifts (\$39,647).
- **Advanced Plans and Studies.** The Governor's Budget proposal includes an augmentation of \$260,000 (\$130,000 General Fund/ \$130,000 federal funds) to support workload associated with planning the CMD's capital outlay projects. This workload consists of site assessments, environmental reviews, and the development of scope, cost, and schedule projections.

DEPARTMENT OF JUSTICE

The Governor's budget includes \$793.022 million (\$200.992 million General Fund) for the Department of Justice (DOJ) in 2015-16, a decrease of \$288,000 or .04 percent from the current year.

Major Provision

- **Increased Client Representation Workload - Legal Services.** The Governor's Budget proposal includes a request for \$5.787 million in additional Legal Services Revolving Fund expenditure authority and 29 positions in 2015-16. The requested expenditure authority increase is necessary to meet increased legal services demands from client departments and agencies.

The DOJ's Legal Services unit provides centralized legal resources for many of California's departments and agencies. Recent estimates suggest that this DOJ service is provided at roughly one-third of the cost charged for by legal service contractors. Under the current DOJ-Legal Services model, the DOJ enters into interagency agreements with state entities in need of legal services beyond the capacity of their own staff. The DOJ's costs are recovered through reimbursements from client departments and agencies. These reimbursements are deposited into the Legal Services Revolving Fund.

- **Initiatives Workload - SB 1253 (Ch. 697, Statutes of 2014).** The Governor's Budget proposal includes a request for \$720,000 (General Fund) and 4 positions in 2015-16 to support new workload associated with implementing SB 1253.

SB 1253 makes several changes to the initiative process including providing a 30-day public review process, extending the timeframe allowed for circulating a petition, and allowing the withdrawal of a petition at any time before the measure qualifies for the ballot; and makes several other changes to the procedures and requirements for placing an initiative petition measure on the ballot.

- **Registry of Charitable Trusts - AB 2077 (Ch. 465, Statutes of 2014).** The Governor's Budget proposal includes a request for \$2.126 million (General Fund) and 13 positions in 2015-16 to support new workload associated with implementing the provisions of AB 2077.

AB 2077 requires monies in the Registry of Charitable Trusts Fund, upon appropriation by the Legislature, to be used by the Attorney General to enforce the registration and reporting provisions of the Supervision of Trustees and Fundraisers for Charitable Purposes Act.

- **Cardroom Licensing Increased Workload and Backlog.** The Governor's Budget proposal includes a request for \$1.559 million (Gambling Control Fund) and 12 positions through 2017-18 to address the current backlog in license applicant background investigations.

The DOJ contends that the current backlog of 2,221 applications is driven, primarily, by increased workload associated with recent changes in the background investigation process. Based on the requested resources, the DOJ anticipates the backlog will be cleared by 2017-18 (555 in 2015-16, 833 in 2016-17, and 833 in 2017-18).

OFFICE OF EMERGENCY SERVICES

The Governor's budget includes \$1.443 billion (\$108.409 million General Fund) for the Office of Emergency Services (OES) in 2015-16, an increase of \$5.095 million or .35 percent above the current year.

Major Provision

- **2014 Drought Funding.** The Governor's Budget proposal includes a one-time augmentation of \$4.372 million (General Fund) to cover costs associated with the 2014 Drought.

This proposal is intended to fund extraordinary OES workload costs. Cost estimates are based on actual costs incurred in January 2014. Since this is a state declared emergency, federal funds are not available at this time to support state costs.

- **Child Victims of Human Trafficking Fund - AB 764 (Ch. 465, Statutes of 2011).** The Governor's Budget proposal includes \$451,000 in 2015-16 and \$250,000 (Child Victims of Human Trafficking Fund) in 2016-17 to support the distribution of monies collected pursuant to the provisions AB 764.

AB 764 authorized the addition of the "Child Victims of Human Trafficking Fund" to the personal income tax return form as a voluntary contribution fund.

- **American Red Cross, California Chapters Fund- AB 511 (Ch. 451, Statutes of 2013).** The Governor's Budget proposal includes \$400,000 (American Red Cross, California Chapters Fund) in 2015-16 to support the distribution of monies collected pursuant to the provisions AB 511.

AB 511 created the "American Red Cross, California Chapters Fund" and adds it to the state personal income tax return form as a voluntary contribution fund.

