



Republican Caucus

CALIFORNIA STATE SENATE

Weekly Budget Subcommittee Roundup (March 17-21, 2014)
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Subcommittee #1 (Education)

Block (D-San Diego) Chair; Liu (D-La Canada Flintridge) & Wyland (R-Escondido)

Panel Weighs Progress on New State Testing, Standards The subcommittee unanimously approved the Governor's budget proposal for the Commission on Teacher Credentialing, and heard status updates on two big program implementation efforts:

- ***Common Core Funding*** Local educational agencies across the state are using a two-year \$1.25 billion block grant to begin implementing new "common core" instructional standards. Several surveys show that schools are using the funds for their intended purposes: teacher training, instructional materials, and technology. The California Department of Education (CDE) believes that a total of \$3 billion is needed for this effort. The committee may want to consider providing additional one-time funding if the Governor's May Revision raises the Proposition 98 guarantee.
- ***Student Testing*** New student assessments aligned to the new instructional standards will be field-tested this spring. Results will be considered while designing annual statewide tests, which start in spring of 2015. CDE recently reported that to meet statutory deadlines, it may have to extend its current testing vendor contract rather than bid out a separate contract as it had planned. If the spring 2015 statewide tests are delayed, CDE will be unable to generate the Academic Performance Index (API) scores that allow comparison of student performance at schools across the state. Delays will also impact California's ability to measure year-to-year growth in student progress, so it is critical that the tests stay on schedule.

Both of these new programs receive significant funding. It is critical that they are implemented quickly and effectively in order to show results that improve the academic outcomes of California's children. Senate Republicans will continue to monitor these important transitions in the months ahead.

Subcommittee #2 (Resources, Environment, Energy, Agriculture & Transportation)

Beall (D-San Jose) Chair; Jackson (D-Santa Barbara) & Nielsen (R-Gerber)

Questionable Spending of Taxpayer Funds The subcommittee discussed issues related to CalFire, Department of Conservation, and Department of Parks and Recreation; most notable items include:

- ***Governor Breaks No New Taxes Pledge*** The subcommittee voted 2-1 (all Democrats in favor) to implement a new tax on the sale of fireworks as proposed in the Governor's January budget. The disposal of illegal fireworks is a General Fund liability and responsibility as it provides a general public benefit. This new tax will increase the cost of legal fireworks in order to pay for the disposal of illegal fireworks, impacting more than 3,000 non-profit organizations that rely on legal firework sales to support their programs. One food bank representative testified that the tax increase would impair their ability to feed the homeless. Senator Nielsen opposed the tax, suggesting that a more appropriate course of action would be for the State Fire Marshal to pursue asset forfeiture. This would generate revenues from those possessing illegal fireworks instead of imposing a new tax burden on law abiding consumers.

- **CalFire's Civil Cost Recovery Program Results in \$40 million Cost to Taxpayers** Senator Nielsen questioned CalFire representatives about their Civil Cost Recovery Program in light of a recent court judgment requiring the department to pay \$30 million in penalties, legal fees, and costs to defendants of the Moonlight Fire case due to what the judge termed *egregious and reprehensible conduct on the part of CalFire*. The program also had the off-the-books "slush fund" (WiFiter Fund,) and misused taxpayer money for such things as equipment that is now missing and a conference at a Pismo Beach resort. Senator Nielsen pointed out that the department has spent approximately \$10 million General Fund on legal fees, while the Moonlight Fire case was only supposed to generate \$8 million in firefighting reimbursements. In light of the program's \$40 million cost to taxpayers, Senator Nielsen wanted to know what internal reforms CalFire has planned to transform the program. Unfortunately, the department wasn't willing to provide any new information.
- **Bipartisan support for the Historic Bridgeport Covered Bridge project at the South Yuba River State Park** The world's longest single span historic bridge has spanned the South Yuba River at the park for over 150 years and is in need of critical deferred maintenance funding. The budget proposes \$318,000 (federal funds) for the first phases of the bridge project, which would rehabilitate and restore the bridge so that it can be reopened for the public. The subcommittee approved an additional \$1 million (from Proposition 84 funds) for construction costs and to begin immediate repairs.

Subcommittee #3 (Health & Human Services)

Corbett (D-Hayward) Chair; Monning (D-Carmel) & Walters (R-Laguna Niguel)

More State Employee Growth, Missed Opportunities To Eliminate Wasteful Spending The subcommittee discussed issues related to Medi-Cal, managed care plan regulation, and other state health programs; most notable include:

- **Contract Conversions Add to State Liabilities, Reduce Flexibility and Efficiency** The Governor's budget proposes to convert private sector contracted information technology services to permanent public employee positions for the Department of Managed Health Care. This is one of *many similar proposals* included in the Governor's budget to replace private contractors with state workers, which raises the following concerns:
 - Adds to the state's current \$218 billion unfunded retiree liability because budgeted amounts do not pay for future obligations for retiree health benefits
 - Potentially increases the state's unfunded pension obligations because the currently budgeted contributions for state pensions may be inadequate to meet future obligations
 - Reduces state government flexibility and efficiency because contracts include performance standards and outcomes that can be enforced, and the costs can be reduced during budgetary downturns. Conversely, state employees are rarely (if ever) laid off or dismissed to reduce costs, and there is little ability to incentivize high performance and efficiency
- **Health Programs Over-budgeted by Tens of Millions of Dollars** The Governor's budget includes proposals to maintain past funding levels for narrowly targeted health programs, such as the Major Risk Medical Insurance Program, even though programs like this are redundant due to federal health reform. The Administration has not presented a comprehensive plan to transition away from programs that are no longer needed. Instead, the Governor's budget spends tens of millions of dollars for duplicative programs that could be spent on other priorities or recognized as savings.

