CALIFORNIA Senate Republican Caucus

Highlights and Analysis of the 2015-16 State Budget

July 1, 2015

SENATE REPUBLICAN FISCAL OFFICE

Table of Contents

Budget Briefs

SENATE REPUBLICAN FISCAL OFFICE

Highlights & Analysis of the State Budget

July 1, 2015

Executive Summary

Senate Republicans have long prioritized investing in education as a top priority along with building the state's new rainy day reserve, paying off state budgetary debts, and addressing unfunded liabilities that jeopardize our state's fiscal future. The 2015-16 state budget plan is consistent with some of these priorities as it keeps faith with voter-approved constitutional spending requirements for schools and community colleges (Proposition 98, 1988) and higher budget reserve and debt payment requirements (Proposition 2, 2014).

Specifically, the budget plan builds the rainy day reserve to almost $3.5 billion (*see Proposition 2 Rainy Day Fund Page* 6), pays off about $7.6 billion of past budgetary debts (*see Statewide Debts and Liabilities Page 44),* increases funding for K-14 education programs by $7.6 billion compared to the 2014 Budget Act, and provides nearly $500 million more funding for higher education with a tuition freeze at California state colleges and universities that was first introduced by Senate Republicans in 2013 in the form of SB 58 (Cannella, R–Ceres) (*see Education Page 18)*.

However, while there are many positive aspects to the new budget plan, it is only precariously balanced as it proposes a **new record high spending level of over $265 billion**. This exceeds the 2014 Budget Act total spending ($254 billion) by over $11 billion. State General Fund spending accounts for more than half of the increase, growing by $7 billion from $108 billion last year to over $115 billion for 2015-16. Unfortunately, this rapid state spending increase will not be sustainable.

This massive spending growth is fueled by nearly $10 billion of unanticipated tax revenue – money that was not expected one year ago when the 2014 budget was enacted (*see Unanticipated Revenue Fuels State Spending Growth on page 4*). Regrettably, **this is a repeat of the scenario that led California into more than a decade of fiscal crises, tax increases, and budget deficits** beginning with the 2001 "tech bubble" followed by the 2008 "housing bubble".

Rather than repeat past mistakes by committing unexpected revenues to unsustainable new government spending that jeopardizes our state's fiscal health and puts hardworking California families at risk, Senate Republicans believe that money should be put into the rainy day fund and debt repayment and used for job-creating infrastructure projects such as transportation, water, and school facilities. **Preparing for the future without creating new budget deficits just requires common sense.**

The Department of Finance projects that absent any changes to state spending, **California will return to operating deficits in excess of $2.6 billion by 2018-19**. In addition, with over $300 billion in unfunded liabilities and other debts for public employee pensions, retiree health care, General

Obligation bonds, and infrastructure, it is clear that the people of California cannot afford another spending spree by the ruling Democrats.

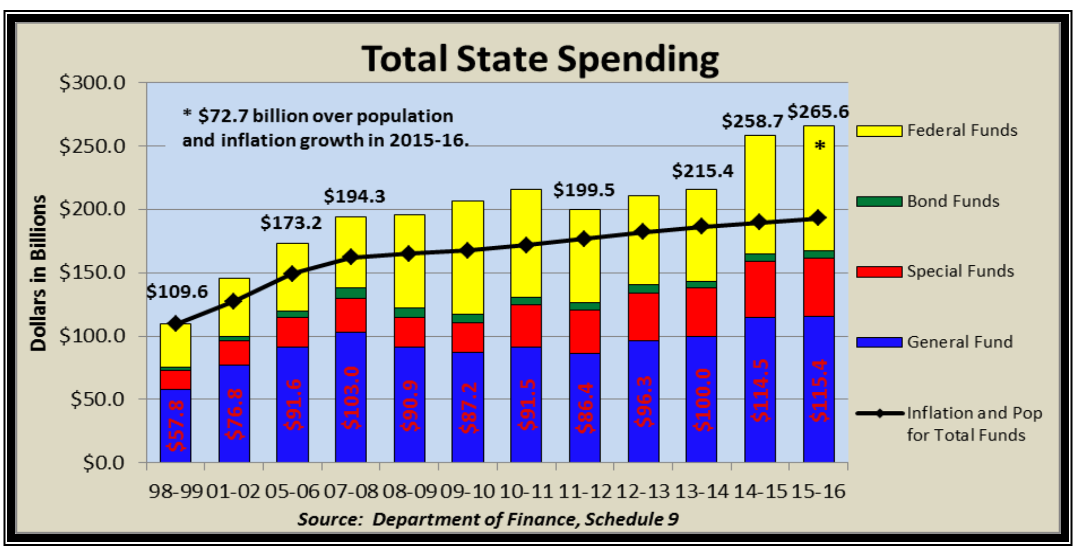
Adding insult to injury, despite having just enacted a record high spending plan, the Governor and legislative Democrats have called for two "*Extraordinary Sessions*" of the State Legislature with the specific goals of further increasing taxes on California families to fund additional new spending. For the *First Extraordinary Session*, the Governor and ruling Democrats propose to increase car-related taxes by several billion dollars to fund transportation infrastructure needs. Apparently, **in spite of the importance of this issue, the $10 billion of unexpected revenue is not available to address this need because Democrats spent it elsewhere.** Further, they have been unwilling to support a Senate Republican plan that would provide $3 billion annually for local roads and state highways without any tax increases (*see Transportation page 33)*.

For the *Second Extraordinary Session*, the Governor and legislative Democrats propose to increase taxes on the health care plans of 24 million Californians. The ruling party chose to prioritize salary increases for public employee unions and a new expansion of government health care for undocumented immigrants, rather than restoring rate increases for Medi-Cal providers and adequately funding services for developmentally disabled citizens. The Governor now claims that there will be a $1 billion "hole" in the budget unless his proposed tax increase on health care for working families is approved. It is difficult to comprehend the relative priorities of such a proposal.

The bottom line is that, despite the Governor's call for fiscal responsibility, California is already on a path to fiscal instability**.** Legislative Democrats' demands to further increase taxes and spending by billions of dollars pose a serious threat to our state's future. **Senate Republicans support a smart approach to using unanticipated revenues that will create job opportunities for struggling families, and provide the foundation for all Californians to have a successful future.**

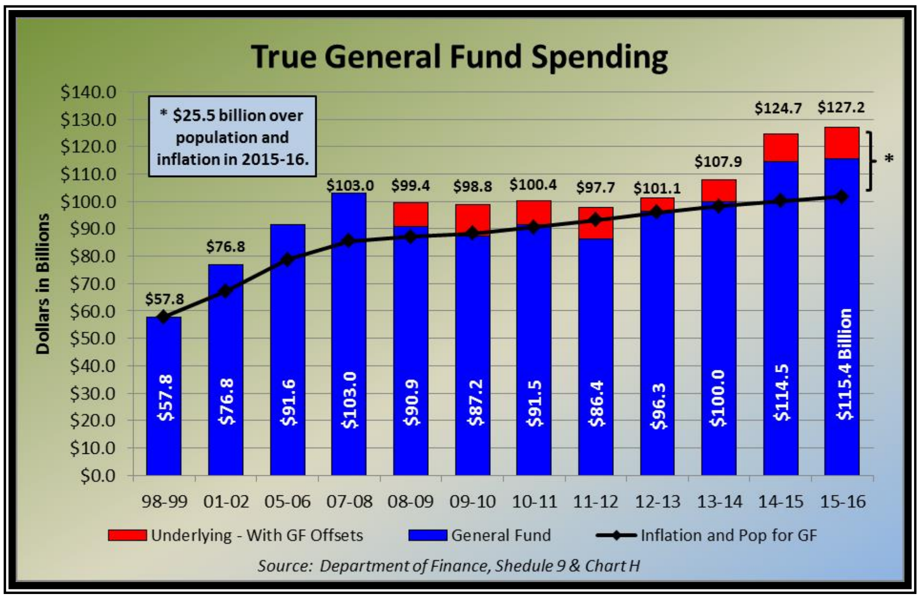
Essential Charts

Total State Spending Sets New Record. General Fund spending is only a part of total state spending. Special fund, bond fund, and federal fund expenditures bring total state spending for 2015-16 to about $265.6 billion, which is $71.3 billion more than peak spending prior to the Great Recession ($194.3 billion in 2007-08). Despite the Great Recession, and Democrats' claims of "cutting to the bone," total state spending continues to exceed previous record high levels.



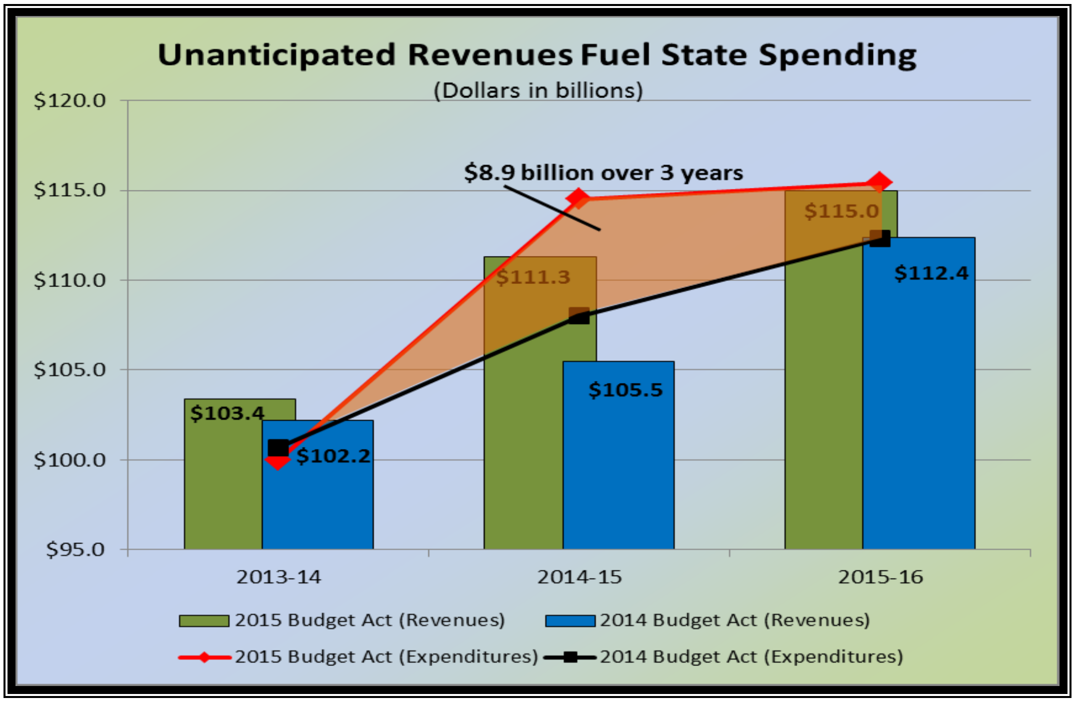
True General Fund Program Spending. Over the past several years, legislative Democrats frequently claimed that state spending had been slashed by $40 billion or more, and that General Fund spending was consistently below its historic peak of $103 billion in 2007-08. In fact, true General Fund program spending, which includes fund shifts, transfers, and various General Fund offsets, remained within five percent of 2007-08 spending even during the depths of the recession. *As shown on the chart below*, now that General Fund revenues have rebounded:

1) Actual General Fund spending has increased to $115.4 billion in 2015-16 ($12.4 billion more than 2007-08).
2) **True General Fund program spending has increased to $127.2 billion in 2015-16, which is $24.2 billion higher than it was before the Great Recession.**
3) True General Fund spending is $25.5 billion higher than if state spending had been limited to population and inflation growth since 1998-99, which was the last "stable" state fiscal year prior to the "tech bubble" in 2000 that preceded a decade of budget instability.