- **Internet Crimes Against Children.** The Governor's Budget proposal includes \$500,000 (Restitution Fund) to bolster the Internet Crimes Against Children (ICAC) non-competitive grant program.
 - In 2007-08, California's four federally recognized ICAC grant programs received \$1 million for operations (\$250,000 each for San Diego Police Department, Los Angeles Police Department, San Jose Police Department, and Sacramento Sheriff's Office).
 - In 2008-09, funding was reduced to \$500,000 statewide (reduced per program funding to \$125,000 each).
 - In 2011-12, the Fresno County Sheriff's Office became a federally recognized ICAC program (reduced per program funding to \$100,000 each).
- **Relocation of Red Mountain Communications Site, Del Norte County.** The Governor's Budget proposal includes \$1.261 million (General Fund) for the working drawings phase of the OES' plan to relocate critical public safety communications equipment and operations currently housed at Red Mountain to three new communications sites.

The Red Mountain Communications Site currently provides critical communication functionality for state and local law enforcement, medical, and fire rescue entities (including 9-1-1 dispatch). The United States Forest Service, Six Rivers National Forest Plan requires all communication facilities currently operating on Red Mountain to be removed by December 31, 2022. In order to meet this deadline, and avoid interruption of public safety communications in the northwestern portion of the state, OES contends that this project must begin as soon as possible. The entire project is expected to cost roughly \$20 million.

- **Headquarters Complex, Rancho Cordova: Public Safety Communications Network Operations Center.** The Governor's Budget proposal includes \$1.528 million (General Fund) for the preliminary planning phase of the OES' plan to design and construct a new Public Safety Communications Network Operations Center (NOC) at the OES' headquarters complex in Rancho Cordova.

The NOC serves as a central hub for all statewide microwave circuits, monitors all microwave system alarms, monitors all facilities that are connected to the alarm system, troubleshoots circuits on analog backbone routes, and provides technical assistance to field staff statewide. The entire project is expected to cost roughly \$4.3 million.

CALIFORNIA VICTIM COMPENSATION AND GOVERNMENT CLAIMS BOARD

The Governor's budget includes \$121.707 million (\$1 million General Fund) for the California Victim Compensation and Government Claims Board (Board) in 2015-16, a decrease of \$7.559 million or .35 percent from the current year.

Major Provision

- **Stabilize Government Claims Board Funding by Transitioning Program Costs to the Department of General Services Statewide Surcharge.** The Governor's Budget proposal includes a reimbursement authority reduction of \$168,000 and 3 positions for the Government Claims Program (GCP) to better align the GCP, which processes and resolves claims against the state, with other services provided to state departments by the Department of General Services.
- **Fund Shift for the Missing Children's Reward Program.** The Governor's Budget proposes to modify current law (Government Code Sec. 13974.1 [c]) to shift the funding responsibility for the Missing Children Reward (MCR) program from the Missing Children Reward Fund to the Restitution Fund.

This proposal was submitted to provide a stable ongoing funding source for the MCR program. The proposal would also abolish the MCR Fund and roll any remaining balances into the Restitution Fund. The balance of the MCR fund is projected to be - \$3,000 in 2015-16.

Staff Comment and Analysis of Governor's Budget Proposal

This budget proposal takes steps to restore some past reductions and addresses many of the infrastructure deficiencies deferred in past year budgets. That said, this budget does not give much attention to reducing recidivism and delinquency. This is especially troubling when considered alongside the recent onslaught of significant public safety policy changes (Public Safety Realignment, Proposition 36, and Proposition 47).

- **What Are We Waiting For?** The discussion at the beginning of this section outlines how the state's public safety system and communities will be impacted by recent major public safety policy changes. The real question is "Will California play a proactive role in rehabilitating this population of offenders who will be free to and in our communities?"; or, will California choose to respond to issues after they present themselves?

- **What Role Should the Legislature Play?** The Administration has shown some leadership in requesting the state resources necessary to deal with the processing of this population. The Legislature could go further by prioritizing and investing in recidivism reduction programs in California's communities. The Assembly can: 1) dedicate funding to addressing the core causes of criminality (including early childhood education, poverty, etc.), 2) provide funding directly to local entities with proven track records in reducing delinquency and recidivism, 3) redirect existing funding from ineffective crime and delinquency reduction programs to effective ones, 4) develop and implement other process and ideas, or 5) a combination of these options.



TRANSPORTATION

California has the most complex and highly utilized transportation system in the country, including highways, roads, railways, airports, bridges, seaports, border crossings, and public transit systems. This system continues to grow and increase in complexity, as California's population grows, its economy transforms, and its land use changes. The challenge of meeting the growth needs as well as maintaining the existing systems fall to a unique partnership between the federal government, large regional transportation planning entities, local governments, special districts and the State.