Subcommittee #4 (Housing, Veteran Affairs, & General Government)

Roth (D-Riverside) Chair; Berryhill (R-Twain Harte) & Torres (D-Pomona)

High Speed Rail Boondoggle, Tax Credit & Job Program Delays The subcommittee discussed issues related to state finance, income and sales tax collection, and economic development; most notable include:

- **Infrastructure: Wants vs. Needs** The Department of Finance presented the Governor's Five-Year Infrastructure Plan (Plan), which identifies \$56.7 billion of capital outlay projects and the need to fund \$64.6 billion of deferred maintenance projects. While the Administration stressed the importance of prioritizing projects that are critical to the infrastructure needs of the state, Senator Berryhill questioned the inclusion of \$25.6 billion for the High Speed Rail Project in the context of "critical state need." Bond funding approved by the voters is currently tied up in litigation, and there is no plan to fund the difference of the estimated \$68 billion project. State government should recognize the difference between needs and wants. The focus should be on needs, such as, providing water to 38 million Californians and maintaining our roads, bridges, and schools before spending billions on new legacy or vanity projects like the High Speed Rail.
- **California's Credit Rating: Low But Improving** According to the Treasurer's Office, *California has the second lowest credit rating* of the ten most populous states, second only to Illinois. This is due to a highly volatile revenue structure, a lack of reserves, limited financial and budgetary flexibility, and large retirement benefit and budgetary liabilities, among other factors. According to Standard & Poor's, the Governor's "emphasis on debt repayment and appropriating funds to its reserve could be helpful in strengthening the state's fiscal position..." Legislative Democrats would be wise to follow Republican plans that allow Californians to vote on the ACA 4 Rainy Day Fund, pay down budgetary borrowing, and address unfunded pension and health benefit liabilities with any unanticipated revenues.
- **Governor's Office Delays Implementation of Promised Jobs Program** Part of last year's budget to eliminate Enterprise Zones and establish new local economic development programs included the establishment of five pilot project areas in which employers would be eligible for hiring credits by paying wages in excess of \$10 per hour. More than nine months after the passage of AB 93 and SB 90, the Governor's Office of Business and Economic Development (GO-Biz) has yet to establish the pilot project areas. Though we would have expected these pilot areas to be established sooner, GO-Biz staff reports that those five pilot areas will be identified and established "soon."
- **"California Competes" Tax Credit Advancing Slower than Anticipated.** Last summer the Legislature created the "California Competes" Tax Credit, which allows GO-Biz to negotiate tax incentives for businesses in exchange for moving to or growing within California. GO-Biz Director reported that the department has just completed preparation to receive applications, but has yet to receive any. The application period will run through April 14, 2014; GO-Biz will then start evaluating the applications' competitiveness. Announcements regarding winning businesses are not expected until the end of this fiscal year.

Subcommittee #5 (Revenue, Labor, PERS, STRS, Public Safety, Judiciary)

Hancock (D-Berkeley) Chair; Anderson (R-Alpine) & Mitchell (D-Los Angeles)

Prison Caps, Early Parole The subcommittee discussed issues related to criminal justice and the Department of Corrections and Rehabilitation; most notable include:

- **Early Parole for Violent Offenders** The subcommittee voted 2-1 (all Democrats in favor) to approve a proposal to fund the Board of Parole Hearings' implementation of SB 260 (Hancock, 2013.) SB 260 erodes "truth-in sentencing" by creating early parole eligibility for juvenile offenders sentenced as adults, ignoring the serious nature of their offenses. Virtually all of these offenders have committed one or more of the most heinous crimes imaginable (murder, torture, kidnapping, multiple rape, etc.) The fact that these offenders committed their crimes when they were under the age of 18 should not excuse them from paying their debts to society. Senator Anderson opposed the proposal because it ignores victim rights and undermines justice.
- **Male Recidivism vs. Female Overcrowding** The subcommittee voted unanimously to reject a proposal to repurpose the now-closed Northern California Women's Facility (NCWF) in Stockton as a 600-bed reentry prison facility for men. Although the potential rehabilitative programming could ultimately help to reduce the male recidivism rate, the proposal would not help meet California's court-mandated prison population cap in the short run because the facility would not open until more than a year after the court's February 2016 deadline. The subcommittee instead directed the Administration to prepare alternative proposals that would reopen the facility in a more timely manner, such as maintaining its status as a women's facility to help address serious overcrowding. Whether it remains a female facility or is transformed into a male facility, the NCWF ultimately needs to be reopened as quickly as possible to provide additional capacity and programming space that will help prevent the state from falling out of compliance with federal court mandates.