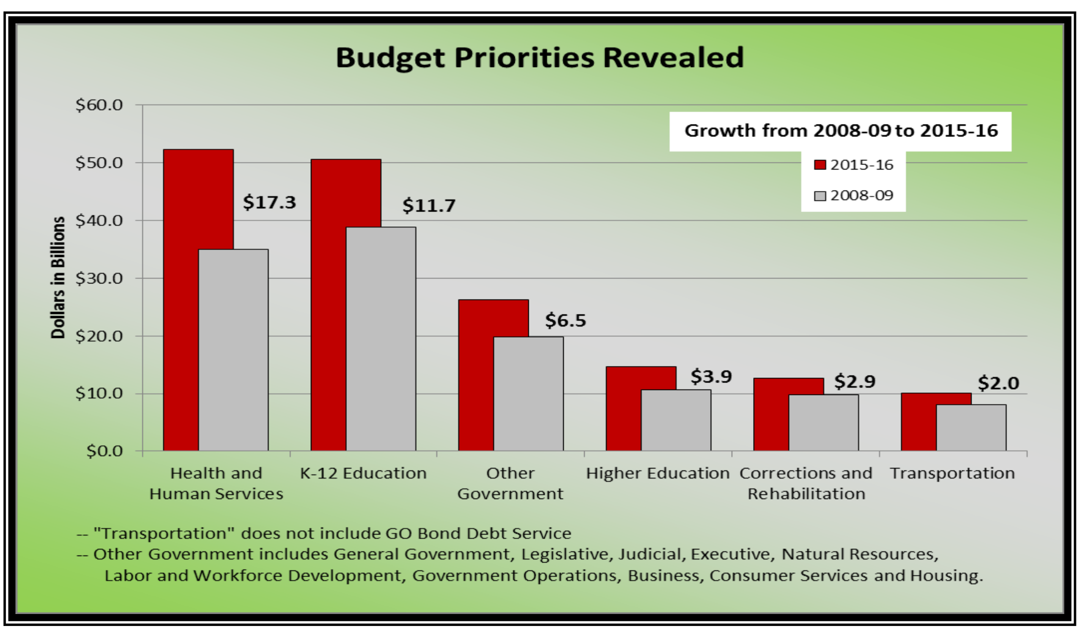


The 2015-16 Budget includes $11.8 billion of spending from fund sources other than the General Fund to support traditional General Fund programs, including the $7.2 billion "Realignment," $1.8 billion of Medi-Cal related special taxes and cost shifts, $1.1 billion from the dissolution of redevelopment agencies, $1.1 billion from transportation weight fees to fund debt service, and $521 million of federal Temporary Assistance to Needy Families money to fund CalGrants.

Unanticipated Revenues Fuel State Spending Growth. State tax revenues have recently experienced explosive growth as a result of tax increases and the economic recovery that has heavily benefited the wealthy coastal regions of California favored by legislative Democrats. *As noted in the chart on the following page*, compared to the official estimates when the 2014 budget was enacted, the budget now reflects tax revenues that are $1.2 billion higher than anticipated for 2013-14, $5.8 billion higher for 2014-15, and $2.6 billion above prior estimates in 2015-16. This total $9.6 billion revenue windfall provides welcome relief from the budget deficits that have beleaguered California for much of the past 15 years, but the $8.9 billion spending increase associated with it demonstrates that ruling Democrats have learned little from their past mistakes. **California families deserve responsible government, which means a prudent state budget plan that does not risk the state's fiscal health to satisfy demands by special interests for spending that is not sensible and sustainable.**



Transportation Fares Poorly as State Program Funding Grows Dramatically. As state spending continues to rebound strongly in this period of recovery from the recession that began in 2008-09, it is Health and Human Services (HHS) and K-12 programs that are experiencing the greatest benefit. *The chart below* reflects spending from all state fund sources (i.e., General Fund, Special Funds, and Bond Funds) as it demonstrates that HHS program spending increased by $17.3 billion and K-12 spending grew by $11.7 billion. Combined they account for $29 billion (65 percent) of the $44 billion in new spending since 2008-09. In contrast, Transportation program funding has fared the worst with an increase of just $2 billion, which is less than 5 percent of the spending growth. **This is particularly notable in light of the recent call for an *Extraordinary Session* of the State Legislature regarding the state's crumbling transportation infrastructure and legislative Democrats' proposals to raise car and gas taxes by several billion dollars** to address transportation funding shortfalls. Budgets are always a reflection of priorities, but despite all the recent attention and nearly $10 billion in unanticipated revenue, Transportation programs have not received a share of the spending windfall.



Proposition 2 Rainy Day Fund

In November 2014, California voters overwhelmingly approved Proposition 2 to establish meaningful Rainy Day Fund (RDF) requirements in the state constitution. The enacted budget continues to demonstrate Proposition 2's benefit to California by directing $3.7 billion of the state's spiking revenues to the RDF and to debt reduction.

Significant Reserves and Debt Reduction. As summarized in the table below, the enacted budget provides a rainy day transfer of nearly $1.9 billion for the general RDF and another $1.9 billion for debt reduction. Over four years these annual transfers are projected to reach $11 billion, including $5.5 billion each for RDF deposits and debt reduction. Notably, nearly $7.4 billion of these combined amounts results from the up-front 1.5 percent set-aside that Republicans negotiated in the development of Proposition 2. The annual deposits are projected to create a RDF balance of $7.1 billion by the end of 2018-19.

Rainy Day Fund *Dollars in Millions*	**Enacted**	**Forecast**			
	2015-16	**2016-17**	**2017-18**	**2018-19**	**Total**
Annual 1.5% of General Fund Revenues	$1,753	$1,827	$1,888	$1,914	**$7,382**
Capital Gains Taxes in Excess of 8% of General Fund Revenues	$1,955	$1,243	$305	$163	**$3,666**
Rainy Day Amounts Available	**$3,708**	**$3,070**	**$2,193**	**$2,077**	**$11,048**
Debt Repayment (50%)	$1,854	$1,535	$1,097	$1,038	**$5,524**
Deposit to Rainy Day Fund (50%)	$1,854	$1,535	$1,097	$1,038	**$5,524**
Rainy Day Fund Balance at End of Year [1]	**$3,460**	**$4,995**	**$6,092**	**$7,130**	

1. Includes beginning balance from 2014-15 of $1.6 billion.

Note: Capital gains amounts are net of revenues 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, June 2015

Debt Repayments. The budget's $1.9 billion of debt reduction includes $1.5 billion to pay down various loans from special funds to the General Fund, $256 million in "settle up" payments for past underfunding of Proposition 98 obligations, and $96 million to reduce the University of California's (UC's) pension obligations. The budget includes a requirement that the $96 million for UC will be used to make additional UC pension payments, not replace existing payments. This is consistent with the intent of Proposition 2.

Budget Reflects Voter Intent. Senate Republicans agree that the enacted budget generally meets the requirements of Proposition 2 and reflects the will of California voters. Creating a RDF balance of $3.5 billion in 2015-16 is a prudent step that will be invaluable in the fiscally uncertain years ahead.

Revenues

Revenue collections during 2014-15 are staggering. The 2015-16 Budget relies on the Governor's projections that General Fund revenues over the three-year forecast window have grown by **nearly $10 billion compared to forecasts prepared for the 2014 Budget Act last June. Notably, General Fund revenues for 2015-16 are about $14.3 billion higher than the pre-recession revenue peak of $102.6 billion in 2007-08.**

After accounting for money being transferred to the Budget Stabilization Account per Proposition 2 of 2014 ($1.6 billion in 2014-15 and $1.9 billion in 2015-16) and decreased revenues attributed to the new state Earned Income Tax Credit proposal ($380 million), the budget reflects total General Fund revenues and transfers to be $9.7 billion higher than the 2014 Budget Act forecast; $111.3 billion in 2014-15, increasing to $115 billion in 2015-16.

Total Revenues and Transfers	2014 Budget Act	2015 Budget Act	Forecast Change	%△
2013-14	$102,185	$103,374	$1,189	1.2%
2014-15	$105,489	**$111,306**	$5,817	5.5%
2015-16	$112,329	**$115,033**	$2,704	2.4%
Change to Estimate over 3-year Window			**$9,710**	

Resource: Department of Finance Schedule 8

Personal Income Tax (PIT) – The strongest growing revenue source is the PIT, which is estimated to have increased by $8.9 billion since the 2014 Budget Act. The Department of Finance (Finance) estimates total personal income tax revenues to $75.4 billion in 2014-15 and $77.7 billion in 2015-16, due to strong withholding growth, partnership income and capital gains. In a year-over-year comparison, the state is estimated to generate $8.7 billion and $10.7 billion of PIT revenues in 2014-15 and 2015-16, respectively, when compared to the 2013-14 fiscal year.

Personal Income Tax	2014 Budget Act	2015 Budget Act	Forecast Change	%△
2013-14	$66,522	$67,025	$503	0.8%
2014-15	$70,238	$75,384	$5,146	7.3%
2015-16	$74,444	$77,700	$3,256	4.4%
Change to Estimate over 3-year Window			**$8,905**	

Resource: Department of Finance Schedule 8

Corporation Tax (CT) – The second strongest growing revenue source is the CT, which is estimated to generate an additional $2.6 billion since the 2014 Budget Act. CT revenues in 2015-16 are projected to be $1.3 billion higher than just two years earlier (2013-14). Total CT revenues are estimated reach $9.8 billion in 2014-15 and $10.3 billion in 2015-16, due primarily to higher cash receipts through April 2014.

Corporation Tax	2014 Budget Act	2015 Budget Act	Forecast Change	%△
2013-14	$8,107	$9,093	$986	12.2%
2014-15	$8,910	$9,809	$899	10.1%
2015-16	$9,644	$10,342	$698	7.2%
Change to Estimate over 3-year Window			**$2,583**	

Resource: Department of Finance Schedule 8

Sales and Use Tax – Over the three-year estimate period, projections for total sales and use tax revenues are about $1.1 billion 2014 Budget Act estimates. Note, however, that sales and use tax revenues for 2015-16 are still estimated to be $3 billion higher than they were in 2013-14.

Sales and Use Tax	2014 Budget Act	2015 Budget Act	Forecast Change	%△
2013-14	$22,759	$22,263	-$496	-2.2%
2014-15	$23,823	$23,684	-$139	-0.6%
2015-16	$25,686	$25,240	-$446	-1.7%
Change to Estimate over 3-year Window			**-$1,081**	

Resource: Department of Finance Schedule 8

According to Finance, SUT revenue growth from 2013-14 to 2014-15 is muted due to a half billion dollar reduction to 2014-15 revenues resulting from the start of the manufacturing equipment sales tax exemption on July 1, 2014. This exemption excludes the first $200 million of manufacturing or biotech research and development equipment from the state sales tax rate.