The State of California's role in transportation policy is derived from several of the key functions it serves. The State:

- Owns all State highways and is responsible for maintaining, rebuilding, and expanding these highways.
- Serves as the point of contact and fiscal agent for most federal transportation funds.
- Allocates state funding, including bond funds.
- Programs a portion of state funding for state run-projects.
- Owns the High-Speed Rail Authority and is responsible for constructing, operating, and maintaining the system.
- Administers state-supported intercity rail funding on three corridors and local transit funding for some rural local entities.

As the Budget Committee considers transportation policy this year, it helps to be mindful of our central role in the intergovernmental partnerships necessary to tackle the host of challenges faced by our transportation network.

Major Issues in Transportation

- **We Know We Have A Funding Problem, But We Don't Have An Answer.** For several years, the Assembly Budget Committee heard testimony from experts and advocates that the available funding for transportation was not sufficient to meet the State's needs. The 2011 Statewide Transportation Needs Assessment report by the California Transportation Commission estimated that only 45 percent of the necessary funding is available for the \$538.1 billions of transportation needs across the State. This year, even the Governor's Budget itself acknowledges the funding gap in transportation and the need to address the problem. However, the path forward to solving this funding gap still needs to be identified. The Assembly will need to consider how to move forward at addressing this funding gap.

- **Preparing Caltrans for a Future with Real Funding.** As funding has lagged for transportation, Caltrans has been able to absorb the workload associated with projects without augmenting staff. However, this strategy is unsustainable. Almost 60 percent of the Caltrans 4,900 engineering staff are currently eligible to retire and Caltrans has not hired a new engineer in over nine years. When the State figures out how to address the funding gap it could be hamstrung by a shortage of Caltrans staffing. The Assembly should consider efforts to begin succession planning of Caltrans Capital Outlay Support staff, so that the department is prepared for a future of increased investment in transportation infrastructure.
- **Overseeing High Speed Rail.** Construction on the High Speed Rail project is underway and the discussion regarding the project needs to shift from "if" we build the system to "how" we build the system. Only 177 positions oversee the large multi-billion dollar contract for the construction of the nation's largest infrastructure project. The Assembly should make sure that the High Speed Rail Authority has the resources and protocols in place to hold our contractors accountable and insure the project is delivered as expected, on time and on budget.
- **Beyond Phase 1 of High Speed Rail.** With construction of Phase 1 of the project, with service between Los Angeles and San Francisco expected in 2027, discussions should begin on planning activities that will add service to San Diego, the Inland Empire, and Sacramento. By exploring options for extending the service, the State will be able to coordinate regional transportation efforts around the eventual expansion of the system to these areas.
- **Monitoring AB 60 Implementation.** DMV has just begun issuing licenses to Californians that are unable to submit satisfactory proof of legal presence in the United States. In the first week of implementation, the department conducted 109,700 driving tests. As implementation continues, the Assembly will need to monitor this important program.

Governor's January Budget Proposal in Transportation

The *Governor's Budget Summary* includes a big-picture discussion of the transportation funding gap. Despite several pages of discussion, the document alludes to a handful of smaller proposals in the budget and makes a clear statement that additional bond debt should not be considered. This paragraph frames the administration's view of the path forward:

The state must consider other funding options to provide for the long-term sustainability of the state's core highway system. The solution must address the deferred maintenance needs of the highway system, key freight corridor investments, and include an ongoing pay-as-you-go funding structure that aligns funding with use of the system. Existing authority for local revenues can, and does, help address local preservation shortfalls for roads and transit. As such, new local-option revenues

should also be considered for these investments. As the state explores options for maintaining state highways and investing in key trade corridors, it is appropriate to consider the weight of vehicles, which is directly related to the wear and tear on the state's highway system.

In addition, the Administration combines descriptions of budget proposal with existing ongoing initiatives in the *Budget Summary*. However, the descriptions below are limited to the new proposals.

CALTRANS

The Governor's budget includes \$10.5 billion all funds for Caltrans in 2015-16, an increase of \$255.2 million or 2.2 percent from the current year. Most of Caltrans budget is special fund, with \$84 million of the proposed total funding coming from General Fund.

