Updated - Highlights and Analysis of the 2014-15 Final Budget

October 3, 2014

SENATE REPUBLICAN FISCAL OFFICE

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Budget Briefs

SENATE REPUBLICAN FISCAL OFFICE

Highlights & Analysis of the 2014-15 Final Budget

June 24, 2014

Executive Summary

The final 2014-15 state budget generally reflects the Governor's original budget framework. Legislative Democrats lost the battle to prop up higher state spending by using the Legislative Analyst's riskier General Fund revenue forecast, which was $2.5 billion higher than the Governor's estimate. Relative to the Governor's budget plan, the final budget agreement increases baseline state spending by about $900 million, and reduces the amount of debt repayment by $700 million. However, it could have been much worse given legislative Democrats' initial proposal to increase state spending by $3 billion above the Governor's plan.

Despite the unwise spending changes that increase the risk of future budget deficits, the budget still reduces past budgetary debts and future liabilities, and begins to build a rainy-day reserve. Senate Republicans agree with many items in this budget plan, such as the additional $4.7 billion of flexible funding for K-14 education and reducing the $340 billion wall of debt by $10.4 billion. If additional unanticipated revenues emerge, new revenue "triggers" would allow about $1.8 billion of additional debt repayments to occur, and provide an additional $50 million for each of the University of California and California State University systems and $100 million for various deferred maintenance projects.

However, this budget is far from perfect and does not reflect Republican priorities. If Republicans were the majority party, the budget would spend less on new programs and do more to pay down state government debt. Further, instead of using bond funds to build and repair local schools as Republicans recommend, this budget plan embraces the absurdly costly and illegal $70 billion High Speed Rail scheme that most Californians no longer support; and spends $500 million for 3,500 Caltrans employees that have no work to do according to a recent Legislative Analyst report. Those are wasted funds that should be used to repair neighborhood streets and roads (see *Transportation page 36)*. It also prioritizes a new welfare expansion (*see Human Services page 32)* that **foolishly provides cash grants to drug felons** rather than funding full enrollment growth for our state universities or restoring rates for Medi-Cal providers that are with coping millions of new enrollees due to Obamacare.

Despite complaints from legislative Democrats, public employee unions, and their related spending interest groups, it is by no means an austere budget. ***General Fund spending reaches a new record high at $108 billion, and is nearly $12 billion higher than last year's enacted budget.*** State welfare grants are significantly increased, and the cost of the In-Home Supportive Services entitlement program grows dramatically as California continues to support one of, if not the most generous government social "safety net" systems in the nation (*see California Safety Net Facts page 52*). It is important to have a strong safety net to help the less fortunate, but it is also essential to provide the right incentives to help people achieve self-sufficiency.

Sadly, the main problem with this budget is not what it does, but what it does not do. Republicans want to restore California's shrinking middle class and stop the policies that are creating a state of *haves and have nots*. **Families in poverty want good jobs with benefits and opportunities for their children to do even better than they did – not just another five percent in their welfare check.** This budget plan furthers those harmful policies and provides no real opportunities for families to improve their quality of life.

Despite what seem like good intentions, legislative Democrats consistently impose policies that shift people into poverty and cause California's middle class to flee the state. Policies such as the nation's highest income, sales, and gas taxes; environmental and land use rules and regulations that result in housing prices most people cannot afford. Expensive boutique gas blends and policies that directly increase energy costs leave people's wallets empty and increase the cost of goods and services while reducing job opportunities. These policies hurt the poor and middle class far more than they affect wealthy Californians who can afford the higher cost of living. These "quality of life" taxes benefit a few but harm many more.

The ruling Democrats have the ability to fix these things, but they do not want to. It seems they prefer to chase away middle class jobs and opportunities for the less educated because of a belief that everyone can make millions of dollars working in Silicon Valley if they have the right government program to help them. Their policies make California unnecessarily expensive and drive people into poverty. Then they propose new government programs to subsidize this life of poverty as if that is a real solution. That is the real shame of this budget – it represents the missed opportunity to build a better California for everyone. That is what Republicans would do differently.

Key Findings:

***Budget Sets New Record High for State Spending*.** General Fund spending hits $108 billion, eclipsing the pre-recession peak of $103 billion. True General Fund program spending also hits a record $119 billion after accounting for fund shifts and other accounting maneuvers (*see Expenditures* page 11), which is $11 billion higher than last year. Lastly, **total state spending (from all fund sources) is $254.4 billion – nearly $25 billion above the previous record of $230 billion**.

More Spending and Less Debt Repayment. Legislative Democrats lost the battle to prop up higher state spending by using the Legislative Analyst's riskier General Fund revenue forecast, which was $2.5 billion higher than the Governor's estimate. Relative to the Governor's budget plan, the **final budget agreement increases baseline state spending by about $900 million, and reduces the amount of debt repayment by $700 million**. However, it could have been much worse, given legislative Democrats' initial proposal to increase state spending by $3 billion above the Governor's plan.

Rainy Day Fund Starts but Everyday Reserve is Dangerously Low. The budget begins to fill the rainy day fund with a $1.6 billion transfer to the "Budget Stabilization Account" created by Proposition 58 (2004). However, the everyday reserve known as the Special Fund for Economic Uncertainties (SFEU), at $450 million, is less than half of the historical minimum target level of $1 billion. As budget deficits have been the norm for the past decade the SFEU has rarely ended up in the black by the end of the year, but 'best budget practices' suggest that a $108 billion budget should have more than $450 million in reserve. **In fact the state Medi-Cal program alone has incurred deficiencies in excess of that amount for three years in a row.**

Do Not Pass the Debt Burden to Future Generations*.* The final budget does pay down the "wall of debt" by $10.4 billion, which is about $700 million less than the Governor's original plan and significantly less than most Republicans would like. Over the past decade or so the state has repeatedly taken actions to provide services without paying the full cost – as a result California has incurred debts and liabilities that exceed $340 billion according to the Legislative Analyst's Office. **The**

current debt load is nearly $9,000 for every single Californian. It is not responsible to create new spending commitments when the state cannot even pay for the commitments already made.

Republicans Win Fight to Fix Teacher Retirement Plan. Picking up on the Republican proposal contained in SB 984 (Walters), the budget includes a plan of shared responsibility among the state, teachers, and school districts to address the massive $74 billion shortfall in the California State Teachers' Retirement System (CalSTRS) (*see Employee Retirement page 23)*. When fully implemented, the additional contributions will cost about $5 billion more per year for about 30 years to eliminate the unfunded liability and guarantee our teachers the pensions they have earned.

Caltrans' Overstaffing Diverts $500 million from Local Streets and Roads. The budget provides $1.7 billion and 9,894 full-time equivalent positions for the Capital Outlay Support Program (COS Program) within Caltrans despite a Legislative Analyst's Office report that indicated the COS Program **is overstaffed by 3,500 positions at a cost of more than $500 million annually**. There is no logical explanation for the legislative Democrats' lack of concern about this massive waste of money that could be used to fix streets and roads throughout California, but the fact that these are public employee union positions may shed some light on the matter.

Working Families Now Pay for Drug Felons on Welfare. The 2014 budget eliminates the common sense restriction against giving cash benefits to drug felons in both the CalWORKs and CalFresh (food stamps) programs. This foolish new policy is expected to cost taxpayers at least $40 million annually. In addition to being a terrible policy that likely wastes tens of millions of dollars to support the drug trade, allowing drug felons to be eligible for **cash** aid could actually hurt the children in these households. Currently, vouchers are used for rent and utility payments instead of cash to ensure the funds do not get used by the drug addicted adult, but **with the drug felon now eligible to receive aid the cash will go to the drug felon, probably leaving these children worse off than they are now.**

Reserve Restrictions Hurt Schools and Children. This budget imposes onerous new restrictions that impact school districts' ability to maintain rainy-day reserves. Once their reserves are gone, their ability to deal with unplanned fiscal events will be weakened, such that any economic downturn could push them into insolvency. **These restrictions have been condemned by every major education advocacy group in the state, with the exception of the teachers' unions**. Others have said:

- The ACLU, Children Now, the Education Trust West, and Public Advocates have jointly declared that "*we are opposed to this proposal and see it as inconsistent with the principle of local control. It will have a disproportionate impact on schools serving low-income students, English learners, and foster youth."*

- The Education Management Group has called the restrictions "*fiscally irresponsible and counter to the concept of subsidiarity*" and observed that they ignore recent history, when many school districts were able to survive the great recession only because prudent management of their reserves allowed them to avoid having to make even greater cuts.

- Megan Reilly, chief financial officer of the Los Angeles Unified School District, may have put it most succinctly when she said, ***"I think it's stupid."***

A Blank Check for High Speed Rail. The Budget includes $250 million in Cap and Trade funding for the high speed rail (HSR) project in 2014-15. Additionally, it allocates 25 percent of future Cap and Trade revenues, beginning in 2015-16, to the project through a continuous appropriation. This equates to hundreds of millions of dollars spent annually on HSR without future votes of the Legislature, despite LAO warnings that it is legally risky to link the bullet train to Cap and Trade funds. **The people of California no longer support the high speed rail project because it has become clear that it is an ill-conceived 'boondoggle'** that will drain billions away from more worthwhile projects such as fixing schools and the state's crumbling transportation infrastructure.

Medi-Cal Growth Devours the Budget. Writer P.J. O'Rourke could not have been more correct when he said: ***"If you think health care is expensive now, wait until you see what it costs when it's free."*** Nearly one-third of Californians (11.5 million people) will be enrolled in the state Medi-Cal health program at a cost of over $90 billion (all fund sources). The rapid expansion of Medi-Cal associated with Obamacare is driving explosive enrollment and cost growth far beyond anything that was anticipated. The budget includes $17.3 billion General Fund for Medi-Cal, which now projects 2.7 million new enrollees associated with Obamacare. **This massive cost will divert funds from other core programs such as education, courts, public safety, and the social welfare safety net.**

Essential Charts:

Proposition 30 Promises to Students Not Kept. In 2012, California voters signaled their willingness to prioritize education when they agreed via Proposition 30 to pay higher taxes to benefit education. However, actual K-14 Proposition 98 funding in 2014-15 will include only about 40 percent ($3.1 billion) of the almost $7.4 billion in tax revenue generated by Proposition 30 - *education will not get the full benefit of those tax hikes, as voters were led to believe.* As shown in the chart below, if Proposition 30 revenues were dedicated solely to K-14 education, funding for the state's schools and community colleges would be almost $4.3 billion higher in 2014-15 than provided in the state budget. The promise of Proposition 30 continues to be broken as it has been every year *(see Proposition 30 Promises Not Kept on Page 16).*

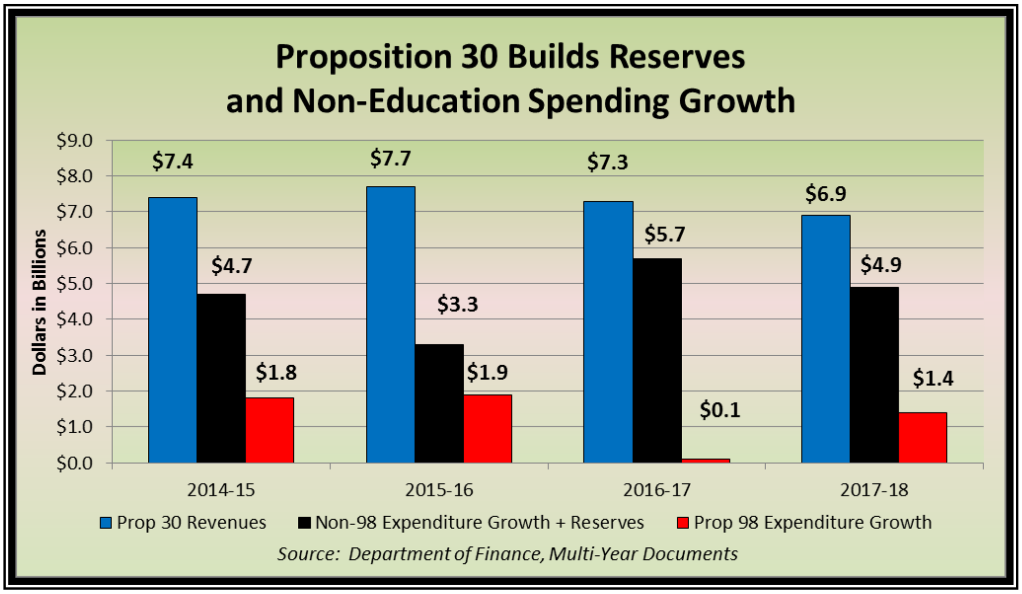
Budget uses Prop 30 revenue for non-education programs

$ in billions

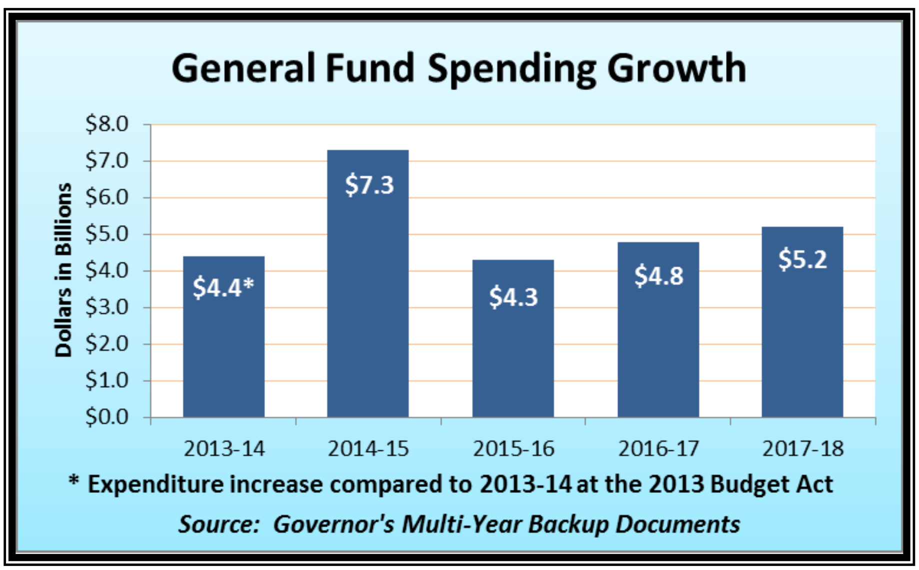
	2014-15
Minimum Prop 98 guarantee with no Prop 30 revenue [1/]	$57.747
Proposition 30 revenue	$7.405
Minimum Prop 98 guarantee plus all Prop 30 revenue	$65.152
Prop 98 funding included in 2014-15 budget	$60.859
Prop 30 revenue used for non-education programs	$4.293

[1/] per Legislative Analyst

Proposition 30 Revenues Mainly Used to Grow Non-Education Spending. Similar to the discussion above, but focused on where spending growth occurs rather than the Minimum Proposition 98 guarantee itself - the chart below demonstrates that the Proposition 30 (2012) tax increases **were not necessary to protect education spending** and are primarily being used to maintain and grow other areas of state government. Cumulatively, **Proposition 30 taxes are expected to provide $29.3 billion of additional revenue** over the next four years, but Proposition 98 (K-14 education) General Fund spending is only expected to grow by $ 5.2 billion over that same time period. That is equivalent to **less than 18 percent** of the Proposition 30 tax increase revenue. By contrast, **$18.6 billion will be spent to grow state programs unrelated to Proposition 98** and to build the budget reserve fund. Some of those programs may be worthwhile, and building a reserve is meritorious, but that is not what Californians were told the funds would be used for by the supporters of Proposition 30.



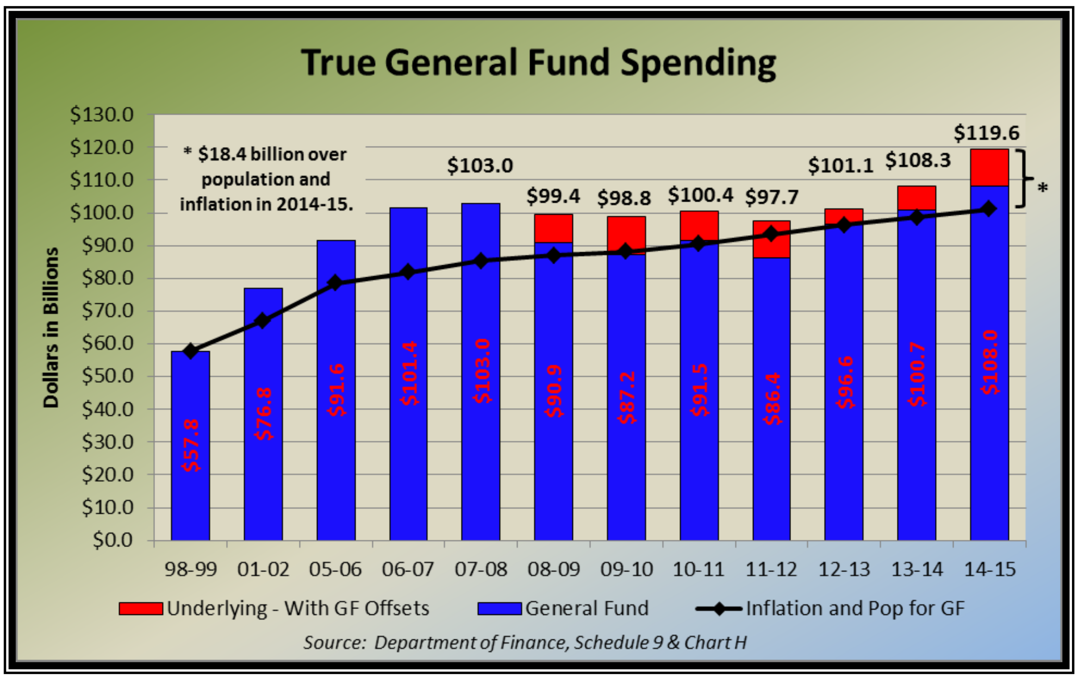
State Spending Grows Rapidly. Under the Budget Act, state General Fund spending in 2013-14 grows by $4.4 billion (4.6 percent) over the 2013 Budget Act level and by $26 billion (27 percent) over five fiscal years (*see chart below*). The Governor preaches fiscal restraint, but a $26 billion spending increase is not exactly a call for austerity. **It is highly unlikely that state government can sustain this level of spending and still allow the "temporary" Proposition 30 taxes to expire, which is why many legislative Democrats and their related interest groups are already calling for those taxes to be extended or made permanent.**