Legislative Analyst's Office (LAO) Estimates. In May the LAO released its General Fund revenue projections that, over the three year budget window, were $3.2 billion higher than the Governor's revenue projections. More than $2 billion of the difference were related to higher estimates of taxpayers' capital gains income, which the LAO agreed are "quite volatile." ***Senate Republicans argued against using the LAO's higher speculative revenue estimates, and for using the Governor's more prudent and fiscally responsible revenue estimates.*** Ultimately, the final budget for 2015-16 reflects the Governor's revenue estimates. Unlike the 2014 Budget Act, the 2015 Budget does not include any trigger mechanisms to automatically spend unanticipated revenues, should the LAO's higher revenue estimates materialize.

Proposition 30. One of the main drivers of revenue growth over the past three years continues to be the passage of Proposition 30 by voters in November 2012. The tax increases included in Proposition 30 are temporary and completely expire by 2018-19. In May 2013, the Governor estimated that the total impact of Proposition 30 would generate about $44.5 billion of new revenue over the eight-year life of the tax increase. The following table on the next page reflects the most recent Department of Finance estimate of revenues related to Proposition 30 **(totaling $50.5 billion over the eight-year period**).

Proposition 30 Revenue Estimates

	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	Total
PIT	$3,356	$5,417	$5,813	$6,590	$6,750	$6,834	$7,020	$2,857	$44,637
SUT		$640	$1,384	$1,459	$1,551	$827	$0	$0	$5,861
Total	**$3,356**	**$6,058**	**$7,197**	**$8,049**	**$8,301**	**$7,661**	**$7,020**	**$2,857**	**$50,499**

Source: Department of Finance

As discussed on Page 12 (*Proposition 30 Promises Not Kept*), California voters were promised that Proposition 30 tax increases were necessary to mitigate and avoid spending cuts to the state's education programs. Even though base revenues are much stronger than anticipated in 2011-12 and the increased taxes are not necessary to protect education spending, some leading Democrats still want to make the tax increases permanent to support other new spending. Pursuant to Proposition 26 (2010), extending Proposition 30 tax increases beyond their current expiration dates or making them permanent would require a 2/3 vote of the Legislature.

Earned Income Tax Credit (EITC). One of the budget trailer bills (SB 80) creates a new state EITC, estimated to decrease revenues by about $380 million annually. It is to be a refundable tax credit for households with income less than $6,580 of wage income if there are no dependents, and up to $13,870 of wage income if there are three or more dependents. The state credit would be targeted to provide a greater benefit per household, and would match 85 percent of the federal credits up to half of the federal phase-in range and then begin to taper off relative to these maximum wage amounts.

Similar to SB 152 by Senator Vidak (R-Hanford), this state EITC attempts to mitigate the problems of the federal EITC related to fraud and improper payments. According to the Legislative Analyst's Office, the overpayment percentage on the federal EITC was between 22 percent and 26 percent in federal fiscal year 2013, which would also raise concerns for any state-level EITC.
The Governor's EITC would only be implemented during tax years where the Legislature has appropriated funding for the Franchise Tax Board to oversee and audit returns associated with the credit, and would allow penalties to be assessed on tax preparers "for failure to be diligent in determining eligibility for earned income credit returns."

Expenditures

The 2015 Budget Act includes revised General Fund expenditures of $114.5 billion in 2014-15 and projected General Fund expenditures of $115.4 billion in 2015-16. Compared to the $108 billion spending plan included in the 2014 Budget Act, spending has increased by almost $6.5 billion in 2014-15 and an additional $7.4 billion in 2015-16, bringing total increased General Fund spending to about $13.9 billion over what was anticipated just a year ago.

General Fund Expenditures by Agency

(Dollars in Millions)

Agency	Budget Act 2014-15	Revised 2014-15	Budget Act 2015-16	Year over Year Change
Legislative, Judicial, Executive	$2,968	$2,986	$3,158	$190
Business, Consumer Services, Housing	$850	$843	$627	-$223
Transportation	$216	$200	$261	$45
Natural Resources	$2,260	$2,558	$2,479	$219
Environmental Protection	$63	$87	$69	$6
Health and Human Services	$29,652	$30,015	$31,867	$2,215
Corrections and Rehabilitation	$9,590	$10,030	$10,078	$488
K-12 Education	$44,980	$49,659	$49,373	$4,393
Higher Education	$12,562	$13,267	$14,200	$1,638
Labor and Workforce Development	$303	$282	$214	-$89
Government Operations	$692	$754	$738	$46
General Government/Other	$2,245	$2,186	$2,305	$60
Supplemental ERB Payment	$1,606	$1,606		-$1,606
Total, General Fund Expenditures	**$107,987**	**$114,473**	**$115,369**	**$7,382**
Accumulated spending increase since the Budget Act		$6,486	$7,382	**$13,868**
- As a Percentage		6.0%	6.8%	**12.8%**

Resource: Department of Finance, Schedule 9

The "General Government/Other" category includes a variety of small departments, tax relief, and statewide proposals that have not yet been allocated to specific departments or programs, including employee compensation adjustments, health and dental benefits for annuitants, and the PERS deferral.

The largest General Fund expenditure growth occurs in Education (driven by Proposition 98 requirements and strong revenue growth) and Health and Human Services (driven by a variety of factors ranging from increased Medi-Cal costs to paying for IHSS overtime). Also note that Proposition 58 (2004) resulted in a one-time expenditure of $1.6 billion for a supplemental payment on the Economic Recovery Bonds in 2014-15, which will be fully repaid in the first quarter of 2015-16.

General Fund spending is only a part of total state spending. ***As shown on Page 3 of the Executive Summary***, the expenditure of special funds ($45.7 billion), bond funds ($6.5 billion), and federal funds ($98 billion) brings total state spending to $265.6 billion for 2015-16. **This level of total state expenditures is $11.2 billion higher than total expenditures in the 2014 Budget Act ($254.4 billion).** By comparison, total state spending proposed for 2015-16 ($265.6 billion) is about $71.3 billion higher than California's last economic peak year prior to the recession ($194.3 billion in 2007-08), and $72.7 billion higher than if state spending had been limited to population and inflation growth since 1998-99, which was the last "stable" year prior to the first recession that resulted from the breaking of the dot-com bubble in 2000. Despite the Great Recession and Democrats' claims of "cutting to the bone," **total state spending continues to break records each year.**

True state General Fund program spending, which accounts for fund shifts, transfers, and General Fund offsets – allowing General Fund programs to continue growing – now totals $127.2 billion in 2015-16, which is **27.5 percent higher than peak General Fund spending in 2007-08.**

Underlying General Fund Program Spending (dollars in billions)									
	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Schedule 9 Expenditures	**$103.0**	**$90.9**	**$87.2**	**$91.5**	**$86.4**	**$96.3**	**$100.0**	**$114.5**	**$115.4**
"Offsets" to Maintain General Fund Program Levels*	--	$8.5	$11.6	$8.9	$11.3	$4.8	$7.9	$10.2	$11.8
Total, General Fund Program Expenditures	**$103.0**	**$99.4**	**$98.8**	**$100.4**	**$97.7**	**$101.1**	**$107.9**	**$124.7**	**$127.2**
Percentage Change from Peak 2007-08 General Fund Spending		-3.5%	-4.0%	-2.6%	-5.1%	-1.9%	4.8%	24.6%	27.5%

Department of Finance – Schedule 9

In addition to $115.4 billion General Fund, the 2015-16 Budget relies on (1) $1.1 billion of property taxes from the dissolution of redevelopment agencies to fund education, (2) realigning $7.2 billion of public safety and human services programs to the local level, (3) $1.1 billion of weight fees to pay general obligation transportation bond debt, (4) nearly $1.8 billion of Medi-Cal related special taxes and cost shifts, and (5) directing $521 million of federal Temporary Assistance to Needy Family money to fund CalGrants. In prior years, the Legislature relied on additional federal funds, money from 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.

Over the past six years, we have included this table to demonstrate that even though actual General Fund spending **had** decreased below 2007-08 spending levels, cost-shifting actions taken by the Legislature over those years to solve chronic budget deficits had the effect of retaining General Fund program spending near or above the 2007-08 pre-recession peak.

General Fund revenues have rebounded. **Actual General Fund expenditures are proposed to exceed 2007-08 spending levels by $12.4 billion** (12 percent higher). However, "Offsets to Maintain General Fund Program Levels" that were established to "save" General Fund programs remain intact. As a result, **underlying General Fund program spending has been driven far beyond previous peak General Fund spending levels.**

Proposition 30 Promises Not Kept

Proposition 30 Spending on Education. According to the Proposition 30 ballot summary, its tax hikes were expected to generate additional state revenues of about $6 billion annually from 2012–13 through 2016–17, and smaller amounts in 2017–18 and 2018–19. The summary also stated that these additional revenues would be “available to fund programs in the state budget.” However, in what appears to be a very calculated effort, the Governor and others who campaigned for the initiative led voters to believe that *all* of the Proposition 30 tax increase revenue would be used for education. Then, after voters agreed to the new taxes, he and legislative Democrats proceeded to negotiate budgets that used much of that revenue for other priorities (e.g., the 2015-16 Budget spends over $400 million for increased state employee salaries and benefits and $1.8 billion for Health and Human Services programs such as expanded Medi-Cal, welfare grant increases, cash grants for drug felons, and In Home Supportive Services overtime pay). As the chart below shows, the budget continues to divert almost $3.3 billion (roughly 40 percent) of projected 2015-16 Proposition 30 revenue to programs other than K-14 education:

Budget uses Prop 30 revenue for non-education programs

$ in billions

	2015-16
Minimum Prop 98 guarantee with no Prop 30 revenue [1/]	$63.381
Proposition 30 revenue	$8.301
Minimum Prop 98 guarantee plus all Prop 30 revenue	$71.682
Prop 98 funding included in 2015-16 budget	$68.409
Prop 30 revenue used for non-education programs	$3.273

[1/] per Legislative Analyst

Specifically:

- 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 $63.4 billion.
- Estimated revenue from Proposition 30 in 2015-16 is just over $8.3 billion.
- Thus, despite multi-billion dollar growth in Proposition 98 funding, it is still almost $3.3 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 K-14 education, which is true. However, what it fails to acknowledge 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.

Education

Proposition 98 Funding Continues to Rise Dramatically. The chart below displays Proposition 98 spending for K-14 education, which is based on the Governor's May Revision revenue estimates.

