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California State Senate

Senate GOP Budget Update: Week of March 31-April 4
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Subcommittee #1 (Education)
Block (D-San Diego) Chair, Liu (D-La Canada Flintridge) & Wyland (R-Escondido)

The subcommittee did not meet this week.

Subcommittee #2 (Resources, Energy, Agriculture & Transportation)
Beall (D-San Jose) Chair, Jackson (D-Santa Barbara) & Nielsen (R-Gerber)

Will it take litigation to stop the Governor and Democrats from using Cap & Trade Funds for High Speed Rail?

The Subcommittee discussed – but took no action on - a variety of proposals related to Cap and Trade revenue expenditures and the High Speed Rail project. Notable issues discussed included the following:

- ***No Basis for Expenditure of Cap and Trade Revenues.*** The Governor wants Californians to trust him on the best way to spend Cap and Trade revenues even though no metrics exist to evaluate the greenhouse gas (GHG) reductions associated with specific programs or projects. Furthermore, it doesn't appear that consideration of the potential GHG reduction will even be part of the decision making process related to Cap and Trade expenditures. Subcommittee members repeatedly asked the Air Resources Board for this information at the hearing with no satisfactory response. While billions of dollars are being extracted from California's economy which will limit economic opportunities for all, **the Governor has decided to use these revenues to fund pet projects like the High Speed Rail without adequate justification.** No votes were taken as little new information was provided.
- ***High Speed Rail Still Off-Track.*** Echoing Republican concerns, Legislative Democrats fretted about the proposal to fund the High Speed Rail (HSR) Project with Cap and Trade revenues. Subcommittee members noted that during the first year of the program only \$532 million in auction revenue was generated, and **at that level Cap and Trade revenues will not provide the \$21 billion needed to even complete the first section of the HSR.** Senator Nielsen suggested the state explore less expensive options in lieu of HSR. Other subcommittee members agreed that alternatives should, at a minimum, be explored. Additionally, Senator Nielsen inquired about the amount of electricity required to operate the HSR. Though a basic question, the High Speed Rail Authority was unable to respond, further demonstrating the lack of diligence surrounding the HSR project. Despite the concerns raised and the support for exploring alternatives to HSR, Legislative Democrats were quick to caveat that such issues may not change their support of the HSR project.

Despite Multiple Media Investigations, Nothing Being Done To Address Lack of Oversight or Outright Fraud

The Subcommittee discussed – but took no action on - various issues related to mental health issues, including state mental hospitals, community-based mental health, and substance abuse services programs. Unfortunately, these programs have been featured in multiple media reports in recent years for either lack of oversight or for outright fraud. Notable issues discussed included the following:

- **Lack of Proposition 63 Oversight.** Proposition 63, the Mental Health Services Act approved by voters in 2004, is expected to generate nearly \$1.6 billion in revenue in 2014-15. In August 2013, the Bureau of State Audits released a report that concluded, “***Because of minimal oversight...provided in the past, the State has little current assurance that the funds directed to counties—almost \$7.4 billion from fiscal years 2006-07 through 2011-12—have been used effectively and appropriately.***” At the hearing, senators heard testimony indicating that, although state departments are now doing more to collect and evaluate data, ten years after the enactment of Proposition 63 there is still no comprehensive, accessible set of data to track how billions in taxpayer dollars are being spent.
- **No Consequences for Drug Medi-Cal Fraud.** The budget subcommittee also returned to the issue of widespread fraud in the Drug Medi-Cal program, which was revealed by a series of media articles published by the Center for Investigative Reporting and CNN in 2013. The Department of Health Care Services has acknowledged previous failures to adequately oversee the Drug Medi-Cal program and has implemented measures to help avoid future fraud, but questions about why the fraud was permitted to continue for several years before actions were taken have never been adequately addressed. Senate Republicans remain concerned that the ruling Democrats have not held the Administration accountable and have instead essentially given them “a pass” despite the magnitude of the fraud. This same failure to impose consequences on bad actors has occurred in response to scandals such as the recent Department of Parks hidden money case and CalFIRE’s illegal off-budget slush fund.
- **Stronger Anti-Fraud Culture Needed.** Senate Republicans are concerned that in both the Proposition 63 oversight and the Drug Medi-Cal fraud cases, state officials began to take action only following media reports that highlighted problems with those programs. State government needs a stronger anti-fraud culture throughout its programs so that waste and abuse are prevented before they occur, not simply pointed out by newspapers after tens of millions of public dollars have been squandered. Sensible reporting requirements, such as those currently proposed by AB 2679 (Logue) for Proposition 63 spending, would be a great start.