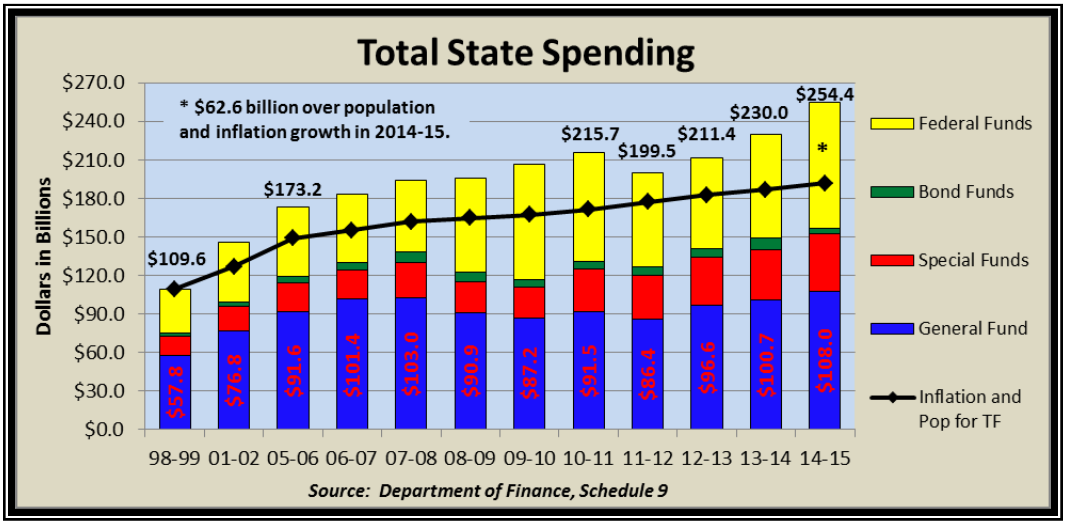
The Truth About Spending Cuts. Legislative Democrats and their allied spending interest groups continue to complain that they have yet to restore billions of dollars in spending reductions made during the recession. However, as documented in the Governor's 2011-12 Budget Summary, ***over 80 percent of the budgetary actions taken during the recession were one-time in nature and the vast majority of those were fund shifts, accounting maneuvers, and tax increases***. In reality there were very few ongoing state program cuts adopted during the recessionary years and most of those have already been reversed. ***The next two charts tell the real story – state government continues to grow at an astounding pace.***

1) **True General Fund Program Spending.** In 2007-08, California state government spent $103 billion from the General Fund. It was an all-time high spending level for the state following two dramatic revenue windfalls from the tech sector boom and then the housing market bubble. Then the Great Recession hit, and General Fund revenues plummeted. In response, the Legislature took action to shift funds and transfer resources to the General Fund, and to offset General Fund expenditures with federal funds and special taxes. This allowed spending on General Fund programs to continue even though General Fund revenues could not keep pace. ***The Legislative Analyst refers to this as taking "actions that allowed it to provide services without at the same time paying for their full costs…"***

As noted in the chart below, true General Fund program spending hovered right around $100 billion for each of the five fiscal years following the peak in 2007-08. It does not reflect deep spending reductions. The Budget Act now anticipates that California will spend $119.6 billion on General Fund programs in 2014-15, which is **$16.6 billion more than the pre-recession peak General Fund spending level.** This suggests that claims about billions of dollars in cuts not being restored are mostly false.



2) **Total State Spending**. General Fund spending is only a part of total state spending. Special funds, bond funds, and federal funds bring total state spending for 2014-15 to about $254.4 billion (*see chart below*). **Despite the Great Recession and Democrats' claims of "cutting to the bone," total state spending has hit record high levels that are nearly $25 billion higher than last year**, and is $62.6 billion above population and inflation growth trends since the last stable budget in 1998-99 (i.e., stable being defined as normal spending growth with no state spending reductions or significant new taxes). Even when the state was tightening its belt during the Great Recession, California continued to grow total spending in all years except 2011-12.



Total State Spending
* $62.6 billion over population and inflation growth in 2014-15.
Dollars in Billions
$270.0
$240.0
$210.0
$180.0
$150.0
$120.0
$90.0
$60.0
$30.0
$0.0
$109.6
$173.2
$215.7
$199.5
$211.4
$230.0
$254.4
*
$57.8
$76.8
$91.6
$101.4
$103.0
$90.9
$87.2
$91.5
$86.4
$96.6
$100.7
$108.0
98-99 01-02 05-06 06-07 07-08 08-09 09-10 10-11 11-12 12-13 13-14 14-15
Federal Funds
Bond Funds
Special Funds
General Fund
Inflation and Pop for TF
Source: Department of Finance, Schedule 9

Rainy Day Fund

Governor's Proposal Lacked Teeth. In January the Governor proposed a new rainy day fund (RDF) to replace ACA 4 (2010), which had already been scheduled for a vote on the November 2014 ballot. The Governor's proposal relied solely upon the state's capital gains revenues to make deposits into two reserves, one general account and one account for Proposition 98 expenditures. However, the focus on capital gains alone would have resulted in many good tax revenue years in which the state set aside no funds for a rainy day. The Governor's proposal also left the door open for legislative Democrats to use the RDF as a slush fund rather than a true "locked box" reserve for economic downturns because it could have been raided by a majority vote.

Republicans Gain Real Improvements. Republicans negotiated to improve upon the Governor's proposal, and the resulting bipartisan compromise bill, ACA 2X 1 (Chapter 1, 2013-14 Second Extraordinary Session, Perez), reflects the following key improvements secured by Republicans:

- *Up-Front Annual Deposits.* Provides for annual tax revenue transfers of 1.5 percent of all General Fund revenues to the general reserve or to debt reduction. In addition, the "windfall" capital gains in excess of 8 percent of revenue would also increase the reserve or reduce debt, after shifting the Proposition 98 portion to the education reserve. This greatly increases the funding available for reserves or debt reduction compared to the Governor's proposal to use only capital gains over 6.5 percent of revenue.

- *Objective Withdrawal Standards.* Sets objective measures for when withdrawals can be made in order to ensure the RDF is a "locked box" for economic downturns, not a slush fund that could easily be raided on a majority vote. Also limits the amount that can be withdrawn to the lesser of 50 percent of the reserve balance if no funds were withdrawn the previous year, or the amount needed to maintain a "current services" budget adjusted for population growth and inflation.

- *Ensuring the Reserve Is Built.* For the first 15 years, requires half of the RDF transfer amount to go into the reserve fund while the other half is used to reduce budgetary debts, including unfunded pensions and other retiree benefits. After 15 years, all of the RDF transfer will go into the reserve by default, but the state still would have the option to use up to half the transfer to reduce the same debts or unfunded obligations.

Billions in Reserves Projected. The RDF bill (ACA 2X 1) was recently signed into law following a special session, rather than as part of the budget process, but the new requirements would not take effect until 2015-16 if voters pass the measure this November. (The 2014-15 budget does include a $1.6 billion deposit to the current Budget Stabilization Account, made under Proposition 58's current reserve requirements.) However, as shown in the table on the next page, the Department of Finance projects rainy day transfers of $6.1 billion over three years beginning in 2015-16, including $3 billion for debt reduction and $3 billion for the general reserve. Notably, $5.3 billion of these combined amounts results from the up-front 1.5 percent set-aside that Republicans negotiated.

Rainy Day Fund Forecast *Dollars in Millions*	2015-16	2016-17	2017-18	Total
Annual 1.5% of General Fund Revenues	$1,699	$1,772	$1,851	$5,322
Capital Gains Taxes in Excess of 8% of General Fund Revenues	$174	$233	$341	$747
Total Rainy Day Amount	**$1,873**	**$2,005**	**$2,191**	**$6,069**
Debt Repayment (50%)	$937	$1,002	$1,096	$3,034
Deposit to General Reserve (50%)	$937	$1,002	$1,096	$3,034

Note: Capital gains amounts are net of amounts attributable to Proposition 98. All estimates assume there are no budget shortfalls that would allow other uses of Rainy Day amounts to maintain spending.

Source: Department of Finance, California State Budget - 2014-15

The compromise ballot measure clearly demonstrates the benefits of a two-thirds vote requirement and having Republicans at the negotiating table. This new RDF will redirect billions of tax dollars that normally would have been used expand state government programs. Instead, the funds will be used to build the reserve and for one-time purposes that do not grow “base” spending—reducing budgetary debts and unfunded liabilities for public employee pensions and retiree health care. If the reserve ever builds up to the cap of 10 percent of General Fund revenue, RDF transfers would be used for infrastructure projects. Thus, it is likely this measure will restrain state spending by billions of dollars.

Long-Sought Protections Now in Sight. Republicans have long fought to protect Californians against the spendthrift tendencies of the ruling party. Although there was a previous bipartisan agreement for a potentially stronger rainy day fund (ACA 4, 2010), legislative Democrats reneged on their agreement and refused to allow that measure to see a vote of the people. However, even if ACA 4 were allowed on the ballot, well-funded special interests such as public employee unions would have ensured its defeat. The compromise RDF may not be the “hard spending cap” that some would like, but **it is a great improvement over the reserve requirements currently in effect** and presents a real opportunity for approval by voters. Ultimately, the RDF and the limitations on use of excess tax revenues proposed in ACA 2X 1 are common sense, pragmatic improvements that will significantly reduce the pressure for new tax increases in the event of an economic downturn or emergency.

Expenditures

The 2014-15 Budget Act includes total General Fund expenditures of $100.7 billion in 2013-14 and $108.0 billion in 2014-15. As reflected in the table below, since the 2013-14 Budget Act was signed last June, total General Fund spending in 2013-14 increased by $4.4 billion (4.6 percent). General Fund spending has also increase by $11.7 billion when compared to the 2013-14 Budget Act, bringing combined spending growth to $16.1 billion for the two years since the 2013-14 Budget Act was signed. Details regarding specific expenditure changes can be found throughout this document.

General Fund Expenditures by Agency
(Dollars in Millions)

Agency	Budget Act 2013-14	Revised 2013-14	Budget Act 2014-15	Year over Year Change
Legislative, Judicial, Executive	$2,778	$2,696	$2,968	$190
Business, Consumer Services, Housing	$646	$643	$850	$204
Transportation	$206	$73	$216	$10
Natural Resources	$2,124	$2,234	$2,260	$136
Environmental Protection	$46	$51	$63	$17
Health and Human Services	$28,084	$28,858	$29,652	$1,568
Corrections and Rehabilitation	$8,911	$9,332	$9,590	$679
K-12 Education	$39,661	$42,893	$44,980	$5,319
Higher Education	$10,923	$11,373	$12,562	$1,639
Labor and Workforce Development	$299	$300	$303	$4
Government Operations	$742	$754	$692	-$50
General Government/Other	$1,861	$1,504	$2,245	$384
Supplemental ERB Payment			$1,606	$1,606
Total, General Fund Expenditures	**$96,281**	**$100,711**	**$107,987**	**$11,706**
Difference since the Budget Act		$4,430	$11,706	**$16,136**
- As a Percentage		4.6%	12.2%	**16.8%**

Source: Department of Finance Schedule 9

General Fund spending represents only 42.4 percent of total state spending in 2014-15. As shown on *Page 6 of the Executive Summary*, adding special funds, bond funds, and federal funds brings total state spending for 2014-15 to about $254.4 billion (including an additional $15.1 billion of federal funds related to the mandatory and optional health care reform Medi-Cal expansions and increased managed care tax revenues). This level of **total state expenditures is $24.4 billion higher than total expenditures in 2013-14 ($230.0 billion)**, and continues to exceed population and inflation growth since 1998-99 by $62.6 billion.

True state General Fund program spending, which accounts for fund shifts, transfers, and General Fund offsets that allow General Fund programs to continue growing, now totals $119.6 billion in 2014-15, **which is $16.6 billion (16.1 percent) higher than peak General Fund program spending in 2007-08** (prior to the “Great Recession”). As shown in the chart below, past solutions are no longer being used to “maintain General Fund program levels,” but are fueling billions of dollars of growth in those programs.

Underlying General Fund Program Spending (dollars in billions)	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
Schedule 9 Expenditures	**$103.0**	**$90.9**	**$87.2**	**$91.5**	**$86.4**	**$96.3**	**$100.7**	**$108.0**
"Offsets" to Maintain General Fund Program Levels*	--	$8.5	$11.6	$8.9	$11.3	$4.8	$7.6	$11.6
Total, General Fund Program Expenditures	**$103.0**	**$99.4**	**$98.8**	**$100.4**	**$97.7**	**$101.1**	**$108.3**	**$119.6**
Percentage Change from Peak 2007-08 General Fund Spending		-3.5%	-4.0%	-2.6%	-5.1%	-1.9%	5.2%	16.1%

Department of Finance – Schedule 9

Direct General Fund spending of $108 billion exceeds levels attained in 2007-08 (at $103 billion). True General Fund program spending tops $108.3 billion in 2013-14 and reaches $119.6 billion in 2014-15. In addition to $108 billion in direct General Fund, the 2014-15 Budget Act relies on an assortment of “offsets” that boost funding for General Fund programs including: (1) close to $1 billion of property taxes from redevelopment agencies to fund education, (2) realigning $6.7 billion of public safety programs to the local level, (3) $1.1 billion of weight fees to pay general obligation bond debt, (4) $1.8 billion of hospital fees and managed care taxes to fund health programs, and (5) a variety of smaller transactions to offset General Fund reductions and maintain General Fund programs. In prior years, the Legislature has relied on additional federal funds, redevelopment agencies, inter-year Proposition 98 deferrals, employee compensation deferrals, and local property tax borrowing to maintain General Fund programs in the absence of General Fund revenues.

“Triggers” for One-Time Spending. As discussed in the next section, the Legislative Analyst’s Office (LAO) believes that General Fund revenues in 2014-15 will be $2.5 billion higher than the administration’s estimates. Rather than increasing ongoing expenditures in 2014-15 to consume the higher LAO revenue estimates as legislative Democrats proposed, the 2014-15 Budget Act includes three trigger mechanisms that would allow for increased one-time spending in 2014-15, should the LAO’s revenue estimates materialize and exceed revenue estimates included in the 2014-15 May Revision. These three triggers would operate as follows:

- Property Taxes for Deferred Maintenance. If local property tax revenues increase above May Revision estimates (thereby decreasing the General Fund’s obligations to schools under Proposition 98), the Budget Act would allow the Director of Finance to allocate up to $200 million General Fund to a variety of entities for deferred maintenance (or one-time costs in the cases of the University of California or California State University). Additional detail regarding the allocation of up to $200 million for deferred maintenance can be found in the *General Government section on page 47.*

- General Fund Revenues for Education Deferrals. If additional General Fund revenues materialize, the budget includes trigger language specifying that prior year education deferrals will get first call on any increase in the Proposition 98 minimum guarantee. This trigger has the potential to extinguish $992 million of remaining education deferrals.

- General Fund Revenues for Mandates. If additional General Fund revenues materialize, any revenues that are not necessary to meet an increased Proposition 98 guarantee would be appropriated to reimburse cities, counties, and special districts for up to $800 million of reimbursement claims that had accumulated prior to the passage of Proposition 1A in 2004.

Revenues & Taxation

The 2014-15 Budget Act is built upon total General Fund revenues of $102.2 billion in 2013-14 and $107.1 billion in 2014-15. As noted in the table below, the Department of Finance estimates that General Fund revenues will be nearly $8.8 billion higher (over the three year projection period) than projections used to build last year's budget. As noted near the bottom of the table, General Fund revenues available for programmatic expenditures in 2014-15 will be about $105.5 billion, resulting from a $1.6 billion transfer to the Budget Stabilization Account pursuant to Proposition 58 (2004).

General Fund Revenue Projections

(dollars in millions)

2012-13 Revenue Source	2013 Budget Act	2014 Budget Act	Forecast Change	%△
Personal Income Tax	$63,901	$64,484	$583	0.9%
Sales & Use Tax	$20,240	$20,482	$242	1.2%
Corporation Tax	$7,509	$7,783	$274	3.6%
Other Revenues	$4,797	$4,840	$43	0.9%
Transfers	$1,748	$1,813	$65	3.7%
Total Revenue	**$98,195**	**$99,402**	**$1,207**	**1.2%**
2013-14 Revenue Source	**2013 Budget Act**	**2014 Budget Act**	**Forecast Change**	**%△**
Personal Income Tax	$60,869	$66,522	$5,653	9.3%
Sales & Use Tax	$22,983	$22,759	-$224	-1.0%
Corporation Tax	$8,567	$8,107	-$460	-5.4%
Other Revenues	$4,449	$4,450	$1	0.0%
Transfers	$331	$347	$16	4.8%
Total Revenue	**$97,199**	**$102,185**	**$4,986**	**5.1%**
2014-15 Revenue Source	**2013 Budget Act**	**2014 Budget Act**	**Forecast Change**	**%△**
Personal Income Tax	$67,270	$70,238	$2,968	4.4%
Sales & Use Tax	$24,216	$23,823	-$393	-1.6%
Corporation Tax	$9,284	$8,910	-$374	-4.0%
Other Revenues	$4,123	$4,782	$659	16.0%
Transfers	-$385	-$659	-$274	71.2%
Sub-Total Revenue	**$104,508**	**$107,094**	**$2,586**	**2.5%**
BSA Transfer	$0	-$1,606		
Total Revenue	**$104,508**	**$105,488**		
Three-Year Total (without BSA Transfer)			**$8,779**	

Source: Department of Finance Schedule 9

As the table above shows, year-over-year decreases in Sales and Use Tax revenues and Corporations Tax revenues are more than offset by significant increases in Personal Income Tax revenues. Given that the personal income tax is extremely volatile, the Legislature should take care not to increase spending on ongoing General Fund programs, which will be hit the hardest when this volatile revenue source swings downward.

Proposition 30 was originally estimated to generate $47 billion of new tax revenue spread over eight fiscal years. In January, the Governor's Budget reflected revenue of about $47.2 billion over that timeframe. The 2014-15 budget assumes total revenues of $48.7 billion, as reflected in the following table.

Proposition 30 Revenue Estimates
Dollars in Millions

	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	Total
PIT	$3,356	$5,516	$5,705	$5,965	$6,131	$6,511	$6,878	$2,811	$42,873
SUT		$640	$1,371	$1,440	$1,554	$827	$0	$0	$5,832
Total	**$3,356**	**$6,156**	**$7,076**	**$7,405**	**$7,685**	**$7,338**	**$6,878**	**$2,811**	**$48,705**

Source: Department of Finance Multi-year Backup Documents

Proposition 39 was projected to generate annual General Fund revenues of $1.1 billion, and required at least half ($550 million) to be used to fund projects that create energy efficiency and clean energy jobs in California. A year and a half after voters approved the initiative (November 2012), revenues from Proposition 39 are only 60-70 percent of what the ballot pamphlet estimated. The Department of Finance estimates Proposition 39 revenues were $293 million in 2012-13, and projects revenues of $613 million in 2013-14 and $705 million in 2014-15.