Proposition 98 Funding at 2015-16 Final Budget Act

Source: Legislative Analyst's Office

($ in millions)	2013-14 at 2014-15 FBA[2]	2013-14 at 2015-16 FBA	change	2014-15 at 2014-15 FBA	2014-15 at 2015-16 FBA	change	2015-16 at 2015-16 FBA	change from revised 2014-15
K-12 education [1/]								
General Fund	$38,465	$38,669	$204	$40,092	$44,552	$4,460	$44,035	-$517
Local property tax revenue	$13,405	$13,736	$331	$14,089	$14,432	$343	$16,380	$1,948
K-12 subtotal	$51,870	$52,405	$535	$54,181	$58,984	$4,803	$60,415	$1,431
California Community Colleges [3/]								
General Fund	$4,187	$4,248	$61	$4,293	$4,975	$682	$5,300	$325
Local property tax revenue	$2,167	$2,182	$15	$2,308	$2,263	-$45	$2,613	$350
CCC subtotal	$6,354	$6,430	$76	$6,601	$7,238	$637	$7,913	$675
Other Agencies	$78	$78	$0	$77	$80	$3	$80	$0
Total Proposition 98 [4/]	$58,302	$58,913	$611	$60,859	$66,302	$5,443	$68,409	$2,107
General Fund	$42,730	$42,996	$266	$44,462	$49,608	$5,146	$49,416	-$192
Local property tax revenue	$15,572	$15,918	$346	$16,397	$16,695	$298	$18,993	$2,298

1/ K-12 education totals include state preschool and related 'wraparound care'

2/ FBA = final budget act

3/ 2015-16 CCC display includes $500m for adult ed which can flow to any K-14 provider (not restricted to CCCs)

4/ Any discrepancies are due to rounding

As the chart shows, even with the Governor's lower revenue estimates, 2015-16 Proposition 98 spending rises dramatically from the 2014 Budget Act level, from $58.3 billion to $58.9 billion in 2013-14 (up $612 million); from $60.9 billion to $66.3 billion in 2014-15 (up $5.4 billion), and to $68.4 billion in 2015-16, up $2.1 billion from the revised 2014-15 level, a new all-time high.[1] This surge is partially attributable to the 2014-15 "maintenance factor" obligation payments, which will eventually return K-14 spending to the level it would have been had no funding reductions occurred during the recent economic downturn. By the end of 2015-16, the maintenance factor obligation is expected to stand at $772 million, down from a high of over $11.2 billion in 2008-09.

Reducing the "Wall of Debt". Consistent with last year's budget language, new revenue received in 2014-15 has eliminated inter-year funding deferrals to schools and community colleges, which at their high point in 2011-12 exceeded $10.4 billion. The 2015-16 Budget provides over $3.8 billion to reduce the backlog of unpaid K-14 education mandate claims ($3.2 billion to K-12 schools and $632 million to community colleges), leaving a balance of roughly $2.6 billion at the end of 2015-16. *Senate Republicans support these efforts to address the state's "wall of debt."*

Teacher Effectiveness Grants Reduce Locally Flexible Funding. A late budget action shifted $500 million out of the one-time funding proposed by the Governor to pay down the state's education mandate debt and into a new teacher effectiveness grant program. Absent that action, the paydown of state mandate debt referenced above would have been $4.3 billion rather than $3.8 billion. *Senate*

[1] As a point of fiscal reference, Proposition 98 spending in 2007-08, the last "good year" before the start of the recession, was $56.6 billion. The 2015-16 budget package provides more than $11.8 billion beyond that level.

Republicans believe that a better approach would have been to extinguish half a billion dollars more of the state's "wall of debt" while increasing the amount of flexible funding available to school districts. Under this approach, districts who felt that teacher effectiveness programs were a local priority would still have been free to spend the funds for that purpose.

Local Control Funding Formula Grows Toward Its Targets. The state's new local control funding formula (LCFF) for K-12 schools will enter its third year of implementation in 2015-16. Under the 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 2015-16 budget package provides $6 billion to bring schools closer to their LCFF funding targets, leaving a gap of just under $6 billion between actual and target funding levels. *Senate Republicans generally support using the bulk of new Proposition 98 funding to move schools toward their LCFF funding targets, as the LCFF boosts local control, a longstanding Republican priority.*

Funding Boost for Career Technical Education (CTE) Transition Grants. In an effort to ensure that CTE programs continue after a two-year maintenance of effort (MOE) requirement expires on June 30, 2015, the 2015-16 Budget provides $900 million over three years for a new transitional CTE incentive grant program. Funding will total $400 million in year one, $300 million in year two, and $200 million in year three, so as to soften the funding "cliff" that would otherwise exist at the end of the grant period. In years four and beyond, schools will be expected to run the program on their own, using their flexible LCFF funding. *This program is a welcome effort to cultivate career technical education, but an even better approach would be to provide permanent funding for these programs, which are another longstanding budgetary priority of Senate Republicans.*

Child Care and Preschool Expansions Continue With No Program Reforms. Last year, the 2014-15 Budget provided $256 million ($281 million full-year cost) to expand child care, including state preschool. The 2015-16 Budget Package provides about $355 million for a second expansion ($214 million in Proposition 98 and $141 million in non-98 General Fund), the cost of which is expected to grow to over $410 million in the following year ($245 million Proposition 98 and $165 million non-98 General Fund). This latest expansion includes a shift of $145 million for state preschool half-day "wraparound care" previously funded outside of Proposition 98 into Proposition 98 without re-benching the guarantee upward by the same amount, thereby displacing funds that would otherwise have supported K-12 education. Child care funding from all sources now exceeds $3.5 billion. Unfortunately, neither expansion makes any effort 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."[4] That report's 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 gone unheeded. *Senate Republicans generally believe that Proposition 98 spending should continue to be prioritized for K-14 education as the voters intended - it should not be manipulated to free up General Fund for other uses.*

Fiscally Irresponsible School Budget Reserve Restrictions Remain. The 2014-15 Education Budget Trailer Bill imposed irresponsible new restrictions on schools' ability to grow and maintain healthy rainy-day reserves to insulate themselves from unplanned fiscal events.[5] Those restrictions were unveiled at the 11th hour and became available for public review only two days before the

[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.
[4] http://sooo.senate.ca.gov/sites/sooo.senate.ca.gov/files/child%20care%20report.pdf
[5] See Section 27 of SB 858 (Chapter 32 Statutes of 2014), the 2014-15 omnibus education budget trailer bill.

Legislature passed the 2014-15 majority-vote 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 strongly opposed the restrictions because they are fiscally irresponsible and may disproportionately impact schools with high populations of low-income students, English learners, and foster youth. Unfortunately, despite efforts by Senate Republicans to amend the 2015-16 budget package to repeal the restrictions, they remain in place.

Still No Plan for School Construction. The Governor's January Budget proposed to develop a new approach to school facilities funding, under which the state would no longer take on new debt for school facilities. Instead, schools' ability to fund facilities on their own would be enhanced, and the only state funding provided would be for districts whose assessed property value is so low that they lack capacity to issue local bonds sufficient to meet student needs. Unfortunately, the 2015-16 budget package fails to ensure that schools' facilities needs are met. *Senate Republicans support adequate funding for school facilities, and continue to encourage the Governor to engage toward that goal. Absent any effort by the state to meet this need, a 2016 state school bond may be the only viable option.*

Charter School Facilities Funding Grows. The 2015-16 Budget includes $20 million to expand eligibility for the existing Charter School Facility Grant Program, which provides $750 per unit of average daily attendance (ADA), up to 75 percent of a school's annual facilities rent or lease costs. Schools will now be eligible for the program if 55 percent or more of their students are low-income (down from 70 percent previously). This is "pay as you go" facilities funding which, unlike state school facility bonds, does not increase state indebtedness. *Senate Republicans support this proposal, as charter schools can provide innovative and effective educational experiences to many students, particularly low-income students, who may not be well-served by traditional government schools.*

Military School Facilities Matching Funds Still Missing. California has 11 public schools that are located on military installations and have serious condition or capacity deficiencies. The federal government has offered $240 million to address these schools' needs if they can come up with matching funds of about $61 million. Unfortunately, the 2015-16 budget package includes no funding for this purpose, although the Governor has indicated that the schools may be eligible for low interest loans from the state's Infrastructure and Economic Development Bank. Low-interest loans are better than nothing, but a $61 million General Fund appropriation, as proposed in SB 111 by Senators Fuller (R – Bakersfield) and Vidak (R – Hanford), would be even better. *Senate Republicans continue to support a General Fund appropriation for matching funds sufficient to draw down $240 million in federal funding for these sorely-needed repairs.*

Proposition 39 Energy Efficiency Funding Continues. The 2015-16 Budget includes $352.1 million in Proposition 98 funding for Proposition 39 energy efficiency projects, an increase from the $316.5 million provided in 2014-15. K-12 schools' share will be $313.4 million and the community colleges' share will be $38.7 million.

Local Library Funding Grows. The 2015-16 Budget provides a $7 million increase from the prior-year level for local libraries: $4 million for public library branches to access a statewide high-speed internet network, $2 million for literacy programs, and $1 million in one-time funding to pilot a Career Online High School Program. *Senate Republicans have traditionally supported library funding. The adult literacy program is an especially efficient funding model, as it makes use of local volunteers.*

Adult Education Expansion Proceeds. In recognition of the expiration of a two-year MOE spending requirement for adult education on June 30, 2015, the budget includes $500 million for a block grant to expand adult education through regional consortia of K-12 schools and community colleges. First call on the funds will be to backfill up to $375 million in local expenditures currently required by the MOE, after which the remaining funds will support new programs and program expansions. Unfortunately, the authorizing statute does not establish program goals (such as expected service levels) nor require use of effectiveness measures such as common student identifiers to track student progress over time or across various providers. *Senate Republicans support strong program accountability measures and encourage K-12 schools, community colleges, and other stakeholders to work cooperatively to ensure the success of this major new investment.*

California Community Colleges (CCCs). The community colleges' share of 2015-16 Proposition 98 funding rises from $6.43 billion in 2013-14, to $7.24 billion in 2014-15, and again to $7.41 billion in 2015-16. In addition to the mandates, deferrals, and adult education proposals discussed above, the most notable adjustments in the CCC budget include:

- $266.7 million in unrestricted funding for increased operating costs (facilities, professional development, converting part-time to full-time faculty, retirement benefits, etc.).
- $156.6 million for three percent enrollment growth, to be allocated through a new formula developed by the CCC Board of Governors that prioritizes districts with the greatest unmet need in terms of adequately serving their communities.
- $148 million for physical plant, deferred maintenance, instructional equipment, water conservation, and other one-time uses.
- $100 million for student success and support programs (orientation, assessment, placement, counseling, etc.).
- $85 million to implement student equity plans intended to close achievement gaps between underrepresented student groups and their peers.
- $70 million in one-time funding to improve basic skills instruction for students who arrive unprepared for college-level work.
- $62.3 million to hire more full time faculty.
- $61 million for a 1.02 percent cost of living adjustment.
- $49.5 million to increase funding for former "enhanced non-credit" courses.[6]
- $48 million to continue CTE education formerly funded through the expired Quality Education Investment Act for one more year.
- $42 million to restore funding for campuses whose attendance fell, then grew.
- $39 million in additional financial aid for full-time students who receive a Cal Grant B, plus $3 million for one-time implementation costs.
- $33.7 million to increase funding for Extended Opportunity Programs & Services (EOPS).
- $29 million for apprenticeship programs ($14 million for existing programs and $15 million for new programs focusing on emerging industries and unmet labor demand).
- $12 million for training to promote statewide priorities (e.g., improvement of student achievement, improvement of CCC operations, coordination of initiatives, etc.).
- $10 million for a pilot program to encourage the community colleges to partner with the California State University (CSU) to provide remedial education for students who have been admitted to CSU but are not yet able to do college-level work. The community colleges can provide this type of instruction at a lower cost than CSU can.
- $6 million for the local costs of a pilot program wherein some CCCs will award baccalaureate degrees.