State Controller's Office Dropping the Ball; Self-Insurers Forced Into Obamacare

The Subcommittee discussed – but took no action on - issues related to information technology, insurance, unclaimed property, elections, business processing, data security and management, and the Department of Insurance. Notable issues discussed included the following:

- **Bi-Partisan Concerns Regarding State Controller's 21st Century Project.** California needs a new payroll system. Senators Tom Berryhill (R-Twain Harte) and Richard Roth (D-Riverside) challenged many of the decisions made to date on this project, including the decision to continue a million dollar project management contract even though the project is "on ice," and to spend more than \$11 million for litigation to cancel this project for the second time. According to Senator Berryhill, "we've invested \$260 million of taxpayers' dollars with nothing to show for it except a pending lawsuit. **Taxpayers deserve better.**" No action was taken today regarding the Controller's \$6.5 million request to continue project management and litigation next year.
- **General Fund Fares Well as Private Property Goes Unclaimed.** Conspicuously absent from the Controller's six budget proposals expanding state's unclaimed property program were any dedicated proposals to increase awareness and outreach to re-unite more taxpayers with their rightful property. Over the past decade, banks, insurance companies, businesses, and other financial institutions have remitted more than \$6.2 billion worth of private property to the Controller's Office. Of that amount, about \$3.7 billion has been deposited in the General Fund (including \$473 million in 2012-13), but **only about 40 percent (\$2.5 billion) has been returned to its rightful owners.** The purpose of this program is to re-unite taxpayers with their rightful property. Senate Republicans believe the Controller should be working harder to do so.
- **Forcing Self-Insurers into the Health Care Exchange.** On a party line vote the subcommittee voted 2-1 (all Democrats in favor) to provide new funding to the Department of Insurance to implement SB 161 (Hernandez, 2013). Self-insurance combined with stop-loss coverage provides an alternative for some small employers to the "one-size-fits-all" mandates of the Affordable Care Act (Obamacare). SB 161 forced employers who offer health benefits to their employees through self-insurance to pay a much greater share of the costs of that care before stop-loss insurance can kick in. **The new law unnecessarily harms many small and medium-sized California businesses by effectively eliminating self-insurance as an option.** The truth is that SB 161 was never about solving a problem with self-insurance or stop-loss insurance. Rather, it was about shoring up the state's Obamacare exchange by forcing virtually all small to medium-sized businesses into it, despite [a recent RAND study](#) showing that self-insurance does not pose any threat to the exchange market. Senator Berryhill voted to reject this proposal because it makes an already hostile business climate in California even worse.

Increases to Unfunded State Health Care Liabilities

The subcommittee voted on an issue relating to California State Teachers Retirement System (CalSTRS). Discussions were held but no action was taken on employment compensation, public works contracting and unemployment insurance. Notable issues included the following:

- **More State Employees and More Unfunded Debt for Future Generations.** On a party line vote, legislative Democrats added 52.5 new public employees to the state payrolls, but failed to recognize that this action will increase the state's unfunded health care liability for retirees, currently at \$64 billion, by approximately \$12 million. The state does not pre-fund health care costs for retirees, and the average new employee added to state service increases the state's unfunded health care liability by about \$9,500 for each year of service. With an average of over 23 years of service these costs are substantial. The ruling Democrats talk about being fiscally responsible and paying down the \$350 billion of budgetary debt and unfunded liabilities, but **their failure to address issues such as the CalSTRS unfunded liabilities that grow by \$15 million per day while simultaneously approving new state employee positions without funding the future health care costs is irresponsible and places an unfair burden on future generations of Californians.**
- **UI Administration Shortfall.** The committee took no actions following a discussion regarding the status of the state's unemployment insurance (UI) program. The biggest issue on topic was, "how to fund administration costs for the UI program." The federal government dictates standards for answering phone calls, making UI determinations, and making payments, and it is supposed to be funding program administration. They even give California a formula to calculate state administrative costs, but then only allocate about 73 percent of that amount. **California taxpayers are left holding the bag.** Next year, the General Fund will shoulder \$64 million of UI administration costs. Senate Republicans believe the Federal Government should fully fund this cost to make sure individuals who are unemployed through no fault of their own have the resources they need to pay their mortgages, car loans, and utility bills while they search for work.