Legislative Analyst's Office (LAO) Revenue Projections Differ
In its *Overview of the May Revision*, the LAO predicted that the Administration underestimated the strength of revenues throughout its projections.

> **"Across the four fiscal years (2011-12 through 2014-15), our General Fund revenue forecast is $2.5 billion higher than the administration's."**

Driven primarily by a more optimistic view of near-term trends in stock prices, home prices, and net capital gains realizations, the LAO forecasted personal income tax revenues to be about $2.8 billion higher than the Administration in 2014-15. However, given the volatility of the personal income tax and the ebbs and flows of capital gains over time, the LAO also emphasizes the importance of "setting aside reserves when revenues or capital gains climb sharply, as seems to be happening now."

As expected, legislative Democrats promptly increased spending in the Assembly and Senate versions of the budget, but were forced to settle for the Governor's lower, more conservative revenue estimates. In lieu of building the budget on the LAO's rosier revenue estimate, the 2014-15 Budget Act includes three revenue trigger mechanisms that would allow for increased one-time spending in 2014-15, should the LAO's higher revenue estimates materialize. A consolidated discussion of the three "triggers" can be found in the preceding "Expenditures" section (page 11).

Property Tax Exclusion for Solar. The budget includes trailer bill language (SB 871/Budget) that extends the sunset date of an existing property tax exclusion from January 1, 2017 to January 1, 2025. This provision excludes the value of the construction or addition of any active solar energy system from the definition of "assessable new construction." While the exclusion is available to individual tax payers that choose to install solar collection equipment on their real property (e.g. solar panels on the rooftop), a larger fiscal benefit of this exclusion would accrue to commercial solar energy generation facilities.

Notwithstanding the pros and cons of providing a tax benefit for solar energy production (e.g. providing a tax benefit to residential solar customers, foregone property tax revenues to counties, prioritizing one producer of renewable energy over others, etc.), this budgetary action is problematic because it was injected into the budget process at the last minute and bypassed all policy committee deliberations two years before the existing exclusion is set to expire.

As noted in a KQED article (http://blogs.kqed.org/newsfix/state+budget+surprise+solar+tax+break) highlighting the lack of concern for public process by legislative Democrats:

> "Sen. Leno, the legislative champion of the surprise solar tax break, admitted in a Sunday night interview that the general goal in dealing with tax policies that expires, or "sunset," is to take a close look at whether they still works before granting an extension — something that didn't happen in this case."

Proposition 25 was approved by voters in 2010 to ensure on-time budgets (**No Budget, No Pay**), not to allow the legislative Democrat majority to evade public scrutiny and to corrupt the budget process by enacting significant policy legislation that has nothing to do with implementing the budget.

Proposition 30 Promises Not Kept

Proposition 30 Spending on Education. Proposition 30's new taxes were sold to the voters in 2012 primarily as a benefit to education, but rather than spend all of the resulting revenue in support of education, the Governor continues to direct much of it toward other priorities, e.g., to eliminate state employee work furlough days and fund salary and benefit increases ($650 million), increase pension contributions for PERS and CalSTRS ($600 million), to grow health and human services spending (about $800 million), and build a reserve ($1.6 billion). As the chart below shows, the 2014-15 budget continues to divert almost $4.3 billion of Proposition 30 revenue to other programs:

Budget uses Prop 30 revenue for non-education programs
$ in billions

	2014-15
Minimum Prop 98 guarantee with no Prop 30 revenue [1/]	$57.747
Proposition 30 revenue	$7.405
Minimum Prop 98 guarantee plus all Prop 30 revenue	$65.152
Prop 98 funding included in 2014-15 budget	$60.859
Prop 30 revenue used for non-education programs	$4.293

1/ per Legislative Analyst

- According to the Legislative Analyst, in the absence of Proposition 30 revenue, the Proposition 98 minimum guarantee of funding for K-14 education would be about $57.7 billion.

- Estimated revenue from Proposition 30 in 2014-15 is about $7.4 billion.

- Thus, despite multi-billion dollar growth in Proposition 98 funding, at $60.8 billion it is still almost $4.3 billion below what it would be if all Proposition 30 revenue was spent on K-14 education, as promoted by its supporters.

- The Administration says that all Proposition 30 revenue goes into a special account used entirely to fund education, which is true. However, what it fails to say is that these special funds offset state General Fund that would have to be spent to meet the Proposition 98 guarantee *even if Proposition 30 revenue did not exist,* thereby freeing up that same amount of General Fund for non-education uses. It is a classic shell game.

Bottom line: California voters signaled their willingness to prioritize education when they agreed via Proposition 30 to pay higher taxes for the benefit of education. The Governor and Legislature should honor that bargain by using *all* of the Proposition 30 tax revenue to support education, instead of redirecting it to other uses.

Education

Proposition 98 funding continues to rise. The chart below displays 2014-15 Proposition 98 funding for K-14 education, which is based on the Governor's revenue estimates.

Proposition 98 Funding at 2014-15 Budget Act

Source: Legislative Analyst's Office

($ in millions) [1/]

	2012-13	2013-14	2014-15
K-12 education [1/]			
General Fund	$37,752	$38,465	$40,092
Local property tax revenue	$13,848	$13,405	$14,089
K-12 subtotal	$51,600	$51,870	$54,181
California Community Colleges			
General Fund	$3,853	$4,187	$4,293
Local property tax revenue	$2,264	$2,167	$2,308
CCC subtotal	$6,117	$6,354	$6,601
Other Agencies	$78	$78	$77
Total Proposition 98	$57,795	$58,302	$60,859
General Fund	$41,683	$42,730	$44,462
Local property tax revenue	$16,112	$15,572	$16,397

[1/] includes state preschool

As the chart shows, Proposition 98 spending rises from $57.8 billion in 2012-13 to $58.3 billion in 2013-14, and again to $60.9 billion in 2014-15, an all-time high even under the Governor's lower revenue estimates.[1]

State preschool expands. Under the budget deal struck between legislative Democrats and the Governor, not all of the new Proposition 98 spending will benefit K-12 schools and community colleges. The budget uses $155 million of the growth in Proposition 98 funding (growing to $178 million by 2017-18) to expand state preschool. While the program enjoys widespread support based on the premise that it provides a foundation for students' later success, these funds will unfortunately displace funds that would otherwise have flowed to K-12 schools. California's schools still need librarians, nurses, counselors, data infrastructure, instructional materials, equipment, facilities, and school buses. Tests scores are still too low and dropout rates are too high. We should fix our broken K-12 system before we start pulling resources away from it by expanding preschool programs.

Local control funding formula grows toward its targets. The state's new local control funding formula (LCFF) will enter its second year of implementation in 2014-15. Under the new formula, local educational agencies (LEAs) receive per-pupil base grants based on average daily attendance, according to grade span (K-3, 4-6, 7-8, and 9-12), with base rates enhanced for grades K-3 (by 10.4 percent) and grades 9-12 (by 2.6 percent). In addition, they get supplemental grants worth an additional 20 percent of base grant funding for each low-income student,[2] English learner, or foster youth,[3] and concentration grants worth an additional 50 percent of base funding for these same students, to the extent that they exceed 55 percent of an LEA's total enrollment. The 2014-15 budget

[1] As a point of fiscal reference, Proposition 98 spending in 2007-08, the last "good year" before the start of the recent recession, was $56.6 billion.

[2] Poverty is measured by eligibility for free or reduced-price lunches.

[3] A student who falls into one of these three categories is funded the same as one who falls into all three.

provides a $4.75 billion augmentation to LCFF funding, closing about 30 percent of the gap between current and target funding levels. In addition, it eases the process by which schools claim funding for low-income students by allowing certain schools that conduct comprehensive poverty counts only once every four years under the federal school lunch program to do the same for purposes of LCFF funding, provided they update their counts annually to reflect newly enrolled or dis-enrolled students. Republicans have supported additional LCFF funding based on support for local control and a belief that education should be one of the state's highest budget priorities.

Fiscally irresponsible local budget reserve restrictions. At the same it simplifies the process by which school districts claim LCFF funding, this budget unfortunately imposes new restrictions on their ability to grow and maintain healthy rainy-day reserves to insulate themselves from unplanned fiscal events.[4] Once their reserves are gone, any significant unplanned cost or reduction in state support could push them into insolvency. These new restrictions were unveiled at the 11th hour and available for public review only two days before the Legislature passed the budget package to the Governor. They have been condemned by every major education advocacy group in the state, with the exception of the teachers' unions. Senate Republicans vehemently opposed these highly irresponsible reserve requirements based on their fiscal imprudence and their potentially disproportionate impact on schools with high populations of low-income students, English learners, and foster youth.

Wall of debt falls -- deferrals and mandates backlog reduced. The 2014-15 budget extinguishes $5.2 billion of the state's $6.2 billion inter-year funding deferrals to schools and community colleges. In addition, it includes "trigger" language providing that, should the 2014-15 Proposition 98 guarantee of funding rise when revenue estimates are revised in Spring 2015 beyond the level assumed at enactment, the first billion dollars of any increase in the guarantee will be used to extinguish the remaining deferrals (*see page 12 for a discussion of this budget's various triggers*). The budget also provides $450 million to reduce the backlog of unpaid education mandate claims. Republicans are supportive of these efforts – the state's wall of debt should be eliminated before we start making program expansions that could become unsustainable at the next economic downturn.

Agricultural education and specialized secondary programs protected. As in prior years, the 2014-15 budget includes $4.1 million for agricultural education incentive grants and $4.9 million for specialized secondary programs. The Governor's January budget had proposed to eliminate these stand-alone categorical programs and fold their funding into the local control funding formula, but the Legislature rejected that proposal and restored them both as stand-alone programs. Republicans welcomed the restoration of agricultural education, which, along with other career technical education (CTE) programs, has been a longstanding budgetary priority.

Career Pathways Trust rules undermine traditional CTE. The 2014-15 budget provides $250 million in one-time funding for a second round of competitive Career Pathways Trust grants to K-12 schools and community colleges. Unfortunately, related trailer bill language in SB 858 (Ch 32/2014) prioritizes applicants who link to "significant postsecondary pathways" and those offering "legal career pathways," such that applications from traditional career technical education programs serving students who want to enter the workforce directly after high school graduation will almost certainly be shut out.

Costly child care expansion, but no reforms. The 2014-15 budget provides a $101 million augmentation in non-Proposition 98 General Fund (growing to $140 million by 2017-18) to increase child care rates and slots and to fund quality improvement activities, but does nothing to improve the weak program integrity highlighted in a 2010 report by the Senate Office of Oversight and Outcomes, which found that "the current system amounts to a merry-go-round of disincentives in which those who oversee the program would rather not know about fraud or feel powerless to address it."[5] The report's

[4] See Sections 26-27 of SB 858, the 2014-15 omnibus education budget trailer bill.
[5] http://sooo.senate.ca.gov/sites/sooo.senate.ca.gov/files/child%20care%20report.pdf

suggested reforms of random, unannounced visits to child care providers to assure that children are present at the times claimed, and funding for fraud investigators, have both gone unheeded.

Internet connectivity. The 2014-15 budget provides $26.7 million in one-time funding to assess schools' internet connectivity needs by Spring 2015, and create a needs-based grant program to improve that connectivity where needed. This funding is intended to ensure that the state's new testing system, under which most students will take computer-based tests, is functional statewide.

Proposition 39 energy efficiency projects. The 2014-15 budget provides $316.5 million in revenue resulting from voter approval of Proposition 39 in 2012 for energy efficiency projects at K-12 schools ($279 million) and community colleges ($37.5 million). Another $28 million originally proposed for K-12 school grants was shifted to Energy Conservation Assistance Act loans,[6] which is a reasonable use of these funds.

Adult education expansion pending. The 2014-15 budget suspends for one year the formation of new charter schools that serve adults, until the state's pending effort to develop a more comprehensive adult education plan is completed.[7] The suspension is intended to allow time for consideration of needed reforms prior to an expected $500 million adult education expansion in 2015-16.

Local library funding rises. The 2014-15 budget increases General Fund support of local libraries by $3 million ($2 million for the California Library Services Act, which supports inter-library lending, and $1 million for adult literacy programs). Republicans have traditionally supported funding for local libraries. The adult literacy program is an especially efficient use of state funding, as it makes use of local volunteers.

Schools' retirement fund contributions rise. As part of a larger effort intended to bring the State Teachers' Retirement System (CalSTRS) into solvency over time through increased contributions from employees, employers (LEAs), and the state, the 2014-15 budget requires LEAs to begin contributing more toward the cost of their teachers' retirement funds *(see page 23 for a more complete discussion of the CalSTRS action*). Specifically, employer contributions would rise from the current 8.25 percent to 8.88 percent of pay in 2014-15, which will require LEAs to spend about $175 million for CalSTRS contributions that would otherwise have been available for other uses (e.g., instructional materials, internet connectivity, transportation, etc). Employer contributions would continue to rise over time until they level out at 19.1 percent of pay in 2020-21 and beyond. As part of the larger reform effort, these expenditures will help ensure that teachers eventually receive the pensions they have worked.

California Community Colleges (CCCs). Under the 2014-15 budget plan, the community colleges' share of Proposition 98 funding rises from $6.12 billion in 2012-13, to $6.35 billion in 2013-14, and again to $6.60 billion in 2014-15. Specific adjustments most notably include:

- $498 million to reduce inter-year funding deferrals, with the potential for extinguishment of the remaining $94.5 million if the 2014-15 Proposition 98 guarantee of funding for education rises sufficiently in Spring 2015.
- $170 million for student success and support (formerly called matriculation) programs.
- $148 million for one-time uses such as facilities maintenance, architectural barrier removal, instructional equipment, and library materials, with a one-year suspension of local match requirements.
- $140 million for enrollment growth of 2.75 percent.

[6] These grant and loan programs are administered by the California Energy Resources Conservation and Development Commission.
[7] Existing schools of this type would not be affected by this proposal.

- $50 million in one-time funding to build regional capacity for career technical education.
- $49.5 million in one-time funding to reduce the unpaid backlog of reimbursable state mandate claims.
- $47.3 million for a 0.85 percent cost-of-living adjustment.
- $30 million to augment disabled student programs and services.
- $23.5 million in "stability funding" for San Francisco City College, whose enrollment has dropped as a result of accreditation issues. Other districts' funding will be reduced to offset this cost.
- $6 million in one-time funding to upgrade bandwidth and replace information technology equipment at local campuses.

In addition to these augmentations, the budget authorizes an increase in the state reimbursement rate for enhanced non-credit courses to match that of for-credit courses, expected to be worth about $50 million annually, starting in 2015-16. This change is intended to motivate the colleges to enroll underprepared students in the classes most appropriate for them, rather than pushing them into classes in which they are not likely to succeed, but for which the state pays a higher rate.

University of California and California State University (UC and CSU). The 2014-15 budget provides a five percent increase in base General Fund support for both segments, shifts CSU's capital outlay funding into its base budget as was done last year for UC, and **prohibits imposition of new CSU campus-level "student success fees" until January 1, 2016.** Republicans supported full funding for UC and CSU enrollment growth, but Legislative Democrats and the Governor prioritized other budget items, such as cash welfare grants for drug felons, state employee pay raises, and 3,500 unnecessary positions at CalTrans, over student access to UC and CSU.

UC & CSU Funding at 2014-15 Budget Act

(Core funds, in millions)

		2012-13	2013-14	2014-15	change
UC	General Fund [1/]	2,566	2,844	2,991	146
	Tuition and Fees [2/]	3,516	3,611	3,657	46
	Other UC Core Funds [3/]	351	344	331	-13
	Lottery	30	38	38	0
	Total UC	$6,463	$6,837	$7,016	$179
CSU	General Fund [1,4/]	$2,473	$2,789	$2,966	$177
	Tuition and Fees [2/]	2,643	2,669	2,720	51
	Lottery	40	56	57	1
	Total CSU	$5,157	$5,513	$5,743	$229
	Total	$11,619	$12,350	$12,759	$408

1/ Includes general obligation bond debt service.

2/ Includes systemwide fees before discounts/waivers, and nonresident tuition.

3/ Includes application fees, interest, and a portion of grant overhead and patent royalty income. Excludes carry-forward of prior year balance in 2013-14 under the assumption that most of this balance will continue to be carried forward.

4/ Includes funding for CSU retired annuitant health care costs and other minor adjustments.

Source: Legislative Analyst's Office

Tuition freeze. The Governor continues to condition funding augmentations for UC and CSU on their agreement to not increase tuition during a four-year period starting in 2013-14. Senate Republicans have called for a longer tuition freeze, one that lasts until the Proposition 30 tax hikes expire in 2018.

UC labor union centers get special treatment. In addition to its five percent augmentations to General Fund support for each segment, the budget includes a $2 million General Fund augmentation for the UC Labor Centers at Berkeley and Los Angeles.

UC mental health and brain research. The budget includes $2 million General Fund for the UC California Blueprint for Research to Advance Innovations in Neuroscience (CalBRAIN) program. Another $15 million in Proposition 63 mental health funding, to be spent over three years, is provided to create Behavioral Health Centers at UC Davis and UC Los Angeles. Republicans support these efforts, which could eventually lead to treatments for Alzheimer's disease, autism, and psychotic disorders such as schizophrenia.

Additional UC and CSU trigger funding possible. The budget establishes a "trigger" (*further discussed on page 12*) that will provide up to $200 million to various state entities, including up to $50 million each for UC and CSU, if local property taxes rise sufficiently by Spring 2015 to enable a reduction in the General Fund share of the 2014-15 Proposition 98 guarantee.

New innovation awards. The budget provides $50 million for competitive grant awards to UC, CSU, and community colleges that change their policies, practices, or systems so as to increase the number of degrees awarded, reduce time-to-degree, and/or ease transfers through the state's education system. Supporters argue that these funds could lead to savings worth several times their cost; opponents believe that they would be better spent to support enrollment growth and that UC and CSU could achieve these same goals within their existing General Fund support of almost $3 billion each.

Student Financial Aid Grows. The 2014-15 budget provides $1.57 billion in General Fund support for student financial aid. Cal Grant B "access awards" rise from $1,473 to $1,648 per year, at a cost of $30 million, and an existing scheduled statutory reduction of the maximum award amount for students attending private non-profit colleges (from $9,084 to $8,056 per year) is delayed until 2015-16, at a cost of $9 million. General Fund support for the Middle Class Scholarship program remains capped at $107 million, as originally authorized in 2013. Republicans want to ensure that every low-income California high school graduate who is eligible for admission to college and wants to attend will receive financial aid to help make that possible.