[6] This is consistent with a change made last year 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 (UC) and California State University (CSU). The chart below reflects 2015-16 funding for UC and CSU:

UC & CSU Funding at 2015-16 Final Budget Act

(Core funds, in millions)

	Fund	2013-14	2014-15	2015-16
UC	General Fund	2,844	2,991	3,232
	Tuition and Fees [1,2]	3,664	3,790	3,893
	Other UC Core Funds [3]	314	323	323
	Lottery	31	39	39
	Total UC	$6,853	$7,142	$7,384
CSU	General Fund	$2,769	$3,026	$3,281
	Tuition and Fees [1,2]	$2,764	$2,778	$2,814
	Lottery	$36	$59	$59
	Total CSU	$5,569	$5,863	$6,118
	Total	$12,422	$13,005	$13,502

[1] Includes systemwide fees before discounts and waivers, and nonresident tuition.

[2] Assumes no enrollment growth for UC and 6,000 additional full-time equivalent students (FTES) for CSU in 2015-16. The 2015-16 budget calls for UC to enroll 5,000 additional resident FTES by the end of 2016-17 and for CSU to enroll 10,400 resident FTES by the end of fall 2016.

[3] Includes application fees, interest, and a portion of grant overhead and patent royalty.

Source: Legislative Analyst's Office

Specifically, for UC, the 2015-16 Budget package provides the following adjustments:

- A $119.5 million base augmentation.
- $96 million in 2015-16 to help pay down UC's unfunded pension liability *(the budget plan assumes a total of $436 million in one-time Proposition 2 "Rainy Day" funds across three years)*. These funds will supplement existing UC funds and are contingent on adoption by the UC Regents of defined benefit pension caps for newly-hired UC employees, consistent with the caps imposed by the Public Employees' Pension Reform Act of 2013 (PEPRA). UC's current pension cap is $265,000; the PEPRA cap is currently $117,020.
- $25 million for deferred maintenance.
- $4 million for research in support of labor unions (bringing total funding to $6 million annually). *If labor unions would fund their own research, this $6 million could be used instead to admit 600 new California undergraduates.*
- $1 million for the Wildlife Health Center at UC Davis to support treatment of stranded marine mammals.
- Authority for the Director of the Department of Finance to release $25 million to the UC (not scored in this budget) if it increases enrollment by 5,000 resident undergraduate students by the 2016-17 academic year.
- Language requiring that UC continue planning for a school of medicine at the UC Merced campus and allocate "up to $1 million" for this purpose.
- No undergraduate resident tuition increases through 2016-17.

For CSU, the budget provides:

- A $216.5 million base augmentation.
- $25 million for deferred maintenance.
- $1 million for an eligibility study of students admitted to UC and CSU, to check for consistency with the state's Master Plan for Higher Education.
- $500,000 for the California Fellows Program ($480,000 of which was previously provided from the Assembly budget).
- $250,000 for the Mervyn M. Dymally African American Political and Economic Institute at CSU Dominguez Hills.
- $200,000 to publicize the federal Teacher Loan Forgiveness Program.

Senate Republicans Seek Extended Tuition Freeze. Senate Republicans stand with students, teachers, and families in resisting increases in tuition and other student costs (Senator Anthony Cannella [R-Ceres] introduced SB 58[7] in 2013 to statutorily freeze tuition through 2018-19). It is important that both UC and CSU be funded at a level sufficient to ensure that every qualified California student is admitted, and to enable full-time students to graduate in four years. Funding enhancements should not be used to expand the segments' administrative structures nor to increase already-inflated executive compensation.[8] College should be affordable for all Californians, and every qualified California student who wants to attend our state universities should be admitted. We will continue to fight on their behalf to ensure that state government is responsive to their needs, hopes, and dreams.

Veterans' In-state Tuition Assured. The budget package includes language in SB 81, the higher education trailer bill, to ensure that all students using federal GI Bill benefits to attend college will be exempt from paying nonresident tuition and any other fees exclusively applicable to nonresident students, which was the intent of last year's AB 13 (Conway, Chapter 639, Statutes of 2014). *Senate Republicans strongly support this effort to make college available to our veterans, who have put their lives on the line to ensure the daily freedoms we enjoy.*

Student Aid Expanded. In addition to the $39 million included in the Community Colleges' budget for cash grants to needy students, the 2015-16 budget package provides:

- $8 million to increase the number of competitive Cal Grants from 22,500 to 25,750
- $9.1 million to postpone a reduction (from $9,084 to $8,056) that would otherwise apply on July 1, 2015 to the maximum Cal Grant award for students attending nonprofit and private for-profit independent colleges and universities accredited by the Western Association of Schools and Colleges (e.g., University of the Pacific, Pepperdine, Stanford, University of Southern California, etc.). The reduction is now scheduled for July 1, 2017. *Senate Republicans support a permanent restoration of these Cal Grants to their former higher level. Independent accredited colleges and universities can be a great bargain for taxpayers, as the state provides no funding for them outside of the Cal Grant student financial aid subsidy for their students.*

[7] http://www.leginfo.ca.gov/pub/13-14/bill/sen/sb_0051-0100/sb_58_bill_20130107_introduced.pdf

[8] For example, 16 staff in one office alone (UC's Office of the President) already earn more than the Governor's salary of about $174,000: http://www.dof.ca.gov/budget/historical/2014-15/salaries_and_wages/documents/6000.pdf

Health & Human Services

Health

The budget package for health programs begins the process of closing down state developmental centers, expands Medi-Cal eligibility for undocumented minors, and launches some new public health programs. However, the budget does not restore most Medi-Cal provider rate reductions or provide payment rate increases for developmental services. The following chart summarizes the budgets and notable actions in 2015-16 for the largest health departments. The most significant budget components are then discussed in more detail below. (*Note that the Department of State Hospitals is now discussed in Public Safety, page 29*)

Summary of Department General Fund Spending
Dollars in Millions

Department	2013-14 Actual Budget	2014-15 Revised Estimate	2015-16 Enacted Budget	Change from 2014-15 Revised Budget to 2015-16 $	%	Key Changes From 2014-15
Health Care Services: Medi-Cal	$16,535	$17,521	$18,040	$ 519	3.0%	- Enrollment growth due to federal health reform. - Savings of $381 million in new federal funds for the Children's Health Insurance Program. - $40 million to expand eligibility to undocumented minors. - $114 million for behavioral health treatment for autism.
Developmental Services	2,801	3,098	3,458	360	11.6%	New community development funds for residents moving out of developmental centers. Enrollment growth of 4 percent.
Public Health	115	120	132	12	9.7%	New programs for Needle Exchange, Hepatitis C projects, and Pre-Exposure Prophylaxis. Capital improvements at Richmond Lab.

Medi-Cal

Expansion for Undocumented Minors. The enacted budget provides full Medi-Cal benefits to undocumented minors, beginning May 1, 2016, at a cost of $40 million General Fund in 2015-16. The Administration estimates that annual costs will grow to $132 million General Fund, but in reality costs could be much higher—the Legislative Analyst's Office estimates the cost could be up to $200 million General Fund, and even that estimate could prove too low, depending on how much federal funding the state can retain under this policy change. The state still has not adequately funded Medi-Cal for 12.4 million citizens and legal residents who are already eligible for the program, and expanding Medi-Cal further will exacerbate problems accessing health care for current enrollees.

Enrollment for "Deferred Action" Immigrants. The enacted budget includes $17 million General Fund for increased enrollment in Medi-Cal by undocumented immigrants resulting from President Obama's "deferred action" executive order issued in November 2014. This funding assumes that the legal injunction currently blocking implementation of the President's order will be overturned by an appeals court ruling. The budget does not change existing California policy that provides eligibility for deferred action immigrants, also known as Persons Residing Under Color of Law (PRUCOL), but rather it includes these funds because the change in federal policy would dramatically expand this category of people in California. This policy implements a federal action that many Republicans believe is an unconstitutional use of executive power, and the forthcoming court decision may very well make the funding unnecessary.

Managed Care Organization (MCO) Tax Moved to Special Session. The enacted budget does not assume that the Governor's MCO tax revision plan will be implemented. Instead, that plan has been shifted to a special session that the Governor called on June 19, 2015, with the stated intent of addressing the MCO tax, Medi-Cal provider rates, and funding for developmental services.

Medi-Cal Provider Rate Relief Generally Missing. The enacted budget continues to implement a previously authorized 10 percent rate cut for most Medi-Cal providers, including a retroactive cut in many cases. The Governor indicated that he intends for the Medi-Cal rate reductions to be addressed in the Health special session. The one exception is that budget provides $30 million to restore the 10 percent reduction for dental services (which would be matched with $30 million in federal funds), although it does this using the MCO tax, not the General Fund. Using the MCO tax revenue in this manner violates the spirit of the MCO tax. Restoring the on-going Medi-Cal reductions would cost $215 million General Fund, including $30 million for dental.

Handouts to Favored Private Organizations*.* The budget package hands out $4.5 million to the following two different private entities:

- $2.5 million to a private union health plan called the Robert F. Kennedy Medical Plan to pay cost increases imposed by federal health reform mandates. The 2014-15 budget also included a similar "one time" hand-out to the same organization. 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.

- $2 million for the Lifelong Community Clinic, located in west Contra Costa County. This clinic is located near the now-closed Doctors Medical Center, a hospital that closed last year despite receiving a hand-out of $3 million from the state through SB 883 (2014, Hancock) in the final days of the 2013-14 legislative session.

These hand-outs were added to the budget by legislative Democrats without appropriate legislative review. The funds were not given out under any formal program with application requirements, an assessment of need, or an equal opportunity for different groups to apply. Instead, these funds are "crony capitalism" at its worst; they are merely gifts to favored special interests. Between the funds given in 2014 and this budget, nearly $11 million in taxpayer money has been simply handed to special interest groups with no accountability.

Nursing Home Quality Assurance Fee Renewed. The enacted budget extends the quality assurance fee (QAF) assessed on nursing facilities, which expires July 31, 2015, for a period of five years. The renewed QAF would generate nearly $540 million in General Fund savings in the budget year, include annual rate increases of 3.6 percent, and maintain current levels of funding for related quality-based supplemental payments.

Significant Medi-Cal Deficiency. The budget package includes $241 million General Fund to cover the Medi-Cal deficiency for 2014-15. Dating back to 2011-12, Medi-Cal has now incurred four substantial deficiencies in a row, with the previous three totaling $760 million, $483 million, and $553 million, respectively. **This pattern of simply approving hundreds of millions in deficiency spending each year, with no consequences for departments that incur these deficiencies, suggests that there is little incentive for departments to manage their spending within their approved budgets.**

Department of Developmental Services (DDS)

Continues Developmental Center Closure Process. The enacted budget begins the needed process to close the remaining Developmental Centers (DCs) by requiring DDS to submit a closure plan by October 1, 2015. Though closure dates and individual DCs are not specified in the trailer bill, the Governor's plan as described in the May Revision would close Sonoma DC by the end of 2018, followed by Fairview DC (Costa Mesa) and the non-secure section of Porterville DC (Kern County) by the end of 2021. The budget also includes $47 million General Fund to develop community-based services to assist residents moving out of Sonoma DC, and it states intent that savings obtained from closing DCs will be used to support disabled consumers in the community.