Major Provisions

- **Implements Road Usage Charge Legislation.** The Budget includes \$9.4 million State Highway Account funds and 5 three-year limited-term positions to implement SB 1077, Chapter 835 Statutes of 2014 (DeSaulnier) to pilot a road usage charge. Of this amount, \$8.8 million is a one-time expense for external contracting. Per the requirements of SB 1077, the pilot will result in a report that will be submitted to the California Transportation Commission. The Administration considered five different options for the pilot ranging from a small \$1.4 million pilot to a very large \$13.3 million pilot.
- **Establishes a \$300 million "Shelf" of Transportation Projects.** The Budget proposes 25 additional positions for \$3.4 million State Highway Account funding to develop Project Initiation Documents for an additional \$300 million in annual State Highway Operations and Protection Program (SHOPP) maintenance projects. In 2014, the Assembly proposed Caltrans increase staffing to build a project shelf, which was not included in the final 2014 budget package. The *Budget Summary* document also states that an additional \$500 million of projects will be created for a project shelf through the acceleration of Project Initiation Documents.
- **Relinquishment Legislation.** The *Budget Summary* document alludes to forthcoming legislation to broaden and streamline the process for relinquishing portions of the State highway system. This language is not yet available.

Other Key Issues in Caltrans

- **Fleet Greening.** The Budget proposes an ongoing \$12 million State Highway Account fund investment for Caltrans to replace vehicles and equipment as part of an initiative to reduce the emissions of the Caltrans vehicle fleet. Caltrans believes this investment is necessary for Caltrans to comply with the California Air Resources Board Off-Road regulations and Air Toxic Control measures.

- **Transportation Management Systems.** The budget includes \$6.6 million and 64 positions to maintain the transportation management system on two transportation corridors to pilot the effectiveness of these strategies. Transportation Management Systems include closed circuit television cameras to detect traffic incidents, changeable message signs, ramp meters, and other tools to improve the flow of traffic on two corridors.
- **Legal Zero Based Budgeting.** Department of Finance conducted a zero-based budgeting analysis of the Caltrans Legal Division. This analysis concluded that the current level of staffing and resources were the appropriate amount of resources to meet the department's legal needs.

DEPARTMENT OF MOTOR VEHICLES

The Governor's budget includes \$1.1 billion for DMV in 2015-16, a decrease of \$9.1 million or -0.8 percent from the current year. DMV is completely funded with special funds and receives no General Fund support.

Key Provisions

- **AB 60 Provisional Language.** The Budget continues provisional language that allows the Department to request additional resources if needed to implement AB 60. This language was included in the 2014 Budget Act.
- **Implements Recent Legislation.** The Budget includes \$781,000 special fund and 5.5 positions to implement three pieces of recent legislation:
 - **AB 935 (Frazier)** Chapter 644, Statutes of 2014, requires the DMV, upon request, to indicate a person's service in the U.S. Armed Forces with the word "Veteran" on their Driver's License or ID. DMV can charge a \$5 fee for this addition.
 - **AB 1733 (Quirk-Silva)** Chapter 764, Statutes of 2014, provides an identification card free of charge to individuals that verify they are homeless.
 - **AB 2308 (Stone)** Chapter 607, Statutes of 2014, expands the current interagency agreement between the California Department of Corrections and Rehabilitation and the DMV to issue indemnity cards to all eligible inmates at all 34 institutions.

- **Begins Replacement of three DMV Field Offices** The budget includes capital funding for three Field Office Replacements:
 - **Delano Field Office** The budget includes \$1 million for the acquisition phase of the Delano Field Office replacement project. The DMV needs to acquire a new facility to replace a field office in a leased building that has unaddressed health and safety issues. The total project costs are expected to be \$11.5 million and be completed in 2019.
 - **Inglewood Field Office Replacement** The budget proposes \$1 million to fund the preliminary plan phase of the Inglewood Field Office Onsite Replacement Project. The replacement project will replace the existing building to address seismic and safety issues at the current site. The total project costs are estimated to be \$14.9 million.
 - **Santa Maria Field Office Replacement** The budget proposes \$2.6 million to fund the preliminary plan phase of the Inglewood Field Office Onsite Replacement Project. The replacement project will replace the existing building to address seismic and safety issues at the current site. The total project costs are estimated to be \$15.5 million.

CALIFORNIA TRANSPORTATION COMMISSION

The Governor's budget includes \$28.7 million for CTC in 2015-16, an increase of \$144,000 or 0.5 percent from the current year. CTC is completely funded with special funds and receives no General Fund support.