Employee Compensation

The Cost of State Employees Continues to Rise. Not only have the state employee furloughs ended (furloughs that saved more than $800 million total funds, $400 million General Fund in 2012-13), but pay raises and merit salary adjustments increase compensation costs every year. The 2014 budget includes an additional $590.9 million ($254.4 million General Fund) for employee raises and increases in health and dental benefits, bringing the **total cost of state employee salaries and benefits to $16.3 billion**. Since 2006-07, base employee compensation costs have increased $3.1 billion ($1.5 billion General Fund), and cumulatively, employee compensation increases have resulted in an additional $17.6 billion ($8.8 billion General Fund) of state employee compensation expenditures at the same time taxes and fees have been increased by tens of billions.

Unspoken Automatic Pay Increases. The new state spending increases for state employees are in addition to merit salary adjustments (MSA's) that have quietly increased baseline spending on employee wages by nearly $800 million, cumulatively costing the state $3.4 billion since 2005-06. Merit salary adjustments are <u>automatic</u> salary increases, and are not affected by furloughs or personal leave programs. Annual pay increases should not be considered an entitlement for public employees, but should be tied to performance, which is the intent of "merit" pay after all.

Lack of Transparency for MOU Approval. The Budget Act of 2014 (SB 852), includes provisional language that ratifies memoranda of understanding's (MOU) for Bargaining Units (BU) 10 (Professional Scientists) and 13 (Stationary Engineers). The two contracts are projected to cost the state $18.7 million ($6.1 million General Fund) over the life of the contract. The contracts generally include concessions consistent with other current agreements (i.e., pay raises in 2014-15 and 2015-16, guarantee of no new furloughs, increased business expenses, reduced time to "vest" for health care benefits, cash out of vacation and annual leave program).

Although it may be convenient for Legislative Democrats to bury pay raises in the budget, it is not transparent for the people of California and it is not the appropriate process. All MOU's should be heard in a policy bill, with each bargaining unit in a separate legislative vehicle for maximum transparency.

Of the 21 BU's, 20 bargaining units currently have contracts in place, with most expiring July 1, 2015 or July 1, 2016 (with the exception of BU 5-California Highway Patrol which expires July 3, 2018 and BU 8- Firefighters which expires July 1, 2017). Only BU 2- Attorneys and Hearing Officers (about 3,300 employees out of 200,000 total included in the 21 bargaining units) is currently working under a contract that expired on July 1, 2013.

Employee Retirement

CalSTRS
The 2014 budget includes a new funding plan for the California State Teachers' Retirement System (CalSTRS) intended to address the largest unfunded fiscal liability facing the state, with contribution increases phased in over the next few years for schools, teachers and the state. The plan is projected to fully fund the teachers' retirement fund by 2046-47, and includes shared responsibility for CalSTRS' $74 billion unfunded liability between the state ($20 billion), schools ($47 million), and teachers ($8 billion).

The 2014 budget includes $274 million ($59.1 million General Fund) in additional CalSTRS contributions from all three sources (school districts, teachers, and the state); with **total 2014-15 contributions to CalSTRS projected to be about <u>$5.7 billion</u>.** By 2020-21, state contributions would equal $2.4 billion General Fund, up from $1.5 billion General Fund in 2014-15, and **funding from all three sources would be <u>$13 billion</u> and growing.**

The budget makes the following statutory changes to the CalSTRS' Defined Benefit contribution requirements for the state, teachers and school districts:

Total Contribution Rate	STATE	TEACHERS	SCHOOLS	TOTAL
2013-14 (current level)	3.04%	8.00%	8.25%	19.29%
2014-15 (ramp up begins)	3.45%	8.15%	8.88%	20.48%
2015-16	4.89%	9.20% (8.56% PEPRA)	10.73%	24.82%
2016-17	6.33%	10.25% (9.21%)	12.58%	29.16%
2017-18	6.33%	10.25% (9.21%)	14.43%	31.01%
2018-19	6.33%	10.25% (9.21%)	16.28%	32.86%
2019-20	6.33%	10.25% (9.21%)	18.13%	34.71%
2020-21 - 2045-46	6.33%	10.25% (9.21%)	19.10%	35.68%
Cumulative Contribution Increases as Percent of Pay				
	STATE	**TEACHERS**	**SCHOOLS**	**TOTAL**
2014-15	0.16%	0.15%	0.63%	0.94%
2015-16	1.37%	1.20% (0.56% PEPRA)	2.48%	5.05%
2016-17	2.81%	2.25% (1.21%)	4.33%	9.39%
2017-18	2.81%	2.25% (1.21%)	6.18%	11.24%
2018-19	2.81%	2.25% (1.21%)	8.03%	13.09%
2019-20	2.81%	2.25% (1.21%)	9.88%	14.94%
2020-21 - 2045-46	2.81%	2.25% (1.21%)	10.85%	15.91%

It's appropriate that school districts provide the greatest share because they negotiate salaries and are the primary employer. Also, the plan allows for a seven year phase in for the schools' contributions as a way to accommodate the need for revised budget plans over the next few years to account for the significant shift of funding from the classroom to retirement benefit costs.

The fully-phased in contribution rates for schools would peak at 19.1 percent of payroll, which is consistent with contribution rates for other employers across the state. As shown below, the contribution rates for school districts would be slightly less than contribution rates for other school employees participating in CalPERS by 2020-21.

Employer Contribution Rates for CalPERS' School Plan (Compare to CalSTRS' Schools Share Above)

2013-14 11.4 percent
2014-15 11.7 percent
2015-16 12.6 percent
2016-17 15.0 percent
2017-18 16.6 percent
2018-19 18.2 percent
2019-20 19.9 percent
2020-21 20.1 percent

New Vested Rights. As an offset for the 2.25 percent increase in teachers' contributions, the plan would provide retirees with a vested right to an annual two percent increase beginning July 1, 2014. Retired teachers have received this cost of living adjustment each year but it has not been considered a vested right.

Future Contribution Changes. Additionally, the plan provides the CalSTRS Board authority to increase (or decrease) contributions for both the state and the school districts to eliminate the remaining unfunded actuarial obligation and keep the plan on track for fully funded status by 2046-47

CalPERS

The 2014 budget includes $4.6 billion ($2.6 billion General Fund) for state contributions to the California Public Employees Retirement System (CalPERS), a 24 percent increase from the 2013-14 level of $3.7 billion ($2.1 billion General Fund). Annual contributions will continue to rise, with another nine percent increase in 2015-16, 12 percent increase expected in 2016-17 and a six percent increase anticipated in 2017-18. Contributions are projected to reach $5.9 billion ($3.3 billion General Fund) in 2017-18, a 60 percent growth in state General Fund contributions since 2013-14.

The fast-paced increases are mainly due to steps CalPERS has taken over the last few months aimed at returning the pension fund to fully-funded status in 30 years, phasing in additional contributions beginning in 2014-15. In October 2013, CalPERS began a review of mortality rate projections, which has led to the Board adopting changes to economic (discount rate, price inflation, and wage inflation) and demographic assumptions (retirement rates, employment trends, disability rates, salary rate projections and mortality rate projections).

For example, the impact of the new assumptions on rates for state employees would be as follows:

Employee Group	2013-14 Contribution Rate	2014-15 Contribution Rate	2017-18 Contribution Rate
State Miscellaneous	21.30%	24.28%	32%
Schools	11.50%	11.70%	20.50%
State Industrial	16.40%	18.10%	21.50%
State Safety	17.90%	19.40%	20.50%
State PO/FF	31.30%	36.80%	45%
CHP	35.90%	43.50%	56%

Pension Reform of 2013. The budget includes $102.7 million General Fund redirected from savings achieved as a result of pension reform (AB 340, Statutes of 2012) towards the state's unfunded pension liability. This, however, is a very small step toward eliminating the unfunded liability, which is currently about $46 billion just for state employees. Total state unfunded retirement liabilities (e.g. including health benefits and STRS) are estimated to be about $193 billion.

If Californians Only Knew….

- **The total liability for the state's unfunded retirement liability equals $10,386 per taxpayer or $5,650 for every man, woman and child in California.**

Local Government

Redevelopment Agencies. Despite significant Republican opposition, the Governor succeeded in eliminating Redevelopment Agencies, and winding down the state's former RDAs continues to be a priority for the Administration. With the elimination of RDAs the state established "successor agencies" to ensure the timely retirement of outstanding RDA debts and other legal obligations, and the move resulted in billions of property tax dollars being redirected back to cities, counties, special districts, and K-14 schools. According to the Department of Finance, while billions of dollars are being retained by successor agencies to retire debts and other legal obligations, billions of dollars are also flowing back to local governments and schools.

Fiscal Year	Schools	Cities	Counties	Special Districts	Total
2011-12 & 2012-13	$2,200	$620	$875	$310	**$4,005**
2013-14 & 2014-15	$2,100	$593	$731	$227	**$3,651**

Source: Department of Finance

As noted in the table above, the Governor anticipates that eliminating RDAs has and will return nearly $7.7 billion of property taxes to schools, cities, counties, and special districts from 2011-12 through 2014-15, equating to just under $2 billion per year. From a state fiscal perspective, increased property taxes allocated to schools generally equates to a dollar-for-dollar savings General Fund savings under Proposition 98.

By 2016-17, annual ongoing Proposition 98 General Fund savings are estimated to be $1 billion, while cities, counties and special districts will receive approximately $700 million annually. Additional detail on these high-level estimates can be provided upon request.

State-County Assessors' Partnership Agreement Program. The Budget Act includes $7.5 million General Fund for a three-year pilot program to enhance local property assessment efforts. The pilot project is limited to nine county assessors' offices that will be competitively selected from a mix of urban, suburban, and rural counties. Participating counties will match their state grant on a dollar-for-dollar basis, and funds would be available to enhance equalization efforts, including enrolling newly constructed property and property ownership changes, reassessing property to reflect current market values, enrolling property modifications that change the property's taxable value, and responding to assessed valuation appeals.

This is not the first time the state has provided General Fund resources to support property tax administration. Beginning in 1995, the state provided annual General Fund loans to county assessors' to enable them to more quickly enroll newly-constructed property and account for property ownership changes. The additional property tax revenue received by schools through these efforts reduced the state's Proposition 98 General Fund costs, and the loans to the assessors were thereafter forgiven. The loan program was reconstituted from 2002 through 2006 as a grant program, known as the Property Tax Administration Grant Program.

Participating county assessor's offices would be required to report specified information to the Joint Legislative Budget Committee through the Department of Finance on a variety of outcomes related to improving property tax administration in their counties.

Pre-2004 Mandate Reimbursements. The state currently owes $900 million to cities, counties and special districts for unpaid mandate reimbursement claims that had accumulated prior to the passage of Proposition 1A of 2004 and must be repaid by 2020-21. The Budget Act appropriates $100 million General Fund to continue paying down this debt, and also includes trigger language that specifies that any unanticipated revenues in excess of the Governor's May Revision estimates that are not committed to the Proposition 98 minimum guarantee must be used to pay down the remaining $800 million of accumulated pre-2004 mandate claims.

The last time the state appropriated any money for this purpose was in 2006-07, and local governments have sat idly by for the past seven years waiting for reimbursement of costs that were incurred prior to 2004. Though they may have to wait until the 2015-16 Governor's Budget or even the 2015-16 May Revision to find out if up to an additional $800 million of reimbursements will materialize, the repayment of these loans is critical for local governments.

Election Mandates. The Budget Act continues to suspend more than 60 state-mandated programs, including nine elections-related mandates. Senate Republicans fought to include $100 million to pay down previously-incurred local costs and to restore these election-related mandates. This is important because, as stated by the Legislative Analyst's Office, "Suspending elections mandates poses a significant risk to state elections. We believe that the administration's proposal to suspend the mandates represents the worst option as it carries with it the largest risk for inconsistencies in California elections."

The California Voter Foundation also opposed the suspensions stating that "Failure to fund state mandated election programs could lead to election challenges. Imagine what might happen in statewide or legislative contests if counties within the same political district have different vote---by---mail practices. Contests would go undecided for days and weeks, litigation and court battles would ensue, and results would be called into question." Ultimately, however, the final Budget Act does not include any money for this purpose. Apparently, legislative Democrats are not interested in maintaining fair, uniform, and transparent elections.

Health & Human Services

Health

The budget package for health programs implements federal health care reform, restores some previous program reductions, and expands capacity for developmental services and the mentally ill. The single largest story for Health in the 2014-15 budget package is the massive cost associated with the expansion of Medi-Cal under federal health reform. The following chart summarizes the budgets and notable actions in 2014-15 for the largest health departments. The most significant budget components are then discussed in more detail below.

Summary of Department General Fund Spending
Dollars in Millions

Department	2012-13 Actual	2013-14 Revised Estimate	2014-15 Final Budget	Change from 2013-14 to 2014-15 $	Change from 2013-14 to 2014-15 %	Key Changes From Prior Year
Health Care Services: Medi-Cal	$14,862	$16,647	$17,280	633	3.8%	Major increase in number of new Medi-Cal enrollees following program expansion under the federal Affordable Care Act.
Developmental Services	2,674	2,810	2,961	151	5.4%	Restores Early Start Program; provides funds for expanded crisis services at two developmental centers and to develop new community models.
State Hospitals	1,277	1,505	1,520	15	1.0%	Expands capacity to treat Incompetent to Stand Trial offenders by increasing hospital bed capacity and expanding local Restoration of Competency programs.
Public Health	129	130	118	-12	-9.2%	One-time $15 million for drought relief in 2013-14 was not repeated in 2014-15. Increased funds to restore Black Infant Health and HIV Prevention programs.
Managed Risk Medical Insurance Board	178	23	-	-23	-100.0%	Shifts remaining programs to the Department of Health Care Services

Medi-Cal

As writer P.J. O'Rourke once said, "If you think health care is expensive now, wait until you see what it costs when it's free." The expansion of Medi-Cal related to the federal Affordable Care Act (ACA), which began enrollment on January 1, 2014, is showing greater enrollment and costs than previously expected even six months ago in the January budget. When compared to the actual spending for 2012-13, the last year that included no enrollment expansion, the 2014-15 budget is now $2.4 billion General Fund higher. Key expansion factors and other Medi-Cal changes include:

ACA Enrollment Skyrockets. Total Medi-Cal enrollment is now projected to average 11.5 million in 2014-15, or **30 percent of the state's population.** This is an increase of 3.6 million, or 46 percent, compared to Medi-Cal's enrollment of 7.9 million prior to implementation of the ACA, and includes the following:

- The "optional" Medi-Cal expansion, which covers low-income adults who do not have children, is now projected to reach 1.6 million enrollees in 2014-15, roughly doubling the Governor's projection from January. The federal government pays all costs for this group, totaling $12.6 billion in 2014-15, for the first few years, but the state must pay 10 percent of this group's costs by 2020-21, when **inflation and caseload growth could push the state's share to $1.7 billion General Fund.**

- The "mandatory" portion of the expansion is now expected to reach 827,000 enrollees by June 2015. The mandatory changes primarily standardize the income ceiling for children and parents and allow people to enroll in Medi-Cal regardless of the value of any assets they might have. The state pays its usual share of the costs for the mandatory expansion, which is budgeted to be $930 million General Fund in 2014-15.

Other Significant Actions. Apart from ACA implementation, the Medi-Cal budget includes these key actions:

- *Specialty Drug Rebates.* Authorizes Medi-Cal to collect supplemental drug rebates for certain specialty drugs, such as the costly new Hepatitis C drug Sovaldi, provided through managed care plans. Medi-Cal in turn would make supplemental payments to managed care plans to provide those drugs to patients. The net effect of this policy is expected to save $6 million General Fund in 2014-15 and $30 million General Fund annually.

- *Expanded Benefits for Pregnant Women.* The budget provides full health coverage to certain pregnant women who previously only qualified for pregnancy-related care. Women with incomes between 108 percent and 208 percent of the federal poverty level (between $21,373 and $41,163 for a family of three) would be able to enroll in a health plan through Covered California with Medi-Cal paying all of their premiums and other out-of-pocket costs. Because of the combination of high costs for pregnancy services and large federal subsidies in Covered California for this income group, this policy is expected to reduce state General Fund costs by $16.6 million in the budget year.

- *Increased Rates for PACE.* Although the broad 10 percent provider reduction remains in place for 2014-15, as discussed below, the budget package does provide $1.8 million General Fund to increase rates for Programs of All-Inclusive Care for the Elderly (PACE), which previously experienced a decrease in reimbursement through a technical adjustment made by the Department of Health Care Services. Republicans have been supportive of PACE programs because they have a prudent set of financial incentives to provide health care and support services in the most efficient manner possible for patients who otherwise would likely enter nursing homes.

Republican Concerns. While all Californians should have the ability to obtain the health care they need, the extraordinary growth in Medi-Cal enrollment raises several practical issues and highlights the imprudence of past decisions in Medi-Cal administration.

- ***Medi-Cal Crowds Out Other State Priorities.*** Expansion of health spending for Medi-Cal is likely to crowd out other state priorities, such as education, public safety, and safety net programs, particularly beginning in 2017 when the state must begin to pay a portion of the costs for the optional expansion.

- ***Medi-Cal Rate Relief Rejected from Budget.*** California has pretended for many years that Medi-Cal could run an effective health care program without paying reasonable reimbursement rates to the care providers, such as doctors, pharmacists, and technicians who custom-fit wheelchairs for disabled children. Unfortunately, the 2014-15 budget continues to implement a previously authorized **10 percent rate cut for most providers**, which is now estimated to provide $272 million in General Fund savings in 2014-15. This includes "retroactive" savings of $38 million for certain long-term care providers, medical equipment providers, and pharmacists, which effectively increases the reduction beyond 10 percent for those groups. This policy threatens to reduce patient access to care at the same time the state is adding 2.7 million new enrollees as part of the ACA Medi-Cal eligibility expansion. **In contrast, the budget provides a 40 percent rate increase for abortions** at a cost of $5.5 million General Fund, despite the lack of data showing any difficulty in access to abortions in California.

- ***Dubious Administrative Decisions Raise Costs.*** The state has also exacerbated the increase in Medi-Cal costs through questionable ACA implementation decisions. County eligibility workers experienced a backlog of 900,000 Medi-Cal applications due to implementation problems, and Medi-Cal decided to simply forego processing annual redeterminations for people already enrolled in Medi-Cal until at least July 2014, which adds at least $26 million General Fund costs in 2014-15 on top of $70 million in extra costs in 2013-14. The budget also includes an increase of $73 million in systems development costs for the California Healthcare Eligibility, Enrollment, and Retention System (CalHEERS), which processes applications for both Covered California and Medi-Cal. Most of the increase will be paid by federal funds, but $22 million of it will be General Fund. CalHEERS has experienced numerous difficulties, caused in part by the complexity of trying to force the system to interact with three different county-based Medi-Cal enrollment systems.