It is important to note that the Legislature will still need to vote on the actual closure plan for Sonoma DC in 2016. Actual closure plans for the other two DCs will likely not be submitted to the Legislature until closer to the target closure dates. Senate Republicans have argued that community services offer better care and opportunities for persons with disabilities while potentially saving the state hundreds of millions of dollars. The Governor's closure plan is similar to that proposed by SB 639 (Stone, 2015).

Shannon's Mountain Development. The budget authorizes the state to lease vacant property on the grounds of Fairview Developmental Center in Costa Mesa for development of a housing project that would designate at least 20 percent of units to be affordable for the developmentally disabled. The proceeds of the lease would be available to fund residential services for disabled clients. Given the funding challenges faced by community services, it is reasonable to use developmental center properties to generate revenue for community services.

Fails to Provide Adequate Funding for Community Services. Despite bipartisan support for increasing payment rates for community services and regional centers, the enacted budget does not raise these rates to support Californians with intellectual or developmental disabilities. The budget bill does include a requirement that DDS report on the efforts of its Developmental Services Task Force to reform community services rates and reforms, but there are no deadlines for DDS to actually submit a proposal.

Senate Republicans have argued that these provider rate increases are needed to stabilize community service providers, who have received only one broad-based rate increase in the past 15 years. Instead of addressing this problem in the budget, however, the Governor and legislative Democrats booted the issue into the health special session, where there is no deadline or assurance that a solution will be reached. A Republican-authored bill that would raise rates and reform services, SB 638 (Stone, 2105), has been held in the Senate Appropriations Committee.

Human Services

CalWORKs

The CalWORKs program provides temporary cash assistance and welfare-to-work services to low-income families with children. The 2015-16 Budget includes $5.9 billion ($1.9 billion General Fund) in 2015-16 for the program and estimates a caseload of 529,000 families (a decrease of less than one percent from the revised 2014-15 caseload).

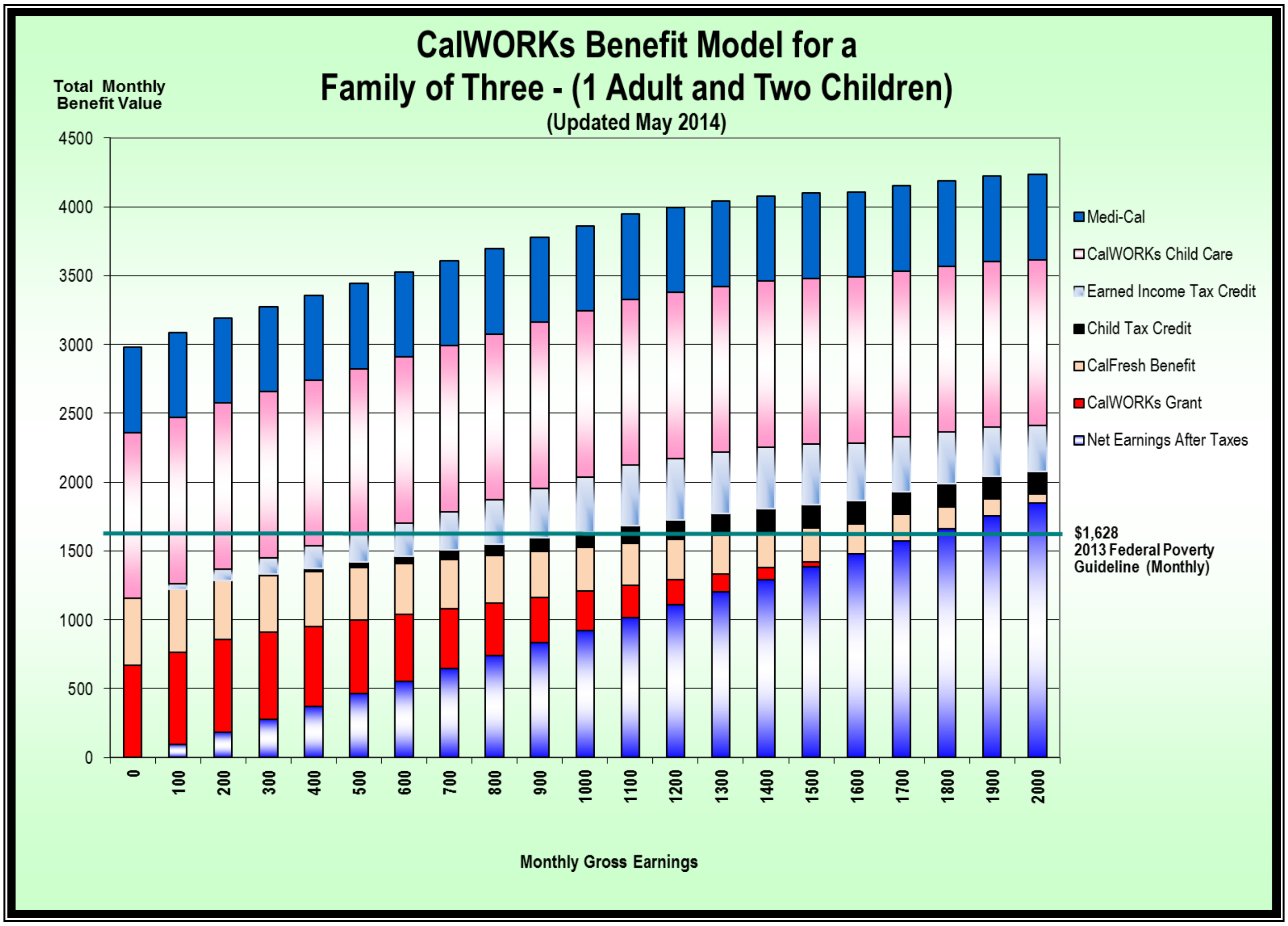
The 2015-16 Budget includes the following expenditures within the CalWORKs program:

- **Drug Felons Eligible for Cash Grants.** The 2015-16 Budget includes $22 million for the cost of providing both CalWORKs and CalFresh benefits to drug felons (this eligibility expansion was included in the 2014 Budget Act). Approximately 3,900 CalWORKs child-only cases will have a newly eligible drug felon adult receiving cash assistance which violates past policies and common sense. In addition to being an awful policy that could waste 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 Grant Increases**. The budget includes $351.8 million ($286.8 million in 1991 Realignment funding and $65 million General Fund) in 2015-16 to fully fund two five percent CalWORKs grant increases that were implemented March 1, 2014 and April 1, 2015. Providing increased cash grants without any connection to progress or outcomes misses a great opportunity to use rewards as a way to motivate behaviors that lead to success..

- **Welfare Programs Lack Accountability and Outcomes.** While the budget increases funding for welfare programs, it fails to include any new accountability measures. California's social safety net needs to be transformed. The current system asks little of those receiving benefits and provides disincentives to work while also failing to require development of basic skills that allow those on welfare to take advantage of opportunities to succeed in life. For example, 48 percent of welfare recipients don't have a high school diploma and California doesn't require they even try to get one. California needs the type of investment that can provide a permanent path out of poverty and towards greater personal advancement. It is time the state upends the status quo and provides funding for innovative welfare programs, similar to those proposed in SB 659 (Bates), that help families achieve independence from welfare through inclusion, accountability and responsibility while providing a holistic approach to services and supports that meet the needs of children and families on welfare.

- **State Policies Create Disincentives to Succeed.** The state's entitlement programs do not provide any incentive for people to become self-sustaining and risk losing the guarantee of cash assistance. As the most recent (2014) chart from the Department of Social Services below shows, a family of three with $0 in annual earnings receives the equivalent of $36,000 annually in government-provided assistance and services from the state (additional county services not reflected on chart). A family earning $1,000 a month can receive nearly $3,000 a month in cash assistance and services from programs such as Medi-Cal, CalWORKs, Cal Fresh, child care and other programs.



- **Moving From Work First Back to Welfare First.** The budget creates a new state-only program within CalWORKs for recipients that have been in sanction status (not participating in welfare to work activities) for more than one year. There are currently about 60,000 cases in sanction status and about 14,500 in long-term sanction status. The new state only program costs $170.8 million General Fund in 2015-16. By moving long-term sanction cases into a state-only program, the state removes the adult from the CalWORKs work participation rate (WPR) calculation, which would increase the state's WPR by 1.5 percent upon full implementation. For the past several years the state has failed to meet the federally required level of participation in the program and has been assessed $899.1 million in penalties for 2008, 2009, 2010, 2011 and 2012. Although creating a new state-only program that increases the state's work participation rate could be beneficial if it alleviates future federal penalties, **the state has essentially reverted back to a welfare model where recipients do not have to participate in the program, but merely have to cash the check.**

- **Additional Funding for Housing Support Program.** The 2015-16 Budget includes a total of $35 million General Fund for the Housing Support program, originally implemented as part of the 2014 Budget with $20 million General Fund. The intent of the program is to provide evidence-based interventions to CalWORKs families that are homeless or at risk of homelessness. Services could include landlord outreach and engagement, housing search and placement, housing barrier assessment, legal services and credit repair. Senate Republicans recognize stable housing as a critical need for self-sufficiency and child well-being and generally support cost effective strategies that help families retain permanent housing.

- **Presidential Immigration Action Impact State-Only Programs.** The budget includes $9.8 million, increasing to $200 million annually, for state-only program eligibility expansions consistent with President Obama's executive actions taken on November 20, 2014 that would allow certain families with undocumented parents and citizen children to be eligible for state funded full scope Medi-Cal, In-Home Supportive Services (IHSS) and Cash Assistance Payments for Immigrants (comparable to the SSI/SSP program). A federal district court judge has enjoined implementation of these actions and the 2015-16 Budget assumes resolution of the litigation in the Administration's favor, including partial year funding in 2015-16. California must be careful to balance the desire to help those in need from other countries with the fiscal realities involved in balancing the state budget and serving existing citizens.

In-Home Supportive Services

The In-Home Supportive Services (IHSS) program provides personal care and domestic services to approximately 450,000 low-income individuals who are aged, blind, or have disabilities. The budget includes $9.7 billion ($2.8 billion General Fund) in 2015-16, a 29.2 percent increase ($2.2 billion total funds [$614 million General Fund]) above the revised 2014-15 Budget. Caseload is estimated to be 467,000, an increase of 4.6 percent above the revised 2014-15 caseload..

- **Coordinated Care Initiative (CCI) Results in Costs Rather than Savings.** The Coordinated Care Initiative (managed care integration for those eligible for both Medicare and Medi-Cal) was included as part of the 2012 Budget as a cost reduction measure. However, several policy assumptions have proven wrong and as a result, the program will actually result in net costs to the state in 2016-17, likely in the hundreds of millions of dollars. Within the IHSS program, the CCI led to several policy changes that have significantly increased General Fund costs by nearly $300 million in 2015-16 such as statewide bargaining and county maintenance of effort, which eliminated counties' incentive to control costs. The Governor acknowledges the CCI is not on track to be cost-effective, which could result in dissolution of the program by January 2017. This could result in a significant level of General Fund savings as counties would again be required to pay for half of the non-federal costs of the program, reducing General Fund as well as providing counties with incentives to control program costs.