Major Provision

- **Toll Road Expansion.** The *Budget Summary* document alludes to a legislative proposal to restore the authority to the CTC for new high-occupancy toll lane projects, including converting existing high occupancies lanes to toll lanes.

Key Provision

Implements Recent Legislation. The Budget includes \$136,000 special fund and 1 limited-term position to implement SB 486 (DeSaulnier) which expends the Commission's role in transportation planning.

HIGH SPEED RAIL AUTHORITY

The Governor's budget includes \$1.16 billion for the High Speed Rail Authority in 2015-16, reflecting \$1.1 billion in Proposition 1A bond funding for the beginning of construction of the project. The Authority's budget does not include the appropriation of Cap and Trade funding for the project. The staffing of the Authority remains unchanged at 177 positions. There we no new budget proposal associated with the High Speed Rail Authority.

STATE TRANSIT ASSISTANCE

State Transit Assistance provides funding for local transit agencies through a formulaic allocation administered by the Controller. With the full appropriation of all Proposition 1B funding for transit projects last year, the total funding for transit has decreased. However, with the 5 percent continuous appropriation of 5 percent of Cap and Trade funding for low-carbon transit projects, the level of ongoing funding has been increased. The table below outlines this funding:

Funding Sources	Actual	Estimated	Proposed
	2013-14	2014-15	2015-16
Public Transportation Account	\$408,102	\$385,933	\$387,798
Greenhouse Gas Reduction Fund	-	25,000	50,000
Proposition 1B Bond Funds	278,418	649,183	150,000
	\$686,520	\$1,060,116	\$587,798

BOARD OF PILOT COMMISSIONERS

The Governor's budget includes \$2.4 million for the Board of Pilot Commissioners in 2015-16, an increase of \$0.2 million or 9 percent from the current year. The Board of Pilot Commissioners is completely funded with special funds and receives no General Fund support. There are no new proposal in the budget associated with the Board.

Staff Comment and Analysis of Governor's Budget Proposal

This budget proposal has more content and vision for transportation than previous versions. The Assembly has discussed the California Transportation Commission report on unmet transportation needs in several hearings in the last three years. Besides the High Speed Rail project, this Administration has avoided a "big picture" discussion of the future of transportation funding in the budget. With this budget proposal, the Administration is beginning to outline their view of the unmet needs, but also alludes to defining the State's role in meeting this unmet need.

- **What Are We Waiting For?** The discussion in the Budget Summary alludes to a series of workgroups that will develop proposals for the future of transportation funding to address the funding gap. It is not clear when and how the products of this workgroup will move forward. The Assembly should make sure that these discussions are moving forward to get to a concrete proposal in the near future to address the funding gap.
- **What Role Should the Legislature Play?** The Administration has shown some leadership in trying to fix this difficult transportation funding problem, but the Legislature does not have to follow this lead, especially if it is not fast or thorough enough to solve the needs for transportation funding. The Assembly can: 1) choose to participate in the Governor's process, 2) wait for this process to germinate and react to its proposals, 3) develop its own process and ideas outside of the administration, or (4) a combination of these options. Therefore, the
- **Start High Speed Rail Phase 2.** With construction underway for Phase 1 of the High Speed Rail System, it is appropriate to begin the planning activities to provide options to extend service to Phase 2 of the project, which includes the State's second biggest city and four most populous counties.
- **Caltrans Succession Planning.** The budget should provide sufficient funding to allow Caltrans to hire at least 100 new entry-level engineers. Caltrans should develop a plan to gradually increase staffing to allow the development of junior staff to replace the large number of engineers that will retire and will be ready for middle-management when the State is able to increase ongoing funding to meet the funding gap.
- **Oversight of High Speed Rail.** While the budget does not include funding for additional positions for the High Speed Rail Authority, the Assembly should look for best practices to insure that the State's interest are protected on this expensive and high-profile project.
- **Monitoring AB 60.** DMV has only begun implementing AB 60, so it is too early to tell if the planning and implementation has gone smoothly. The Budget includes provisional language to allow DMV to request additional resources, if necessary. The Assembly should ensure that this provision is exercised if necessary so that AB 60 is fully implemented and customer service at DMV does not suffer.
- **For Whom Should We Relinquish and Toll?** The Budget Summary alludes to two new policy proposals regarding relinquishment of State Highways to local jurisdictions and allowing the California Transportation Commission to expand toll roads. The Assembly should consider whether these policies are best developed in the budget process, as opposed to policy bills.