- ***Obamacare Bailout for Private Union.*** This budget package awards $3.2 million in taxpayer funds (Proposition 99) to bail out one private union health plan, the Robert F. Kennedy Medical Plan, for cost increases imposed by Obamacare mandates. **Many other businesses in California as well as hundreds of thousands of individuals are facing higher health care costs due to Obamacare but have received no relief.**

  A Los Angeles Times article on this bailout points out, "Other organizations—including the United Agricultural Benefit Trust, which provides coverage to 35,000 farmworkers and their families—have shouldered the higher cost of upgrading their insurance to comply with the Affordable Care Act regulations....[T]he trust's executive vice-president asked why the state should subsidize the United Farm Workers' coverage. 'Creating a special set of rules for one plan, I don't know if that's appropriate,' she said. 'Our plan absorbed the cost.'"

  The rationale offered by legislative Democrats—that this will save money because otherwise the plan would disband and force employees onto Medi-Cal—simply doesn't hold up to scrutiny. The Kennedy plan has numerous options to keep operating without taxpayer funds, and it is also unclear how many of the employees would be eligible for Medi-Cal until they actually apply. **Without the fig leaf claim that this action would save the state money, this grant may be a "gift of public funds" that is prohibited by the state constitution.**

- ***Annual Deficiencies Becoming a Trend.*** Beginning in 2011-12, Medi-Cal has incurred three major budget deficiencies in a row, totaling $760 million, $483 million, and $553 million, respectively. A recurring theme in these deficiencies has been significant assumptions made each year that reduce the Medi-Cal budget by hundreds of millions of dollars, thus making room for increased spending in other areas. The 2014-15 budget package continues this dubious tactic--the final budget package assumes that Medi-Cal costs for the ACA enrollment expansion will be lower than the May Revision level by $152 million General Fund. **This raises the concern that such assumptions may be an intentional tactic for falsely balancing the budget.**

Department of Developmental Services (DDS)

The DDS budget includes the following key actions:

- *Continuing the Transition to Community-Based Services.* Following up on an extensive planning process for the future of DDS community and institutional services, the budget package will spend $2 million General Fund for 43 positions to maintain "crisis center" facilities at two developmental centers. The budget also provides $9 million General Fund to develop an "enhanced behavioral model" residential option and crisis management home models in the community.

- *Early Start Restoration.* The budget provides $8 million General Fund to restore eligibility beginning January 1, 2015, for the Early Start Program, which serves infants and toddlers at risk of developmental delays. Early Start, which was partially reduced in the 2009-10 budget reductions, likely helps these children avoid long-term, costly developmental problems. Republicans are very supportive of these types of programs.

- *Flexibility to Pay Deductibles for Private Insurance.* The budget package removes a prohibition for regional centers to pay deductibles on behalf of consumers with private insurance who have incomes of less than 400 percent of the federal poverty level (about $92,000 for a family of four). The prohibition on paying deductibles treats those families unfairly because the fact that they have private insurance at all saves the state money. If they had no insurance, DDS would pay for the entirety of their benefits, which often involves expensive autism-related services for children. Prior to the state banning the practice in the 2013-14 budget, most of the regional centers had agreed on their own to pay deductibles on behalf of at least some consumers. This is a smart approach to reducing state costs and encouraging self-reliance and financial participation by those who use the safety net.

Department of State Hospitals (DSH)

The DSH budget includes the following key actions:

Incompetent to Stand Trial Patients. County jails have a backlog of persons deemed Incompetent to Stand Trial (IST) who are waiting for a treatment bed at a DSH facility to become available. The budget takes two actions to help address this backlog:

- *Increased DSH IST Capacity.* Provides $28 million General Fund to expand IST treatment capacity by 105 beds in state hospitals.

- *Expanded Local Capacity.* Provides $4 million General Fund to expand local Restoration of Capacity (ROC) programs by up to 55 beds. Currently, ROC programs operating on a pilot basis in county jails in San Bernardino and Riverside counties are demonstrating positive results at lower cost, and these budget funds would expand on that success. While jail-based ROC appears to be working well, the budget unfortunately also provides an option for IST offenders to be sent to community facilities for ROC at the discretion of the local judge and program officer. **It is not clear that there are sufficiently secure community facilities to treat potentially violent IST patients effectively while maintaining safety for other patients, staff, and neighbors.**

Enhanced Treatment Units. Although 92 percent of patients at DSH facilities now arrive there through the criminal justice system, patient residences generally lack locking doors and other security features. The budget package provides $2 million General Fund to plan for more secure "enhanced treatment" units to house patients that pose a risk to staff or other patients. Use of these funds is contingent on enactment of a policy bill that would specify protocols and safeguards for these units. The Governor subsequently signed AB 1340 (Achadjian 2014) which provides this policy guidance.

Institutional Law Enforcement Unit. The budget package includes $1.4 million (total funds) to establish a new unit at the Health and Human Services (HHS) Agency to develop uniform law enforcement training and practices at state institutions operated by both DDS and DSH. The budget package requires the HHS Agency to submit a report to the Legislature with recommendations, and the Agency would be authorized to consult with the California Highway Patrol (CHP). Despite the involvement of the CHP, locating a new oversight unit at the HHS Agency may not address the conflicts of interest inherent in having in-house investigators and officers.

Human Services

The 2014 budget includes major policy changes that will increase annual expenditures by more than $600 million General Fund within the state's human services programs. Major spending increases include welfare cash grants to drug felons, increasing welfare cash grants by five percent (the second consecutive year with a grant increase) and paying In-Home Supportive Service providers' overtime, among other things.

<u>CalWORKs</u>

Working Families Now Pay for Drug Felons on Welfare – The 2014 budget eliminates the common sense policy prohibiting drug felons in both the CalWORKs and CalFresh (food stamps) programs, which increases General Fund costs by at least $40 million annually. In addition to being a terrible policy that likely wastes tens of millions of taxpayer dollars to support the drug trade, **allowing drug felons to be eligible for cash aid could actually hurt the children** in these households. Under current law, vouchers are used for rent and utility payments instead of cash so it doesn't get used by the drug addict adult, but with the drug felon now eligible to receive aid, the cash will go to the drug felon, probably leaving these children worse off than they are now.

Welfare Cash Grants Increase. The 2014 budget includes $47 million General Fund for another five percent increase in CalWORKs cash grants effective April 1, 2015, (with full year costs of $185 million). The April 1, 2015 grant increase is **in addition to a five percent grant increase** that was effective March 1, 2014, costing the state $180 million in 2014-15. In two years, the cash grant has grown from about $638 a month to about $704 a month for a family of three, **increasing annual expenditures by nearly $400 million**.

The 2013 budget required future grant increases each year until the CalWORKs grant reaches 50 percent of the federal poverty level (FPL). With the April 1, 2015 five percent grant increase, the state will now be at 43 percent of the FPL. California currently has the 5th highest grant in the nation, and the 2nd highest grant amongst the ten largest states. Upon reaching 50 percent of the FPL, California could have the distinction of being the **second highest welfare cash grant in the nation**.

Funding Increase for CalWORKs Services. The 2014 budget includes about $1.9 billion (an increase of $40 million over 2013-14) for what is known as the CalWORKs "single allocation." The single allocation is basically a vast pot of funding that the counties determine how best to use to administer the CalWORKs program. The additional $40 million is intended to provide funding for housing and homeless assistance but since single allocation funding can be flexibly expended on numerous activities, including program administration and child care, **it will be difficult to assess in the future how counties are utilizing funds** and the impact these funds will have on homelessness and stability for CalWORKs families**.** The lack of transparency ensures Californians won't know if these funds are spent on necessary activities **or if they are expended on salary increases for county employees.**

In-Home Supportive Services

The 2014 budget includes $8.6 billion ($2.2 billion General Fund) for the In-Home Supportive Services (IHSS) program, an increase of 34 percent above revised 2013-14 expenditures of $6.4 billion ($2.0 billion General Fund). The significant increase in total expenditures within IHSS is mostly due to the implementation of the Coordinated Care Initiative (IHSS will be part of Medi-Cal managed care in the eight participating counties) and the expansion of Medi-Cal (recipients could now be eligible for IHSS) due to the ACA mandatory and optional expansions. These two policy changes account for over $1.7 billion in additional federal funds in 2014-15.

New Overtime Proposal Results in Major State Costs. Federal regulations now require the state to pay overtime rates in the IHSS program, as well as provide reimbursement for travel time and time spent at medical appointments. The 2014 budget includes $394.8 million ($172.2 million General Fund) for six months of funding for these activities, with $220 million ($93 million General Fund) budgeted for IHSS overtime in 2014-15. Upon full implementation, baseline expenditures will increase by $824 million ($356 million General Fund) for travel time, time spent at medical appointments and providing overtime to IHSS providers that work more than 40 hours a week.

Gaming the Overtime. Legislation implementing the overtime policy (SB 855) attempts to prevent an abuse of overtime with a restriction of no more than 66 hours worked in a week by an IHSS provider. The language seems to allow an IHSS recipient to authorize overtime above this level without notification to the county welfare department. Based on this, it is unclear exactly how much the state will really be "managing" the amount of overtime worked by IHSS providers if recipients, basically family members, can authorize more hours without having to notify their social worker. This new overtime policy is ripe for fraud and abuse.

Counties Have No Incentive to Control Costs. The 2014 budget includes $155.3 million General Fund in 2014-15 for higher IHSS costs as a result of the county maintenance of effort (MOE). Authorized in the 2012 budget, the policy shifts program costs above the 2011-12 level to the state General Fund. With significant program growth expected as a result of the mandatory and optional Medi-Cal expansions (part of ACA) as well as the policy to pay overtime to IHSS providers, counties **now have little incentive to maintain program integrity or control costs since they will not share in any future cost increases.**

Health Reform Drives Caseload and Costs. In 2014-15, the IHSS caseload is projected to increase by approximately 40,000 recipients due to implementation of health care reform. The 2014 budget includes **$535.3 million (federal funds) in 2014-15 as a result of this expansion.** Although the federal government is paying for all of the new costs under health care reform for the next several years, beginning in 2020 the federal/state sharing ratio will be 90/10, resulting in additional General Fund costs of about $55 million annually and likely growing as caseload and authorized hours continue to increase, as well as the state now paying overtime to IHSS providers. Due to the IHSS county MOE policy mentioned above, any additional non-federal costs within the IHSS program will be fully supported with state General Fund.

Community Care Licensing Division

Quality Enhancement and Program Improvement .The 2014 budget provides $7.5 million ($5.8 million General Fund) and 71.5 position within the Community Care Licensing (CCL) Division to protect the health and safety of clients of community care facilities by establishing clear corporate accountability, ensuring a robust enforcement program, and increasing qualifications of facility administrators. The budget also includes increased fees and civil penalties, establishes a statewide hotline, and would revise the hiring process and expand training for analysts, licensing managers and facility administrators. The new program structure and additional resources should enable the CCL to free up time for licensing analysts to focus on increasing licensing visits, ensuring each facility is visited at least once every five years as required. Republicans support this effort to better protect the young and elderly.

CalFresh

CalFresh is the state's version of the federal Supplemental Nutrition Assistance Program (SNAP) and provides food assistance to over 4.2 million low-income Californians, about 11 percent of the state's population. The average monthly benefit per household is roughly $333 per month and in 2014-15, approximately $7.6 billion in CalFresh benefits will be distributed. Costs for administering the program are shared between the federal government, the counties and the state (50/15/35 percent share respectively). The 2014 budget includes $2.1 billion ($735 million General Fund) in administrative costs for the CalFresh program.

State to Provide a Utility Allowance Subsidy to CalFresh Recipients. The 2014 budget includes $10.5 million General Fund to provide an increased energy assistance subsidy ($20.01 a month) for CalFresh recipients. Households receiving the Standard Utility Allowance Subsidy (SUAS) benefit are entitled to include the standard utility allowance when calculating CalFresh benefits. As a result of receiving the allowance, some households will experience an increase in food benefits. Prior to recent federal changes, states could provide any amount of home heating aid and recipients could still qualify for additional food stamp benefits (previously, California was allowed to provide $.10 cents a month). However, now the state must provide more than $20 a month to use the standard utility allowance when determining food stamp benefit levels. Although this program will increase food benefits for low-income families (about 320,000 families, with an average benefit increase of $62 a month) and bring in more than $250 million in federal food stamp benefits to California's economy, this is an example of the federal government creating a dependency and then changing the rules, leaving California to spend even more money chasing the additional benefits.

Child Welfare Services

The Child Welfare System (CWS) includes child abuse prevention, emergency response to allegations of abuse and neglect, supports for family maintenance and reunification, and out-of-home foster care. The total 2014 budget for CWS and adoptions programs is $5.1 billion ($2.4 billion federal funds, $1.6 billion 2011 realignment funds, and $1.1 billion county funds). In general, around half of child welfare funds support counties to administer or provide the programs, and half support payments to care providers.

The following chart identifies where most children in foster care reside and the rates of monthly payments for their care and supervision:

Placement Types	Percent of Children in Foster Care on 1/1/12	Range of Basic Monthly Payment Rates	Potential Supplements for Children who Qualify	Administration and Social Worker Cost Built into Rate
Kin Caregiver	33%	Age 0-4 -- $640 Age 15-19 -- $799	Age 0-19 -- $200 to $2,000	$0
Guardian	11%			$0
Foster Family Home	9%			$0
Foster Family Agency - Certified Home	26%	Age 0-4 -- $829 Age 15-20 -- $988	Age 0-4 -- $189 Age 15-19 -- $189	Age 0-4 -- $868 Age 15-19 -- $968
Group Home	10%	Level 1 -- $2,223 Level 2 -- $9,419	$0	$0

Equalizing Foster Care Payments. The 2014 budget includes $15 million General Fund ($30 million General Fund annually beginning in 2015-16) to increase foster care payments for foster children placed with relative caregivers. These youth are not eligible for the federal program as their parents do not meet the income requirements of the welfare program in place in 1996. Under current state law, if these foster youth are placed with relatives, they would be eligible for a CalWORKs child-only grant (about $350 a month) but if they are placed in a foster home, they get a higher rate of $800 a month. The 2014 budget equalizes the rates for foster youth placed with relatives. Republicans generally support this policy because it provides a greater incentive for their own families to care for these youth.

Commercially Sexually Exploited Children Program. The 2014 budget provides funding and a program structure for county social workers to identify and address the needs of commercially sexually exploited children. The budget includes $5 million in 14-15 and $14 million General Fund annually thereafter to develop service planning within multiple agencies, provisions of services including training for both the social worker and the youth as well as prevention and intervention activities. Although this program may be meritorious as awareness, intervention and services are lacking across the state for sexually exploited children (who are often products of the child welfare system), the proposal doesn't include development of a statewide plan that could identify resources and services necessary at the county level. Until a plan of action and performance measures are developed for the program, it will be difficult to determine if the $14 million provided annually is the correct level of funding necessary to address the needs of this very vulnerable population.

Transportation

Caltrans' Overstaffing Diverts $500 million from Local Streets and Roads. The 2014-15 budget includes $1.7 billion and 9,894 full-time equivalent (FTE) positions for the Capital Outlay Support Program (COS Program) within Caltrans. As a result of an annual zero-based budget, the COS Program was reduced by $27 million (various non-General Fund sources) and 258 FTE positions as compared to the 2013-14 budget. Despite the "zero-based" methodology, an LAO report on the COS Program estimates that even at the reduced level, **the COS Program is overstaffed by 3,500 FTEs at a cost of more than $500 million (various non-General Fund sources) annually**.

The COS Program provides the resources necessary to deliver highway capital outlay projects to construction, as well as, administer and oversee projects in construction. Work conducted in the program includes completing environmental reviews, designing and engineering projects, acquiring rights-of-way, and managing and overseeing construction. The department accomplishes about 90 percent of its COS work with state staff, and about 10 percent of work with private consultants.

During the 2013-14 budget process, the Legislature directed Caltrans, the LAO, and the Department of Finance to review the COS Program and identify ways to increase accountability and efficiency of the program. The LAO found many concerns during the review of the program. First, the project data entered into database systems contains errors and is largely unreliable. This inaccurate data is used to build the COS Program's zero-based annual budget request. **Even more troubling is the indication that data inaccuracies result from an incentive for project managers to report inaccurate data to reflect that projects are completed ahead of schedule or under budget.** Additionally, some pertinent data, for instance actual staff resources used, is not collected, making program evaluation nearly impossible.

Second, the COS program workload has declined substantially as one-time Proposition 1B bonds and the federal American Recovery and Reinvestment Act funds are exhausted. The COS Program experienced peak workload between 2007-08 and 2013-14 when the level of funding available for new construction projects averaged $4.4 billion annually. However, Caltrans projects the funding will decline by about 40 percent to $2.6 billion in 2014-15. **Because of this large decline in workload, the COS Program will be substantially overstaffed by about 3,500 FTEs and $500 million, resulting in expending limited transportation resources inefficiently on staff with no workload rather than on our roads and highways, which are some of the worst in the country.**

Despite the report from the LAO, Legislative Democrats opted to adopt only the small reduction proposed by the Administration, choosing to leave the program significantly overstaffed. This move by Democrats results in expending limited transportation resources inefficiently in an effort to protect public employee union jobs.