- **Eliminates Last Remnants of IHSS Reform and Cost Containment.** Program reforms within IHSS such as fingerprinting recipients, fingerprints included on timesheets, investigation of fraud, and unannounced home visits that were included as part of the 2009-10 Budget have all been eliminated. In addition to eradicating the reforms, the 2015-16 Budget **includes $486 million ($226 million General Fund) in 2015-16 to restore a seven percent reduction in IHSS hours that was part of an IHSS settlement agreement.** The budget assumes the use of proceeds from a new and expanded MCO tax on managed care plans to pay the cost of the restoration in subsequent years. **IHSS is now back on track to be the fastest growing program in the state, increasing by $4.7 billion ($1.2 billion General Fund) since 2007-08.**

- **Continues to Assume Overtime for IHSS Providers.** The 2015-16 Budget continues to provide funding to pay In Home Supportive Services providers overtime beginning October 1, 2015. Federal regulations 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 2015-16 Budget includes $720.9 million ($334.5 million General Fund) for these activities, with $352.2 million ($158.7 million General Fund) budgeted for IHSS overtime in 2015-16.** Currently, however, a federal district court ruled that a portion of the new regulations exceeded the federal Department of Labor's authority and implementation is delayed as the case works its way through the judicial system. The Governor originally proposed to establish a network of providers that recipients could utilize to avoid the overtime costs, but he ultimately chose to abandon that alternative under pressure from Democrats and their union allies that benefit from more overtime payments.

Community Care Licensing

The 2015-16 Budget includes $118 million ($36 million General Fund) for Community Care Licensing (CCL). CCL oversees the licensure or certification of approximately 66,000 licensed community care facilities, such as childcare centers, family childcare homes, foster family and group homes, adult residential facilities, and residential care facilities for the elderly. The budget includes $3 million General Fund to address a backlog of complaint cases, expand training, and provide technical assistance. The budget also outlines future plans to increase inspection frequency as follows:

- Beginning January 2017, the Department of Social Services (DSS) will increase inspection frequency to every three years for all facilities;
- By 2018, DSS will increase inspection frequency to every two years, except child care; and,
- By 2019, DSS will increase inspection frequency to annual inspections for adult day care and residential care facilities for the elderly.

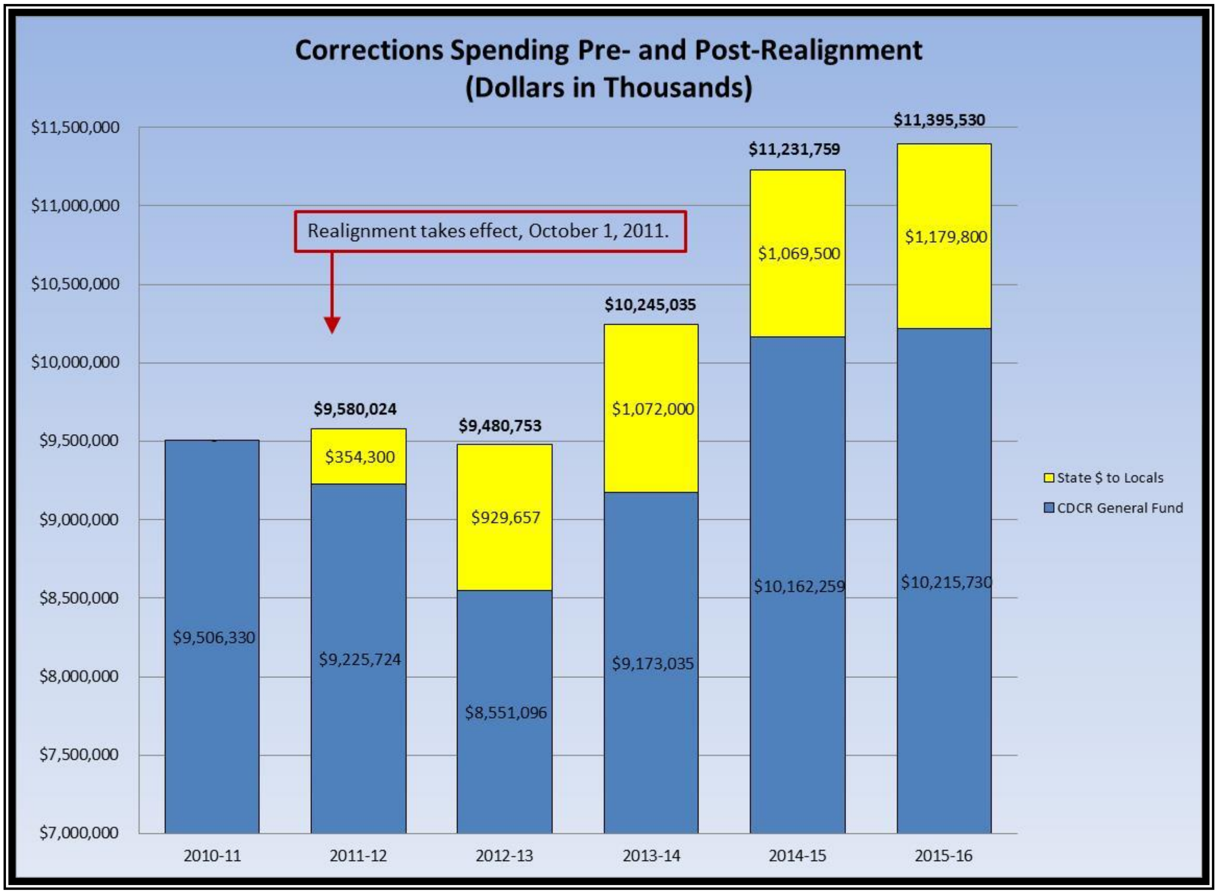
Child Welfare Services

- **Continuum of Care Reform Implementation Begins.** The 2015-16 Budget includes $31.1 million ($28.5 million General Fund) to begin the Continuum of Care Reform (CCR) effort, which was authorized as part of SB 1013 (Budget and Fiscal Review Committee), Chapter 35, Statutes of 2012. The CCR is intended to provide a comprehensive approach to improving the experience and outcomes of children and youth in foster care. Implementation will require a multi-year effort and future costs are unknown at this time, but could be in the tens of millions of dollars. Recommendations range from utilizing a common tool for assessment, requiring foster family agencies be accredited, developing temporary transition strategies, and strengthening recruitment, training and retention strategies, as well as a number of other strategies. The state faces a number of issues within the child welfare services programs, such as inappropriate placements, lack of small family homes, and failing to ensure services are provided as needed for children and foster parents. These reforms are critical to the success of the program and will help to provide greater program transparency as well as improving outcomes for these children and their families. Senate Republicans have been supportive of reforms to address the needs of our state's foster youth.

Public Safety

CORRECTIONS

Despite the Governor's promise of billions of dollars in savings from the 2011 Public Safety Realignment (Realignment), and **despite the Department of Corrections and Rehabilitation (CDCR) reducing its average daily population by more than 35,000 inmates since Realignment took effect, state spending on corrections continues to grow in 2015-16.** As reflected in the chart below, annual General Fund expenditures by CDCR have grown from $9.5 billion in 2010-11 (the last year before Realignment) to $10.2 billion in 2015-16. Including state funding provided to local public safety agencies to implement Realignment, total annual state spending on corrections for state prison inmates, parolees, and felons shifted to local responsibility has grown by $1.9 billion since Realignment took effect, to $11.4 billion in 2015-16. Clearly the Governor has failed to rein in corrections spending as promised. Furthermore, the budget he negotiated with legislative Democrats continues to underfund local law enforcement agencies charged with implementing Realignment.



CDCR

The 2015-16 Budget includes General Fund spending for CDCR of $10.2 billion, which is approximately $668 million above the Budget Act spending level for 2014-15. The increase in spending is comprised mostly of employee compensation and benefits cost increases ($363 million), health care staffing adjustments ($90 million), compliance with recent *Coleman* and *Armstrong* federal court orders ($61 million), and activation of 2,376 new infill beds ($36 million), offset by various population-related reductions.

Right-Sizing the State Prison System. With the prison population currently about 2,400 inmates below the federal three-judge panel's final February 2016 benchmark, the budget includes a $73.3 million General Fund reduction, which reflects a reduction in the number of out-of-state contract beds of about 4,000 (from about 9,000 beds to about 5,000).

While reducing the state's reliance on out-of-state contract beds is certainly a desirable long-term outcome, the Administration cautions against emptying these facilities too quickly. The high level of uncertainty associated with population reduction measures that are currently underway and the need to maintain compliance with the three-judge panel's population cap suggest that reducing capacity too soon could be catastrophic. If the state were to fall out of compliance, the court-appointed compliance monitor could potentially require CDCR to immediately release thousands of felons into our communities regardless of whether they have been rehabilitated and without concern for the risk they pose of reoffending.

Although the budget does not assume the closure of any state prison facilities, legislative Democrats, have called for the closure of the California Rehabilitation Center (CRC) in Norco. Chapter 26, Statutes of 2015 (SB 85, Committee on Budget and Fiscal Review) requires the Administration to produce a report as part of the Governor's 2016-17 Budget that provides a comprehensive plan for the state prison system, including a "permanent solution to the decaying infrastructure of the California Rehabilitation Center." SB 85 also makes a legislative finding that "further investment in building additional prisons is unnecessary at this time, and that the California Rehabilitation Center may be closed without jeopardizing the court-ordered prison population cap." The legislative finding is clearly intended to pressure the Administration to close the CRC.

While there is little disagreement about the substandard condition of CRC and the need to repair, replace, or retire the facility, **Republicans agree with the Governor that state officials should resist impulses to permanently reduce prison capacity before the long-term effects of recent policy changes affecting prison populations are better understood.**

Condemned Inmate Housing Expansion. Accounting for new death sentences, overturned convictions, and non-execution inmate deaths, California's condemned population increases by approximately 13 inmates per year, on average. There are approximately 730 condemned male inmates in the state, all of whom are housed at San Quentin State Prison (SQSP). CDCR has 715 beds for this population (690 permanent, 25 temporary), leaving no room for surges or future population growth. The Department has been able to manage the population to date because, at any given time, some inmates are either out to court or receiving medical or mental health treatment at an off-site facility. If all condemned inmates who are temporarily away were to return at the same time, the Department would have more inmates than available beds. To address this problem, the enacted budget includes $3.2 million General Fund to convert non-condemned housing at SQSP to condemned beds, which will increase the available number of permanent condemned beds by 97 (from 690 to 787).

With a significant majority of California voters still supporting the death penalty (approximately 56 percent according to a 2014 Field Poll) and no executions in the last eight years, it is highly likely that the additional condemned inmate housing for which this budget provides will be needed well before the upward trend for this population is reversed. The conversion of existing beds is a low-cost alternative to new construction.