Finally, there is one component not mentioned in the LAO report that could also help address future staffing challenges faced by the COS Program. Proposition 35, passed by voters in 2000, allows the state to contract for Architectural and Engineering (A&E) services in all situations for public works projects. Since the passage of Proposition 35, only 10 percent of A&E services have been contracted out by Caltrans. This stringent requirement placed on Caltrans restricts their ability to adjust staffing levels. **By using more contract staff, the state could prevent the build-up of civil service staff which requires increased time to reduce as workload declines and adds to the state's unfunded pension and retiree healthcare burden. The use of more contract employees would likely save millions of taxpayer dollars and result in projects completed more quickly, benefiting all Californian motorists.**

Money Down the High Speed Rail Drain. Lacking federal and private sector funding, the 2014-15 budget provides a blank check for Governor Brown's bullet train project. The budget includes

$250 million Cap and Trade funding for the high speed rail (HSR) project in 2014-15. Additionally, the Cap and Trade trailer bill allocates 25 percent of future Cap and Trade revenues, beginning in 2015-16, to the HSR project through a continuous appropriation and provides a second continuous appropriation of $400 million, upon repayment of Cap and Trade General Fund loans, in 2015-16. This equates to **hundreds of millions of dollars spent annually on HSR without future votes of the Legislature**, despite LAO warnings that it is legally risky to link the bullet train to Cap and Trade funds. **Not to mention that the HSR Authority plans to use this revenue stream to securitize financing,** likely in the form of a revenue bond, which will further divert Cap and Trade revenues to pay interest on the bond. **The people of California no longer support the high speed rail project because it has become clear that it is an ill-conceived 'boondoggle' that will drain billions away from better projects such as fixing schools and the existing transportation infrastructure that is crumbling.**

The Governor's insistence to fund his bullet train with a legally questionable funding source indicates his desperation to break ground on the project before the citizens of California can stop it. Additionally, securing a funding source now allows California to begin meeting the federal matching requirement, making it easier for the HSR Authority expend the $3.3 billion in federal funds already received before they expire on September 30, 2017. As support continues to dwindle for the project, there are efforts at the federal level to eliminate funding in future years, including an amendment to the 2014 federal transportation bill forbidding funding for California's HSR project in next year's federal budget. Four California Democrats voted with their Republican colleagues to support this funding ban. The absence of future federal funds will certainly hurt the project's future funding prospects. Not only has the HSR Authority planned on about a third of its funding coming from the federal government, but a lack of public funding is certain to further discourage private investors, who have yet to show interest in the project. If the project continues to progress this way, California taxpayers will be stuck with the bill.

Driver's Licenses for Undocumented Immigrants Begin. Chapter 524, Statutes of 2013 (AB 60) required the Department of Motor Vehicles (DMV) to issue driver's licenses to applicants who cannot verify their legal presence in the United States, provided they produce documentation establishing their identity and residency in California and meet all other qualifications for licensure.

The enacted budget provides $67.4 million from the Motor Vehicle Account (MVA) to implement AB 60, which includes funding for DMV staff, equipment, and office space to accommodate an estimated 1.4 million new applicants over a three-year period. Total costs over the three years are projected to be $141.8 million MVA, offset by an estimated $46.8 million in new fee revenues, for a **net cost of $95 million.** Regardless of how one feels about providing driver's licenses to undocumented immigrants, it is reasonable to expect that the fees should at least cover the full costs of the program.

The budget also includes language making it even easier for undocumented immigrants to get California driver's licenses by eliminating a requirement of AB 60 that the applicant submit an affidavit stating under penalty of perjury that he/she is unable to prove his/her legal presence in the U.S. and is ineligible to be issued a social security account number. Instead, **the applicant would only be required to check a box** on the driver's license application form indicating under penalty of perjury that he/she has not been issued and is not eligible to be issued a social security account number. Thus, the applicant will no longer be required to self-identify as being in this country illegally.

REAL ID Update. In order for California's regular driver's license to continue to meet federal identification standards embodied in the REAL ID Act of 2005, licenses issued to undocumented immigrants pursuant to AB 60 must be readily visually distinguishable from regular licenses. In May 2014, the U. S. Department of Homeland Security rejected California's original AB 60 driver's license design because it looked too much like a regular license. Despite resistance from advocates who claim that AB 60 licensees will be discriminated against if their licenses look different from regular licenses, **DMV must provide a license design that is easily distinguishable from a regular license. If not, it risks all California driver's licenses becoming unacceptable for federal identification purposes, like boarding aircraft, entering federal buildings, or applying for federal entitlements.**

Resources, Environmental Protection & Energy

Unfortunately, the 2014-15 Budget Act is no different than past budgets where major policy changes have been approved with little public discussion or input. These changes impose more regulations and fees that increase the cost of living for all Californians, and disproportionately harm middle class families.

Rip-Off of Cap and Trade Funds. The Budget Act will spend $832 million (an additional $40 million was included in SB 103 of 2014) of Cap and Trade tax revenues in 2014-15 to support programs that supposedly reduce Greenhouse Gas Emissions (GHG) and meet SB 535 (2012) goals relating to GHG impacts in disadvantaged communities. Unfortunately, this Cap and Trade program is extracting billions of dollars from our economy and hurting jobs by reducing production activities and work hours. This program along with other burdensome regulations will continue to limit economic opportunities because businesses are electing to relocate or expand outside of California. To combat these negative effects, these revenues should be used on projects that relieve pressure on California businesses by providing significant amounts of GHG reductions. Regrettably, this budget proposal doesn't do that.

The California Air Resources Board (ARB) has been working on the Cap and Trade program for two years but no metrics to evaluate GHG reductions have been created. ***At this point, the Administration and Legislative Democrats are just guessing and hoping that spending these billions of dollars results in some GHG reductions.*** What is clear, however, is that the use of Cap and Trade tax revenues to fund the High Speed Rail (HSR) project *(see Transportation Section, Page 36)* would <u>not</u> meet the requirements of reducing GHG emissions as the project would actually increase GHG significantly during construction. Most of the programs have no clear nexus to GHG reductions, which makes the Cap and Trade fee a **tax.** The California Chamber of Commerce is currently litigating over this program on the grounds that it is a tax that was approved with only a majority vote. The litigation is currently at the Court of Appeals.

California families and businesses will start to feel more financial pain as refiners become responsible for 'tailpipe' greenhouse gas emissions from cars and trucks (i.e. fuels under the cap) in 2015. By 2020, <u>the Boston Consulting Group estimates the cost of compliance with fuels under the cap could cost between 14 cents per gallon to 69 cents per gallon</u>.

These programs are summarized in the chart below.

Cap and Trade Expenditure Plan

(Dollars in Millions)

Category	Department	Program	Amount
Sustainable Communities and Clean Transportation	High-Speed Rail Authority	Rail Modernization	$250
	California State Transportation Agency	Transit and Intercity Rail Capital Program	$25
	Department of Transportation	Low Carbon Transit Operations	$25
	Strategic Growth Council	Sustainable Communities	$130
	Air Resources Board	Low Carbon Transportation	$200
Energy Efficiency and Clean Energy	Department of Community Services and Development	Energy Efficiency Upgrades/Weatherization	$75
	California Energy Commission/Department of General Services	Green State Buildings	$20
	Department of Food and Agriculture	Agricultural Energy and Operational Efficiency	$15
	Department of Water Resources (SB 103, Drought Trailer Bill, 2014)	Water Action Plan - Water and Energy Efficiency	$40
Natural Resources and Waste Diversion	Department of Fish and Wildlife	Water Action Plan - Wetlands and Watershed Restoration	$25
	Department of Forestry and Fire Protection	Sustainable Forests/Urban Forestry Projects	$42
	CalRecycle	Waste Diversion	$25
Total			**$872**

To date, the ARB has held seven auctions. Currently, the sales have generated $734 million in state revenues of which $500 million was borrowed for General Fund use in the 2013-14 budget. The 2014-15 budget repays $100 million with the remaining loan amount to be repaid to the HSR project as needed. This leaves a total of $334 million currently available for the expenditures identified in the chart above. The remaining $538 million is expected to be generated from the future auctions in the 2014-15 fiscal year. Past auctions have also generated an additional $1.2 billion for investor owned utilities and public owned utilities with the revenues to be used as directed by the California Public Utilities Commission or governing boards for ratepayer benefits pursuant to AB 32.

The Cap and Trade Budget Trailer bill (SB 862 of 2014) designated how future Cap and Trade revenues would be spent, beyond the 2014-15 fiscal year. The programs and allocations are as follows:

- 35 percent of ongoing Cap and Trade revenues to be continuously appropriated for the new Transit, Affordable Housing, and Sustainable Communities programs as noted below;
  - 15 percent will be for Transit.
    - 10 percent for Transit and Intercity Rail Capital program, administered by California State Transportation Agency.
    - Five percent for Low Carbon Transit Operations, through the State Transit Assistance formula and administered by the Department of Transportation.
  - 20 percent for the Affordable Housing and Sustainable Communities program and allocated to the Strategic Growth Council.
    - Half of the funding in the program will be dedicated for affordable housing projects that demonstrate a reduction in greenhouse gases.
- 25 percent of Cap and Trade revenues would be continuously appropriated to the High Speed Rail Authority for the HSR project. These funds shall be used for the initial operating segment and Phase I Blended System. In addition, $400 million in Cap and Trade revenues that were loaned to the General Fund will be repaid as needed for the HSR project and continuously appropriated for the initial operating segment and Phase I Blended System.
- 40 percent of the remaining funding would be annually appropriated in the budget or legislation for Low Carbon Transportation, Natural Resources programs, Energy programs, and other programs.

Administration Changes Greenhouse Gas Emissions Targets without Authority. The Budget Act proposes to provide additional funding to the Natural Resources Agency ($529,000) and the Department of Food and Agriculture ($140,000) from the AB 32 Costs of Implementation fee to implement aspects of the AB 32 Scoping Plan Update. This includes the development of a Forest Carbon Plan, forest biomass sustainability criteria, and the implementation of initiatives that will lead to measurable and quantifiable GHG reductions by California's agricultural sector. The AB 32 Scoping Plan Update proposes GHG reductions beyond 2020 and below 1990 levels. Specifically, the update defines ARB's climate change priorities for the next five years and sets the groundwork to reach California's long-term climate goals set forth in Executive Orders S-3-05 and B-16-2012. These Executive Orders establish greenhouse gas emissions reduction targets by 2050 at 80 percent below 1990 levels. **According to an opinion from Legislative Counsel, ARB does not have the legal authority to require emission reductions below 1990 levels.** The executive branch maneuver is an attempt to undermine the constitutional two-thirds vote requirement per Proposition 26 (2010).

Air Resources Board wants California Taxpayers to Fund Exotic Climate Change Trips. The budget includes $362,000 from the Cost of Implementation fee to add two new positions so the ARB can "engage" other governments, such as, Brazil, Canada, Chile, China, Costa Rica, Kazakhstan, Mexico, New Zealand, South Korea, South Africa, Turkey, and the European Union through ***policy sharing***, ***capacity building***, ***and information exchange***. To date, no other western states are interested in the ARB's policies on climate change or air quality standards so why other countries would be interested in these programs is unclear**. To require California families and businesses to fund ARB excursions to exotic locations to lobby for their environmental platform is ludicrous.** If these countries are truly interested in our costly and burdensome regulations, they can pay for their own travel expenses to California.

New Taxes on Oil and Gas Industry. The budget includes $26 million from the Oil, Gas, and Geothermal Administrative Fund for the implementation of SB 4 (2013) which requires the Natural

Resources Agency to conduct a scientific study of the risks of well-stimulation treatments, including fracking, by January 1, 2015, and establishes a separate permit for well stimulation, and requires the disclosure of chemical constituents and contents of fracking fluids including trade secrets, a groundwater monitoring plan, and public notice of the treatments. These new costs will be funded from an increase in the oil and gas assessment rate. **Ultimately, these regulatory costs show up as higher gas and energy costs for California families.**

More New Taxes on Oil Industry for Oil Spill Response. The Department of Fish and Wildlife's Oil Spill Response Program will expand the existing 6.5 cent per barrel fee, currently collected at marine ports, to all crude oil and petroleum products sent to refineries. This will provide additional revenues of $11.3 million annually for the Oil Spill Prevention & Administration Fund (OSPAF) to create a statewide oil program, which includes the existing marine oil spill program and the establishment of a new inland oil spill response program. Additionally, these new fees will help fund the Oiled Wildlife Care Network and backfill current structural deficiencies in OSPAF. **This proposal will also eliminate the January 1, 2015, sunset date on the 6.5 cents per barrel fee making this a permanent program. This is yet another cost of living tax on California families and businesses.**

Evaluation of California's Petroleum Fuel Price Vulnerability. The California Energy Commission receives an additional $342,000 from the Energy Resources Program Account to continually evaluate California's vulnerability to petroleum fuel price fluctuations and recommend actions to minimize adverse impacts of price changes on the economy and the transportation energy sector. One element includes creation of a petroleum market advisory committee of external experts to provide guidance, insights and comments on petroleum market activity***.*** This proposal supports the work of the California Attorney General's Office and the Federal Trade Commission that use petroleum industry data to evaluate business mergers and acquisitions and potential anti-trust violations. ***It doesn't take a rocket scientist to figure out that the over regulation of petroleum markets in California has led to price increases and fluctuations. The Legislative Democrats and the Governor need only look in the mirror to understand the root cause.***

California Drinking Water Program Transfer. The budget shifts $200 million in funding, transfers 291.5 positions, and makes numerous statutory changes (SB 861, Resources Trailer Bill, of 2014) to move the administration of the Clean Drinking Water Program from the Department of Public Health to the State Water Resources Control Board. At this time, it is unclear whether this transfer will provide a better drinking water program or simply reorganize existing cubicles with little overall improvements to the program. Unfortunately, the SWRCB has been known for its burdensome regulations and excessive fees on the agricultural industry, water rights holders, and property owners. ***The transfer of this program is a huge policy issue affecting individuals, local jurisdictions, water agencies, and businesses that should have received much more public scrutiny.***

More Funding for New Statewide Groundwater Management Program. Combined, the main budget (SB 852) and SB 103 (Committee on Budget) of 2014 will provide an additional $8.9 million General Fund to the Department of Water Resources and $2.7 million General Fund plus $1.2 million Waste Discharge Permit Fund to the State Water Resouces Control Board for groundwater management related activities. What remains unclear is the structure and requirements for these new state groundwater management programs and activities. ***Groundwater is a key component of the state's complex water system and should not be treated as an isolated resource. Any change in the law that affects the management and regulation of groundwater must be done thoughtfully and with appropriate input from stakeholders and a robust public debate. Unfortunately, that public process did not occur.***

The California Coastal Commission is now Judge, Jury, and Executioner. The Resources Trailer Bill (SB 861 of 2014) allows the California Coastal Commission to impose civil penalties against property owners who they feel violate the public's access to the coast, record a lien on the property if the owner fails to pay the penalty, and then use those revenues for remediation projects. This is a clear conflict of interest.

Proposition 65 "Reform" Will Bring More Lawsuits. The budget provides $1.3 million Safe Drinking Water and Toxic Enforcement Fund (two years) for the Office of Environmental Health Hazard Assessment (OEHHA) to revise Proposition 65 regulations and to develop a public website providing information on exposure to listed chemicals. These changes to Proposition 65 will be done through regulations which will likely impose even more burdensome requirements on businesses subjecting them to greater liability and more frivolous lawsuits.

Special Fund Use to Enforce Marijuana Cultivation Laws. The Budget Act contains funding of $3.3 million from General Fund, Waste Discharge Permit Fund penalties, and the Timber Regulation and Forest Restoration Fund for both the State Water Resources Control Board and the Department of Fish and Game to address damage occurring to the state's natural resources resulting from marijuana cultivation on public and private lands in California. This is a good first step in gaining control over marijuana growers who have no respect for the environment.

California Boarder Protection Station Program Recieves Additional Funding. The Budget Act provides an additional $3.3 million General Fund beginning in 2014-15 to enhance the existing program and enable the Department of Food and Agriculture to operate all sixteen stations year-around with additional permanent and temporary staff. Republicans support this effort to protect California against the invasion of exotic pests and diseases while promoting a safe and healthy food supply.

State Responsibility Area (SRA) Fee Expenditures Reach All Time High. The budget proposes to spend $92 million from SRA fees in 2014-15 including $4.2 million for the civil cost recovery program. Use of the funds for civil cost recovery is currently under litigation and the State's Legislative Counsel believes it to be an inappropriate use of these funds. Furthermore, of the $92 million budgeted for the "fire prevention program", $15.5 million will be spent on administrative costs for the implementation and collection of the SRA fee. As part of the $15.5 million, the Board of Equalization's annual costs increased by $2.2 million for 2014-15 raising their administrative costs to $8.8 million annually. Since the fee generates approximately $76 million annually, the administrative costs will consume 17 percent of program revenues. Homeowners should be receiving fire prevention services not funding bloated state bureaucracies.

The budget also provides $10 million for a new fire prevention grant program that will target specific SRA locations with the biggest threat of fires. Targeting these funds to specific areas instead of providing a direct benefit to each homeowner paying the fee is inconsistent with Proposition 26 (2010) requirements. For numerous good reasons, the legality of the SRA fee is currently under litigation.

Fire Protection for Homeowners is Lowest Priority. This budget continues prior efforts from 2013-14 that prohibit the use of SRA fees appropriated for vegetation management purposes to be used for any project located on scrub lands in San Diego, Imperial, Riverside, Orange, Los Angeles, Ventura, Santa Barbara, Kern, and San Bernardino counties that utilize CalFire's new Programmatic Environmental Impact Report for the Vegetation Treatment Program with some project exceptions. It requires CalFire to continue using their existing vegetation management practices for this fiscal year because environmental groups are upset with the proposed removal of certain types of sage brush and other plants despite the clear fire risks. **This policy puts environmental bureaucracy before homeowner protection in the SRA.**

Public Safety

Department of Corrections and Rehabilitation

The Budget Act of 2014 increases General Fund spending for the Department of Corrections and Rehabilitation (CDCR) by a little more than $300 million over 2013-14 spending levels. The largest drivers of this increase are employee-related costs, including increased salary and retirement costs (approximately $160 million), debt service and other costs related to activation of the new prison health care facility in Stockton (approximately $80 million), and expansion of the Basic Correctional Officer Academy (approximately $60 million). Total 2014-15 approved General Fund expenditures are $9.6 billion. The average daily prison population is projected to increase by about 2,300 inmates in 2014-15 as compared to 2013-14.

Court-Ordered Prison Population Cap Update

In September 2013, it was clear that the 2011 Public Safety Realignment (Realignment) would not shift enough felons to the counties to meet the three-judge panel's (3JP) December 31, 2013 deadline to reduce the state's prison population to 137.5 percent of design capacity, so the Legislature enacted Chapter 310, Statutes of 2013 (SB 105) as a stopgap measure to prevent the early release of dangerous felons into California communities. SB 105, which received nearly unanimous support from both Democrats and Republicans, appropriated $315 million General Fund to CDCR to reduce the prison population through recidivism reduction efforts and to contract with in-state and out-of-state providers for enough bed space to house the remaining inmates that would otherwise be released.

Untested Recidivism Reduction Programs. In February 2014, the 3JP granted CDCR's request for a two-year extension and ordered the Administration to implement a list of measures to begin reducing the prison population. According to the provisions of SB 105, if the 3JP grants the requested time extension, or if a portion of the $315 million is not needed, then the first $75 million of savings, plus 50 percent of any savings above $75 million, is required to be transferred to the Recidivism Reduction Fund (RRF), while the remainder is to revert to the General Fund. The budget assumes there will be $91 million available in the RRF. It includes a package of programs purported to be focused on reducing recidivism, although **some could actually increase recidivism**, as indicated in the discussion following the list below. The package was adopted as part of a last-minute budget deal. The programs may sound nice, but few of them have any rationale or justification. The budget allocates the $91 million RRF, plus $4.2 million from the Inmate Welfare Fund (IWF) and $10.6 million General Fund, as follows:

- *Community Reentry ($20 million RRF).*
- *Mentally Ill Offender Crime Reduction (MIOCR) Grants ($18 million RRF).*
- *Collaborative Courts ($15 million RRF).*
- *Substance Abuse Treatment ($11.8 million RRF).*
- *CalWORKs/CalFresh for Drug Felons ($10.6 million General Fund).*
- *Recidivism Reduction in the Community ($8 million RRF).*
- *Social Innovation Bonds ($5 million).*
- *Cognitive Behavioral Therapy at Contract Facilities ($3.8 million RRF).*
- *Parolee Outpatient Clinics Converted to Case Management Offices ($2.5 million RRF).*
- *Community College Grants for Inmate Education ($2 million RRF).*
- *Grants to High-Crime Cities ($2 million RRF).*
- *Supervised Population Workforce Training Grant Program ($1 million RRF).*
- *California Leadership Academy ($865,000 RRF).*
- *Independent Evaluation of the Integrated Services for Mentally Ill Parolees (ISMIP) Program ($500,000 RRF).*

- *Innovative Programming Grants ($500,000 RRF, $2 million IWF).*
- *Expansion of Cal-ID Program ($2.2 million IWF).*

Although a few of the programs above have demonstrated track records of reducing recidivism, like the MIOCR grant program and collaborative courts, **the package as a whole is largely unproven and experimental.** Notably, despite this element of the unknown, very little of the funding is dedicated to data collection and evaluation that would allow the state to learn from these experiments. Without consistent data collection and reporting, it will be nearly impossible to measure the impact of all this spending in terms of reducing recidivism. There is no surprise here, though. The Governor and legislative Democrats also forced Realignment on the people of California without any significant evaluation requirements. **It seems Democrat leaders are more interested in creating feel-good social programs and labeling them "evidence based" than they are in actually collecting the evidence needed to determine what works and what does not.**

Furthermore, virtually all of the RRF funding is allocated to programs that are clearly intended to be ongoing. The sole revenues to the RRF, however, come from a one-time transfer of General Fund moneys appropriated in SB 105. **This package is the antithesis of budget transparency because it creates about $100 million of ongoing annual obligations using one-time funding.**

To make matters worse, several of the programs included in the package **are likely to increase recidivism**, rather than decreasing it. For example, providing CalWORKs and CalFresh cash assistance to drug felons will enable them to continue feeding their addictions (*see Human Services section page 32 for more information*). Expanding substance abuse treatment programs within CDCR could also lead to increased recidivism, as pointed out by the Inspector General (IG) in a 2007 report on CDCR's in-prison substance abuse treatment program. The report called the program a billion dollar failure, pointing out that a UCLA study covering five years of the program showed that participants were actually slightly more likely to recidivate than a similar cohort of inmates that did not participate.

Finally, while the grants to high-crime cities could help those cities to lower crime rates, they also illustrate the hypocrisy of legislative Democrats. When Realignment became law, legislative Democrats argued against allocating funding to counties based on the number of realigned felons received, claiming that it would reward counties that had failed to make their own investments in reducing recidivism. Yet those same policy makers now want to provide grants with no strings attached to cities with the highest rates of violent crime. Perhaps what really matters is which localities receive the funding.

Local Public Safety

Jail Construction Funding Inadequate. Realignment shifted tens of thousands of dangerous felons from the state to counties. As a result, the state has since saved several billion dollars, yet the funding provided by the state to the counties to manage the population of realigned offenders has been woefully inadequate. A May 7, 2014 report by the Public Policy Institute of California (PPIC) points out that jails throughout the state are antiquated, inadequate, and not designed to provide medical, mental health, or other services that are frequently required for offenders serving sentences of more than a year. Now that realigned offenders, many of whom are serving more than a year, compose a large percentage of the jail population, the strained jail system is bursting at the seams and counties are facing lawsuits to rectify the same conditions that got the state prison system into trouble. Sheriffs are frequently faced with hard choices, including which offenders to release early due to a lack of jail beds.

To begin addressing these issues, the enacted budget authorizes the issuance of $500 million in lease-revenue bonds (LRBs) for local jail construction projects focused on replacing obsolete facilities and improving treatment and programming space. In conjunction with the LRB authority provided in 2007 by AB 900 ($1.2 billion) and 2012 by SB 1022 ($500 million), total state financing available for local jail construction projects is $2.2 billion. **This is a good start, but it is still well short of the $4.2 billion to $7 billion that PPIC says we will likely need to spend over the next two decades or so to replace aging jail facilities and keep up with projected population growth.**

Realignment Funding for City Police. The enacted budget includes $12.5 million General Fund to increase the total funding provided to cities to mitigate the impacts of Realignment. The additional $12.5 million would bring total Realignment funding for city police departments to $40 million in 2014-15. This funding is allocated by the Board of State and Community Corrections to a single city in each county that receives funding. That city acts as the fiduciary agent for all other cities in the county. **While $40 million is clearly inadequate to address the numerous problems caused by Realignment, at least the Administration and legislative Democrats are beginning to recognize that more needs to be done.**

Judiciary

Funding for Trial Courts Falls Short. Between 2008-09 and 2012-13, annual General Fund support for the trial courts was reduced by about $724 million. These reductions were largely mitigated by increasing court user fees, shifting court construction funds to operational purposes, and requiring courts to spend down their reserves. Despite these measures, the reductions have been challenging for the trial courts. In many cases, courts have been forced to operationalize the reductions through furloughs and layoffs of court employees, reductions in court services, and court closures. Accounting for all offsets, including a $60 million baseline increase in 2013-14, the ongoing net reduction to the trial courts prior to enactment of the 2014-15 budget was about $315 million. Beginning in 2014-15, the trial courts will no longer have reserve balances to offset the ongoing reductions.

The enacted budget provides a permanent augmentation of $160 million General Fund for the trial courts. A portion of the funding is allocated in a way that is intended to encourage the courts to comply with standards set forth in the Public Employees' Pension Reform Act (PEPRA) that require state employees to share in their retirement costs. According to the Department of Finance, the trial courts currently spend about $22 million per year covering their employees' share of retirement costs. Rather than providing the entire $64.8 million the courts say they need for increased retirement and employee health care costs, the budget funds $42.8 million ($64.8 million total costs, less $22 million currently spent covering employee contributions). To the extent the courts make satisfactory progress (by the Administration's standards) toward complying with PEPRA, the Administration indicates a willingness to support funding future employee health care and retirement cost increases related to existing health and retirement benefits <u>one year in arrears</u>.

Senate Republicans pointed out in January that the courts still have room for improvement, fiscally speaking, and that their employees still do not contribute to their own pensions. It is encouraging that others have heard this message and that the budget reflects a plan to address the issue. This carrot-and-stick approach might prove to be an effective way of ensuring that court employees begin to contribute to their own retirement costs like other state employees.

In May, the Administrative Office of the Courts identified a need for $260 million in additional 2014-15 funding for the trial courts to continue providing the same level of service they currently provide. While the additional $160 million will certainly help, it might not be enough to prevent additional court closures and other reductions in court services. **It is incumbent upon the courts to look for new ways to streamline operations and reduce costs to live within their means.**

Funding for Increased Court Security Costs. The 2011 Public Safety Realignment (Realignment) shifted responsibility for the costs of trial court security, along with a dedicated source of funding, to the counties. Proposition 30, which was placed on the ballot by the Governor and approved by the voters in 2012 (a year after Realignment took effect), sought, in part, to provide counties with certain fiscal protections they demanded in exchange for their cooperation with the Governor's plan that shifted tens of thousands of dangerous felons from state to county responsibility. One of those protections includes a provision that requires the state to provide funding for administratively required activities that increase county costs of realigned programs.

As a realigned program, trial court security is constitutionally protected from cost increases occurring after October 9, 2011 that result from state-required activities. Several counties are now responsible for providing security in new court facilities, built by the state and opened after October 9, 2011, that require more security resources than the facilities they replaced. Pursuant to Proposition 30, the State Constitution requires the state to provide funding for these additional costs. The enacted budget includes $1 million General Fund for this purpose. It names two counties – Calaveras and San Benito – as being eligible for additional funding and provides a mechanism for other counties to apply for funds.

General Government

Deferred Maintenance

The Budget Act includes a control section "trigger" that would allow the Director of Finance to allocate up to $200 million General Fund for deferred maintenance projects. In summary, if local property tax revenues increase by an estimated $400 million above the Governor's May Revision estimates (thereby decreasing the General Fund's obligations to schools under Proposition 98), the Director of Finance would allocate up to $200 million General Fund to a variety of entities for deferred maintenance, pursuant to the following allocation schedule:

- $50 million each for the University of California and California State University (these entities would be authorized to use this money for one-time costs, if not for deferred maintenance).
- $40 million for the Department of Parks and Recreation.
- $20 million for the Department of Corrections and Rehabilitation.
- $10 million each for the Departments of Developmental Services and the State Hospitals.
- $7 million for the Department of General Services.
- $5 million for State Special Schools.
- $3 million each for CalFire and the California Military Department.
- $2 million for the Department of Food and Agriculture.

State Controller's Office

Woes of the 21st Century Project. The Budget Act includes $9 million ($6.1 million General Fund) for costs associated with the Controller's suspended human resource management/payroll project, including the following components:

- $6.5 million ($3.6 General Fund) to support ongoing legal activities, including funds to retain project managers, retain the remnants of the incomplete project, data center services, a bare-bones project team, and $2.5 million for outside legal counsel.
- Budget bill language that would authorize the Department of Finance to augment the Controller's budget to fund additional litigation and related support efforts. Even though the Controller claims that it won't amount to more than $2.5 million, this language amounts to a "blank check" for litigation on behalf of the Controller.
- $2.5 million General Fund on a one-time basis for the Controller to contract with the Department of Technology to oversee an independent assessment of the 21st Century Project. As proposed, this assessment would determine (a) whether the current incomplete system aligns with current business and legal requirements, (b) what portion of the incomplete design and system may be usable, and (c) what it would cost to move forward with the existing plan.

Figuring out how best to move forward with building a statewide payroll system that taxpayers can rely on must start with a comprehensive review of the state's business model, how to incorporate best practices to improve and streamline the state's management of payroll, and how the state can avoid mistakes made in the past. The proposed assessment, which may be considered a good first step, does nothing to help the state improve its business practices or create a new system, but arguably could be considered duplicative of activities that would likely be performed as part of the Controller's due diligence in building its legal case against the contractor, SAP Software and Solutions (SAP). Additionally, serious concerns have been raised about how this issue and project is progressing, including:

- The state has already spent more than $260 million on the project, with virtually nothing to show for it after firing two system integrators.
- In addition to this money for an independent assessment, the Controller's Office continues to charge forward to spend $6.5 million of taxpayer money, including $2.5 million for attorney fees (likely more), to pursue litigation against SAP in 2014-15. This is on top of nearly $7 million that the Controller's Office has already spent for mediation and litigation efforts in 2012-13 and 2013-14.
- There is no guarantee that the Controller's Office will win its case, and now it faces a counter suit. On April 14, 2014, SAP filed a cross-complaint against the Controller's Office for breach of contract and breach of the implied covenant of good faith and fair dealing. This could result in increased costs in the tens of millions of dollars to pay SAP for work on the project that has already been completed (and allegedly accepted), damages to be determined at trial, and potential costs to reimburse SAP for its legal costs.

Department of Veterans Affairs

Eliminating Private Sector Contracts Triples State Costs. The 2014-15 budget includes $2.9 million General Fund and the addition of 45 positions to the Department of Veterans Affairs (CalVet) to replace contracted services with permanent civil service employees. Currently, CalVet contracts for some food services, security, and claims administration within four of the state operated veterans' homes. CalVet also currently contracts for investigative services as necessary for claims related to civil litigation, workplace violence complaints, personnel matters, and claims of elder abuse. Today, these contracts are costing the state about $755,000 General Fund but the budget includes $2.9 million and 45 civil service positions to provide the same services at more than three times the cost. This shift results from public employee union challenges during the contract renewal process, as allowed by a special state law that intentionally limits the state's contracting ability. Policies of this nature undermine the public's confidence and ensure state government will be inefficient and overly costly.

Funding for County Veterans Service Officers to Continue Increased Outreach. The 2014-15 budget continues for one additional year the $3 million General Fund provided to County Veterans Service Officers (CVSOs) in 2013-14. This funding is being used by the CVSOs to increase outreach to California's veteran population by, for instance, implementing a local veteran's identification card program. The identification card program gets the veterans through the door, providing an opportunity to educate veterans about the federal benefits for which they may qualify. Initial statistics indicate that 20-30 percent of veterans seeking to obtain an identification card also submitted claims for federal benefits. Senate Republicans have always been supportive because these benefits not only help provide financial assistance to our veterans but can also provide relief to California's social benefit programs and help stimulate California's economy.

Department of Housing and Community Development

An Expensive "Carrot" to Encourage Affordable Housing. The 2014-15 budget includes $87.5 million Proposition 1C Bond funds for the Housing Related Parks Program within the Department of Housing and Community Development. This program is designed to encourage the construction of low-income housing units, which the state also subsidizes, by providing funding to locals that can be used for the development and renovation of parks for each qualified housing permit they issue. This bond funding will result in debt service costs of $183.7 million General Fund over the next 30 years to develop and renovate urban parks. Senate Republicans generally believe a better use for this funding would be actual construction of affordable housing, which was the intent of the bond (see next issue for more on this subject).

State Government Undermines Availability of Affordable Housing. The 2014-15 budget includes $100 million General Fund added by Legislative Democrats to fund construction of affordable housing and rent subsidies. Proposition 46 and Proposition 1C housing bonds are nearing full expenditure leaving limited new resources available for state subsidized affordable housing. However, some of those bond funds were spent on things other than housing. For instance, as noted above, a total of $200 million was allocated for the development and renovation of urban parks. Additionally, the cost to construct housing in California is inflated because of state and local environmental and land use policies, along with constrained supply. According to a report published by the California Housing Partnership Corporation, there is a shortfall of 956,461 homes affordable and available to California's low income households. The same report reflects that between 1988 and 2013, $5 billion was used to create and preserve 20,000 affordable homes. Extrapolating those dollars to California's current affordable housing need of 956,461 homes, an investment of $240 billion would be necessary, and this figure does not account for the higher cost of building today as compared to the previous 25 years. Not only is an investment of $100 million General Fund a drop in the bucket, it sets an expectation that future General Fund dollars will be allocated for this purpose despite the fact that the General Fund will never be able to provide sufficient funds to fulfill the need. The real solution is to enact policies that will allow the private sector to meet the demand for housing.

Affordable Housing for Veterans. The 2014-15 budget includes $76.1 million (bond funds) to fund the implementation of Proposition 41, approved by voters in June 2014. Proposition 41 restructures the Veteran's Bond Act of 2008 by shifting $600 million in existing bond authority from the underutilized CalVet Home Loan Program that provides loans to Veterans purchasing farms, homes, or mobile home properties to instead fund affordable transitional and rental multifamily housing for veterans and their families. In 2013, it was estimated that California had 15,179 homeless Veterans. Senate Republicans supported this funding which will allow the program to begin selling bonds in 2014-15, providing the funds for construction, renovation, and/or acquisition of affordable multifamily housing for our Veterans.

Labor & Workforce Development

Employment Development Department (EDD)

Funding to Improve Unemployment Insurance (UI) Program. During the recent economic recession, EDD struggled to pay unemployment benefits and answer phone calls from the public in a timely manner. The department recently launched a new system, called the Continued Claim Redesign (CCR), which was intended to allow customers to handle UI transactions through self-service phone and internet interactions. However, during the fall of 2013, bugs within the CCR system exacerbated the department's customer service problems, creating an impetus for EDD to proactively improve it.

The Budget Act includes $619.7 in 2013-14 and $590 million in 2014-15 to administer the UI program. This reflects increased expenditures of $53.7 million in 2013-14 and $67.6 million in 2014-15, which will allow the Employment Development Department to hire new, and retain existing, staff to answer telephones and expedite the processing of unemployment insurance claims. Improving EDD's ability to respond to the needs of Californians who are out of work through no fault of their own will help ease the strain of looking for work at the same time they face rent, mortgage, electricity and food bills that are due.

Unfortunately, the federal government (which is responsible for funding UI administration) is providing less federal funding each year, and the state has to pick up the balance. In order to fund the balance, EDD cobbled together a list of "solutions," including:

- $64 million General Fund appropriation.
- $104.4 million of transfers and appropriations from a variety of other related special funds.
- $79.2 million of unused federal carryover funds.
- $52.2 million of "efficiencies" intended to allow the department to do more with less.
- $15.9 million related to suspending (for one year) the quarterly transfer of penalties and interest from the EDD Contingent Fund to the General Fund.
- $12.7 million of one-time revenue related to the sale of a building in Hollywood.
- $10.1 million related to increasing withholding and reporting penalties on employers.

This is not a perfect solution, but it will get California by for the current and budget years. Until the federal government acts to fully fund UI administration based on what its own Resource Justification Model calculates California should receive, this issue will be revisited every four to six months to make sure that EDD is able to maintain its customer service efforts.

Department of Industrial Relation (DIR)

Public Works/Prevailing Wage Enforcement. The Budget Act includes a new registration fee on contractors who work on public works projects to fund an $11.4 million program consolidating all public works and prevailing wage enforcement activities within a single unit at DIR. Effectively, this proposal would shift the burden of enforcing the overly burdensome and expensive prevailing wage law from bond proceeds [as required by SBX2 9 (Padilla/2009)] and the General Fund to the contractor, which will continue driving up the cost of public works construction in California. As prevailing wage continues to drive up the cost of construction, fewer jobs will be created and fewer projects will be completed within the finite bond resources authorized by the voters.

Statewide Debt

Wall of Debt. The "Wall of Debt" reflects the fiscal impact of actions taken from 2001-02 through 2013-14 by the Legislature and Governors Davis, Schwarzenegger, and Brown to solve annual budget deficits, including borrowing from special funds, deferring repayment of local and education mandate obligations, Economic Recovery Bonds, Proposition 1A borrowing from local governments, deferral of Medi-Cal costs and state payroll costs, etc. At its height, this "borrowing" totaled approximately $34.7 billion. The Administration estimates that as of the 2014-15 Budget Act, the remaining balance of "budgetary borrowing" has been reduced to about $26.7 billion.

Wall of Debt as of 2014-15 Budget Act								
	Outstanding at 2014 Budet Act	Additional Payments 2013-14	2014-15 Pay Down	2014-15 Trigger Impact	2015-16 Pay Down	2016-17 Pay Down	2017-18 Pay Down	Remaining after 2017-18
Totals	**$26,745**	**$5,108**	**$5,302**	**$1,792**	**$5,024**	**$4,575**	**$4,145**	**$0**

Source: Department of Finance Wall-of-Debt Table

As noted in this table, the 2014-15 Budget Act dedicates $10.4 billion of additional resources to decrease the Wall of Debt in the current and budget years ($5.1 billion in 2013-14 and $5.3 billion in 2014-15). As noted in the Revenues Section (page 13), in lieu of building the budget on the LAO's rosier revenue estimate, the Budget Act provides revenue trigger mechanisms that allow for increased one-time spending to pay down the Wall of Debt in 2014-15. As noted in the table above, this budget has the potential to decrease the Wall of Debt by an additional $1.8 billion in 2014-15, including (a) decreasing education deferrals by nearly $1 billion, and (b) repaying up to $800 million to cities, counties, and special districts for past mandate costs if additional revenues materialize in the budget year. A more detailed table, which includes the individual components of the Wall of Debt, can be found on Appendix A on page 57 of this document.

Statewide Debt. Combined with the "Wall of Debt," the Governor estimated in the May Revision that the state faces $337.5 billion of long-term liabilities, including more than $217 billion of unfunded retirement liabilities, $64.6 billion of deferred maintenance, $30 billion of unissued infrastructure bonds, nearly $7 billion of unemployment insurance debt, and $4 billion of Proposition 98 Maintenance Factor, all of which will constrain the state's finances in the future. In addition, though not identified by the Governor, the state is also obligated to pay more than $75 billion of General Obligation debt and $10.2 billion of Lease Revenue debt that has already been issued to investors. **In total, the state faces total, long-term liabilities that exceed $420 billion.**

Debt Service. As noted above, the state has already issued $85.3 billion of combined General Obligation (GO) and Lease Revenue (LR) bond debt, for which taxpayers are already responsible for paying. Though there are no appropriations in the 2024 Budget Act, the budget accounts for $5.2 billion General Fund in 2013-14 and $5.4 billion General Fund in 2014-15 to pay the principal and interest on these bonds.

California Safety Net Facts

California has a very generous safety net relative to other states. The following statistics, which include the source of information, provides a remarkable picture of just how robust California's government safety net programs really are.

Welfare

California has a very generous safety net relative to other states:

- California has the 5th highest CalWORKs grant in the nation, 2nd highest amongst the ten largest states. (per the Legislative Analyst's Office)
- California is only one of three states that provide a grant for the family after the adult has timed out of the CalWORKs program. (per the Legislative Analyst's Office)
- About one in five CalWORKs families has received welfare assistance for over six years. (Public Policy Institute of California). states er the Legislative Analyst's Office
- Approximately 46 percent of welfare caseload has less than 12 years of education and the state has no requirement for completion. (per the Legislative Analyst's Office)
- California is one of only five states that provide state-funded food assistant to immigrants ineligible for the federal food stamp program. (per the Legislative Analyst's Office)
- California is one of only six states that provide a 100 percent state-funded monthly cash benefit to aged, blind and disabled non-citizens who are ineligible for Supplemental Security Income/State Supplementary Payment (SSI/SSP). (per the Legislative Analyst's Office)
- California has 12 percent of the nation's population but 33 percent of the welfare caseload. (U.S. Department of Health and Human Services, Administration for Children and Families)
- About 70 percent of In-Home Supportive Service recipients receive care from a family member (per the Department of Social Services).
- California is one of only eight states that pay spouses and parents to provide personal care services (IHSS) to their own immediate family members.

Health

- CA is 3rd highest for Medicaid eligibility for childless adults following implementation of health reform.
- CA is 4th highest for Medicaid eligibility for parents following implementation of health reform.
- CA is one of 15 total states that provides full Medicaid coverage at state-only cost to legal resident immigrants (those here for less than five years, who are not eligible for federal funds for full-scope coverage). Of the 10 largest states, CA is one of four that provides this coverage. (Data per 2011 Urban Institute report forwarded by LAO.)

- CA ranks 21st overall, and 4th among the 10 most populous states, in terms of most generous Medicaid/CHIP eligibility at 266 percent of the federal poverty level. (Data per Kaiser Family Foundation, effective Jan. 2014 KFF table here)

Child Care

California provides some of the most generous child care funding in the nation (most recent data per federal Child Care & Development Fund Policies Database 2011 Book of Tables):

- Our family income eligibility limits are higher than most other states (6th highest)
- Our provider rates are among the highest in the nation (6th highest pre-school and 5th highest for infants)

Student Financial Aid

California provides some of the most generous student financial aid in the nation (most recent data per 2011-12 survey by Nat'l Association of State Student Grant & Aid Programs):

- We spend far more *money* on need-based grants than any other state ($1.5 billion – the next highest is New York at $933 million)
- We make the second highest *number* of need-based grants (about 250,000 grants, after New York's 310,000)
- Our *average expenditure per recipient* is the highest in the country by far ($5,982 – New York is $2,967)

Budget Related Trailer Bills

Budget & Related Trailer Bills		
BILL NUMBER	SUBJECT	STATUS
SB 852	**Budget Bill (Conference Report)**	Chaptered
Ch. 25/2014	Contains multiple appropriations for all aspects of state government that implement the budget plan negotiated between the Governor & legislative Democrats. The modifications result in about $900 million more of new ongoing spending commitments than the Governor's original plan & $700 million less debt repayment to unwind the fiscal damage of the recent past.	
AB 1468	**Public Safety**	Chaptered
Ch. 26/2014	Eliminates the lifetime ban on drug felons receiving California Work Opportunity & Responsibility to Kids (CalWORKs), food stamps (CalFresh), or local general assistance benefits; authorizes counties to establish alternative custody programs for offenders who would otherwise be incarcerated; creates a presumption that a judge will impose a split sentence on a realigned jail felon; authorizes $500 million in lease revenue bonds (LRBs) for county jail construction projects; establishes a program to fund certain increased trial court security costs; implements a package of programs intended to reduce recidivism; & establishes a pilot program to reduce the amount of contraband entering state prisons.	
AB 1469	**CalSTRS**	Enrolled
	Enacts statutory changes necessary to implement a new contribution rate funding plan for the California State Teachers Retirement System.	
SB 853	**Transportation**	Chaptered
Ch. 27/2014	Among other things this bill allows for the issuance of a driver's license to an applicant unable to submit proof of legal presence in the United States if the applicant indicates on the license application they have never been issued & are not eligible for a social security number & eliminates the affidavit requirement in existing law. This measure also requires a study to determine the"appropriate adjustment" of the amount of gas tax revenues allocated to the Off-Highway Vehicle (OHV) Trust Fund in an attempt to provide less funding to the OHV program.	
SB 854	**General Government**	Chaptered
Ch. 28/2014	Includes a variety of statutory changes that are necessary to implement the annual Budget Act, including authority to reimburse local governments for past mandate claims, increased resources to help EDD improve customer service to the unemployed, a new pilot program to help improve property tax administration, additional resources to support Small Business Development centers.	
SB 855	**Human Services**	Chaptered
Ch. 29/2014	Enacts statutory changes necessary to implement the 2014 Budget Act. The bill would increase costs by $300 million annually as a result of increasing CalWORKs grants, expanding CalFresh eligibility, & increasing foster care rates for certain relative placements.	
SB 856	**Developmental Services**	Chaptered
Ch. 30/2014	Implements several meritorious provisions for the Developmental Services budget, including (1) implementing new housing models resulting from the Task Force on the Future of the Developmental Centers & (2) restoring eligibility to the Early Start Program, which provides services to infants & toddlers with developmental delays, but also includes questionable provisions to (3) expand statewide the ill-conceived community state staff program, which needlessly favors state staff over private sector employees who perform the same work, & (4) fund overtime and minimum wage mandates for certain developmental services providers.	

Budget & Related Trailer Bills		
BILL NUMBER	**SUBJECT**	**STATUS**
SB 857	**Health #1**	Chaptered
Ch. 31/2014	Generates some savings & makes some modest improvements to health policy, but the bill also needlessly includes a statement that "reaffirms" the Legislature's support for a woman's "right to reproductive privacy" & three key California court cases that expanded the availability of abortions in California. This language does not affect the budget in any way, & there was no valid reason to include it in this trailer bill.	
SB 858	**Education #1 - Omnibus Education**	Chaptered
Ch. 32/2014	Extinguishes most of the state's inter-year education funding deferrals, schedules the state's final payment for the Quality Education Investment Act, & significantly reduces the state's unpaid education mandates claims obligation. Imposes fiscally irresponsible restrictions on local school district reserves.	
SB 859	**Education #2 - Local Control Funding Formula (LCFF)**	Chaptered
Ch. 33/2014	Makes a variety of technical, conforming, clean-up, & other such changes to last year's local control funding formula (LCFF) statute, & appropriates $4.75 billion to continue implementation of the LCFF.	
SB 860	**Higher Education**	Chaptered
Ch. 34/2014	Authorizes several very major funding augmentations for the community colleges, as well as a very major shift of funding to the poorly-managed San Francisco Community College District from all other community college districts, & makes a variety of technical, cleanup, & other changes needed to enact the 2014-15 budget.	
SB 861	**Resources**	Chaptered
Ch. 35/2014	Includes major new policy proposals that impose a new tax on the oil industry by expanding the current per barrel assessment on crude oil and petroleum products to inland transporters, allows the California Coastal Commission to impose civil penalties against property owners, gives authority to the Secretary of Environmental Protection to use special funds for environmental justice grants, includes additional requirements and obstacles to fracking activities, transfers the drinking water program from the Department of Public Health to the State Water Resources Control Board, expands the use of revenue generation monies within the Department of Parks & Recreation for operational costs, creates a new climate adaptation program, extends the surcharge on ratepayers to support the Self-Generation Incentive Program, increases the seismic fees on building permits, provides funding to address damage occurring on public and private lands from marijuana cultivation activities, among other changes.	
SB 862	**Cap & Trade**	Chaptered
Ch. 36/2014	Provides for the ongoing funding from Cap & Trade revenues, billions of dollars, for transit-oriented development including the High Speed Rail project, affordable housing, sustainable communities, low carbon transportation, natural resources programs, & energy programs; directs 25 percent of these funds to disadvantaged communities; & allows for a continuous appropriation of 60 percent of all future Cap & Trade revenues.	

Budget & Related Trailer Bills		
BILL NUMBER	**SUBJECT**	**STATUS**
SB 863	**Local Correctional Facilities**	Chaptered
Ch. 37/2014	Authorizes $500 million in lease-revenue bonds for county jail construction projects.	
SB 865	**2013-14 Supplemental Appropriations**	Chaptered
Ch. 38/2014	Provides $554.1 million General Fund for the 2013-14 fiscal year to address budget deficiencies for the Department of Health Care Services & the Victim Compensation & Government Claims Board & to reimburse three counties for extraordinary costs associated with conducting homicide trials.	
SB 869	**Education Facilities**	Chaptered
Ch. 39/2014	Authorizes the State Allocation Board (SAB) to redirect unspent school facilities bond funds from special-purpose programs to new construction & modernization projects.	
SB 870	**Health #2**	Chaptered
Ch. 40/2014	Implements some meritorious health budget items, including increasing Medi-Cal payment rates for the Program of All-Inclusive Care for the Elderly (PACE), but also includes an objectionable provision that provides taxpayer funds to bail out a private union health care plan for higher costs imposed by Obamacare.	
SB 871	**Solar Tax**	Chaptered
Ch. 41/2014	Extends the sunset date, from January 1, 2017 to January 1, 2025, an existing statute that excludes the value of the construction or addition of any active solar energy system from the definition of "assessable new construction." This exclusion would apply only to new construction (in this case, solar collection equipment) completed.	
AB 1476	**Budget Bill Jr.**	Chaptered
Ch. 663/2014	Amendments to Chapter 25, Stats. of 2014 (Budget Act) that, among other things, (1) provide $3 million for non-profits that provide legal services to help with the recent influx of unaccompanied minors (illegal immigrants) from Central America, (2) authorize a $10 million Special Fund loan to the Office of Emergency Services to pay administrative costs for expanded railroad tank car hazardous material activities (likely to result in new fees on anyone transporting hazardous materials, including oil, by tank car), (3) provide questionable expenditures for a legal settlement with the Sierra Club, and (4) provide additional funding for court construction and job training. ***NOTE: The Governor vetoed $100 million ($50 million each) that was appropriated to UC and CSU for "one-time purposes."***	
AB1478	**Resources**	Chaptered
Ch. 664/2014	Makes changes to budget actions related to the resources, environmental, & energy areas to allow for appropriate expenditure of funds, more accurate tracking of Cap & Trade revenues, reinstatement of funding for drought related housing assistance, funding eligibility expansion for water & wastewater projects, provides an additional $5 million in grant funding from Prop 84 bond funds for the San Clemente Dam Removal project, new authority for a project at the Leland Stanford Mansion State Historic Park, expands the technology eligible under the Self-Generation Incentive Program & requires the technology to either shift or reduce demand, retroactively eliminates &/or restricts the exemption for small hydroelectric units with a capacity not exceeding 40 MW that operated as part of a water supply or conveyance system to be considered an eligible renewable energy resource, & provides an appropriation to fund the Updated AB 32 Scoping Plan that would result in a fee increase.	

Budget & Related Trailer Bills		
BILL NUMBER	**SUBJECT**	**STATUS**
SB 873	**Human Services**	Chaptered
Ch. 685/2014	Generally makes supportable & technical corrections, recent amendments added language that creates a questionable program within the Department of Social Services to allocate $3 million General Fund in 2014-15 to non-profit legal services organizations for legal services to migrant children in California as a result of the federal Office of Refugee Resettlement program.	
SB 875	**Public Safety**	Chaptered
Ch. 686/2014	Allows the Board of Parole Hearings to use the regular U.S. Mail as a mode of delivering required victim or judicial notification regarding an upcoming parole hearing. Appropriates $5 million to the Board of State & Community Corrections to establish a social innovation financing program for counties. Makes a technical correction to an uncodified provision of Chapter 26, Statutes of 2014 (AB 1468) regarding the Department of Social Services' implementation of changes made by AB 1468 to the eligibility of drug felons for certain state and county welfare programs.	
SB 876	**Education**	Chaptered
Ch. 687/2014	Makes a variety of non-controversional technical & substantive changes to the existing budget & related statute. Among other things, it attempts to prevent schools from moving students en masse into a new independent study program option simply to draw down additional state funding, eases bureaucratic restrictions to make it easier for joint powers authorities to participate in the Career Pathways Trust career technical education program, & increases child care rates to conform with budgeted resources.	
SB 877	**Jail Bond**	Chaptered
Ch. 688/2014	Cleans up the Government Code by repealing one of two identically-numbered, redundant chapters of code enacted by two separate 2014 budget trailer bills. Both bills authorized the same $500 million in lease-revenue bonds for the construction of local jail facilities. This is intended to ensure a "clean bond" opinion.	
SB 878	**IHSS**	Chaptered
Ch. 689/2014	Requires that all prospective new In Home Supportive Services (IHSS) providers attend an in-person onsite orientation (rather than a video orientation as some counties currently provide) & that representatives of the recognized union in the each county shall be permitted to make a presentation of up to 30 minutes at the orientation. This appears to be yet another political favor for a large public employee union.	
SB 879	**MOU**	Chaptered
Ch. 690/2014	Ratifies the memorandum of understanding (MOU) entered into between the state and Bargaining Unit 2 (California Attorneys, Administrative Law Judges & Hearing Officers), Bargaining Unit 10 (Professional Scientific) & Bargaining Unit 13 (Stationary Engineers). The bill also ratifies an addendum to Bargaining Unit 8's (Firefighters) current agreement that provides a four percent salary increase effective July 1, 2015 & also addresses compaction issues in the Firefighter II classification as a result of the recent increase in the state's minimum wage.	

Appendix A - Wall of Debt

Wall of Debt 2014 Budget Act									
	Outstanding (as of end of 2010-11)	Outstanding based on 2014 Budget Act	Supplemental Payments to 2013-14 and Earlier	2014-15 impact	2014-15 Trigger Impact	2015-16 impact	2016-17 impact	2017-18 impact	Remaining Amount
Deferred Payments to Schools and Community Colleges	$10,430	$6,164	$4,510	$662	$992	$0	$0	$0	$0
Economic Recovery Bonds	7,100	3,943	0	3,144	0	0	0	0	0
Loans from Special Funds	5,100	3,879	0	801	0	1,322	1,071	685	0
Unpaid Costs to Local Governments, Schools and Community Colleges for State Mandates	4,300	6,682	0	515	800	1,245	2,061	2,061	0
Underfunding of Proposition 98	3,000	2,391	598	0	0	1,793	0	0	0
Borrowing from Local Governments (Proposition 1A)	1,900	0	0	0	0	0	0	0	0
Deferred Medi-Cal Costs	1,200	2,324	0	97	0	579	660	988	0
Deferral of State Payroll Costs from June to July	759	783	0	0	0	0	783	0	0
Deferred Payments to CalPERS	524	411	0	0	0	0	0	411	0
Borrowing from Transportation Funds (Proposition 42)	417	168	0	83	0	85	0	0	0
Total	**$34,730**	**$26,745**	**$5,108**	**$5,302**	**$1,792**	**$5,024**	**$4,575**	**$4,145**	**$0**

**Dollars in millions. Source: Governor's Multi-year Back-up Documents*

Appendix B - Governor's Veto List

All Vetoes - 2014 Budget Act (Dollars in Thousands)			
Department/Issue Title	**General Fund (Non-Prop.**	**General Fund (Prop. 98)**	**Other Funds**
Department of Insurance—Federal Mental Health Parity (page 1)	$0	$0	$374
Department of the California Highway Patrol—Teen Driver Education Program (page 1)	0	0	700
Energy Resources Conservation and Development Commission—Proposition 39 Technical (page 1)	0	0	0
Department of Managed Health Care—Budget Augmentation for Federal Mental Health Parity (page 1)	0	0	2,102
Department of Developmental Services—Core Staffing Formula Review and Community-Based Services and Supports Rate Setting Review (page 2)	0	0	0
Department of Education—Special Education (page 2)	0	0	0
Shared Revenues—Highway User Tax Account Loan Repayment (page 2)	0	0	34,800
Total	**$0**	**$0**	**$37,976**

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