***Coleman* Compliance: Use of Force and Segregated Housing.** The budget includes $42 million General Fund to comply with several recent orders from the *Coleman* court regarding CDCR's use of force and segregated housing for certain mentally ill inmates. The recent federal court orders require the Department to provide more clinical staff involvement during use of force events like cell extractions. In addition, CDCR must keep Correctional Clinical Case Management System (CCCMS) inmates that are sent to segregated housing units for behavioral reasons separate from non-CCCMS inmates. While it is unfortunate that the state must pay these costs, history has shown that when

CDCR fails to show an early good-faith effort to comply with federal court orders, more onerous and costly orders typically follow.

Receiver

California Health Care Facility (CHCF) Activation Problems Continue to Drive Major Costs. Shortly after opening the doors of the CHCF (the new prison hospital in Stockton) in late 2013, problems with the Receiver's implementation plan began to surface. The Receiver's Office eventually disclosed that it had seriously underestimated the mobility of the population of patients being housed within the facility, resulting in the need for more custody staff than originally planned. In January 2015, we learned that the Receiver also severely underestimated medical staffing requirements. The enacted budget includes $76.4 million General Fund to add 715 medical staff positions, nearly doubling the number of medical staff at CHCF. **The Receiver, who was appointed by the federal courts to fix California's prison medical system, has bungled several crucial steps in the activation of the medical facility he designed. Republicans believe there needs to be more accountability for the Receiver and the costs of federal court mandates regarding prison medical care. To date, the ruling party has done very little to hold the Receiver accountable.**

Implementing the Court's Receivership Transition Plan. The budget includes $1.9 million General Fund to support 16 positions in the Receiver's office to implement the federal court's plan to transition the prison medical care system back to the state. These positions would be responsible for developing policies and procedures, evaluating the suitability of individual facilities for return to state control, and ensuring continued compliance once control has been delegated to the state. Having the prison medical system under federal receivership has cost the state billions of dollars. Some of this spending was likely necessary, but it could be argued that much of it was not. Ultimately, the best scenario is for the state to operate a constitutionally adequate prison medical system on its own, which would eliminate the need for federal court intervention. The resources included in the 2015-16 Budget Act will move the state one step closer to retaking control of its prisons.

Improving the Inspector General's Medical Inspections. In order for the federal court to relinquish control of California's prison medical system back to CDCR, the state must demonstrate that it is delivering constitutionally adequate medical care to inmates. In 2013, the federal court's medical experts determined that the medical inspections being conducted by the Office of the Inspector General (OIG) were ineffective in determining the quality of care being delivered to inmates. At the court's direction, the OIG consulted with the court's experts to develop a new inspection model, which the court approved in February 2015. The budget includes $3.9 million General Fund and 19 positions to establish three new inspection teams to conduct annual medical inspections at all CDCR institutions. These teams will be critical to the state's ability to prove to the court that CDCR is capable of delivering a constitutional level of medical care to inmates in its custody.

Local Public Safety Realignment Funding

The budget reflects approximately $1.2 billion in 2015-16 funding for local public safety agencies to manage realigned offender populations – a slight increase from the $1.1 billion projected for 2014-15. Many local sheriffs and probation departments continue to speak out about the inadequacy of state Realignment funding to support the level of rehabilitative programming and services necessary to manage this population and protect public safety**. Republicans believe that we must provide our local government partners with adequate resources to properly manage and supervise these criminals, including funding for recidivism-reducing programs like job training, education, drug treatment, and mental health counseling.**

No Funding for Data Collection. The Governor and legislative Democrats forced Realignment on the people of California, and in doing so, they failed to include any requirement for local public safety agencies to collect data on outcomes. As a result, there is virtually no data being collected that would allow for the evaluation of programs being delivered to the realigned population. Realignment requires local agencies to provide evidence-based programming to realigned offenders to reduce recidivism. **Last year, legislative Democrats killed SB 1097 (Nielsen), a common-sense measure introduced by Republicans that would have established local data collection requirements and provided funding to support local agencies in that effort. This year, legislative Democrats killed SB 753 (Nielsen), a measure that would have required similar data collection and reporting requirements.** The enacted budget fails to provide funding for a much needed local criminal justice data collection effort. The ruling party continues its refusal to put the evidence in "evidence-based programming".

<u>Office of Emergency Services (OES)</u>

Hazardous Materials Fee for Rail Disaster Response. Chapter 663, Statutes of 2014 (AB 1476, Committee on Budget) authorized a $10 million loan from the High-Cost Fund-B Administrative Committee Fund to the Regional Railroad Accident Preparedness and Immediate Response Fund (RRAPIRF), to be used by the OES for railroad tank car hazardous material-related activities. The enacted budget continues this funding in 2015-16 and **imposes a new fee on hazardous materials transported by rail, which is likely an illegal tax under Proposition 26 (2010).** The new fee is expected to bring in revenues of up to $20 million per year. These new revenues will be used to repay the High-Cost Fund-B loan and for planning, preparedness, and response purposes related to accidents involving hazardous materials transported by rail. Unfortunately, **the state activities and resources to be funded by the new fee are in many ways duplicative of those already provided by local first-responder agencies and private industry. In addition, the railroads are already required to pay more than $7 million per year in fees for hazardous materials oversight by the Public Utilities Commission. Furthermore, the new fee singles out one mode of transportation – railroads – despite the fact that hazardous materials shipped by truck account for the vast majority of all transportation-related hazardous material spills.**

<u>Department of State Hospitals (DSH)</u>

Incompetent to Stand Trial Patient Backlog. County jails continue to 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 backlog has grown as high as 400, and currently stands at about 300 (from 150 in 2012). The 2014 Budget Act provided funding to expand IST capacity by 105 beds and to enhance local Restoration of Competency (ROC) programs by up to 55 beds. In continuation of that effort, the Budget Act of 2015 includes the following:

- *Funding to Activate 105 Additional IST Beds.* Provides $17 million General Fund to activate an additional 105 beds (on top of the 105 authorized in the 2014-15 Budget Act), including 55 at Atascadero State Hospital and 50 at Coalinga State Hospital. The 50 beds at Coalinga will be used to treat *Coleman* patients currently treated at Atascadero, freeing up the Atascadero beds for additional IST patients.

- *Expansion of ROC Program.* Provides $10.1 million for DSH to expand the existing ROC program by up to 108 beds.

Taken together, these measures should help to significantly reduce, and possibly eliminate, the IST backlog. By facilitating the restoration of these individuals to competency, the funding provided in the budget will expedite their criminal trials and bring justice to crime victims in a more timely manner.

Earthquake Repairs and Seismic Retrofitting at Napa State Hospital. In August 2014, a magnitude 6.0 earthquake struck the City of Napa, damaging eight buildings at Napa State Hospital (NSH). Four buildings were "red tagged", meaning they will have to be demolished and rebuilt. The other four were "yellow tagged", meaning they will have to be substantially reconstructed. Subsequently, a federal disaster declaration was issued, making the state eligible for federal reimbursement of 75 percent of the costs of repair. The state is also eligible to receive a 75 percent federal match (up to $3 million) for seismic retrofits to buildings that were not damaged in the quake. NSH has one building that has been preliminarily approved for federal retrofit money. The enacted budget includes $6.8 million General Fund for the state's share of all phases of these projects and authorization for a $17.2 million loan from the General Fund to cover project costs until federal reimbursements are made. The availability of federal assistance presents an opportunity for the state to address many seismic issues at NSH at a fraction of the cost that would otherwise be incurred.

Judiciary

Increased Funding for Trial Courts. Between 2008-09 and 2012-13, annual General Fund support for the trial courts was reduced by about $724 million. Actions were taken to mitigate the negative impact of these reductions on court operations, including increasing court user fees, shifting court construction funds to operational purposes, and tapping trial court reserves. Despite these mitigating actions, many courts had to implement additional cost-reducing measures, including furloughing and laying off employees, reducing court services, and closing courtrooms or entire courthouses to live within their budgets.

The Legislature began to restore trial court funding in 2013-14 by increasing General Fund support by $60 million. The 2014 Budget Act added another $129 million General Fund, and the 2015 Budget Act includes an additional $233 million General Fund, as follows:

- ***Baseline Funding* –** $90.1 million for a five-percent increase to baseline trial court operational funding.

- ***Salary and Benefit Costs* –** $38.8 million for the trial court's cost increases related to employee compensation and retiree benefits. This is part of a multi-year plan to encourage the trial courts to comply with standards set forth in the Public Employees' Pension Reform Act of 2013 (PEPRA) that require state employees to share in their retirement costs. The plan, which commenced in 2014-15, funds increased retirement and employee health care costs one year in arrears, to the extent the courts make satisfactory progress (by the Administration's standards) toward complying with PEPRA. The Administration indicates that some courts have begun to make progress toward this goal.

- ***Proposition 47 Workload* –** $26.9 million for new workload to process petitions and hold resentencing hearings following the passage of Proposition 47 in the November 2014 General Election. Proposition 47 retroactively changed the definitions of certain drug and property crimes, transforming many crimes that were previously felonies or wobblers into misdemeanors. It also authorized offenders convicted of those crimes to petition the court for resentencing under the new definitions. The courts are experiencing significant workload increases to resentence offenders currently in custody and to change felony convictions to misdemeanors for offenders who have already served their time and been released.

- ***Extending Temporary Fee Increases* –** The budget extends for three years (through 2017-18) various temporary court user fee increases that were enacted in the 2012 Budget Act. The budget also includes $66.2 million General Fund to backfill court user fee revenue that is coming in below projections. **Republicans believe that court user fees create barriers to justice for many would-be litigants.** Since 2009-10, more than $120 million in court costs that used to be supported by the General Fund have been passed on to court users in the form of new or increased user fees. As evidenced by the $66.2 million revenue shortfall, many court users are either unable to pay these higher fees or are opting not to pay them, meaning their grievances are either going unresolved or being addressed outside the court system. While backfilling user fee revenue that is coming in below projections is necessary for the health of the trial courts, it would have been better if the temporary fee increases had been allowed to expire and additional General Fund support (on top of the $66.2 million) was provided to the trial courts to make up the difference.

- ***Funding for Dependency Counsel* –** $11 million to support attorneys representing abused and neglected children and their parents in dependency cases. Under existing law, there is no limit on the caseload for dependency counsel, which leads to inadequate representation in many cases, as many attorneys represent 300 or more clients at a time. The state has a responsibility to ensure that every child or minor dependent in our foster care system is fully and adequately represented in dependency court. While $11 million is likely insufficient to bring all caseloads within acceptable levels, it is a step in the right direction, and it brings total state funding for court-appointed dependency counsel to $114.7 million per year.

Amnesty for Individuals with Past-Due Court-Ordered Debt. The budget establishes an 18-month amnesty program for individuals with past-due court-ordered debt related to traffic violations. Participants will be able to extinguish their debt by paying 50 percent of it (or 20 percent if the individual meets income eligibility requirements). This will free many individuals from burdensome debt, allow some to have their driver's license reinstated, and could increase state and local revenues in the short term. The Administration projects one-time revenues of $150 million to state and local funds, with approximately $12 million going to the State Penalty Fund to temporarily address an ongoing structural deficit within the fund.

Transportation

Governor Calls a Special Session on Transportation. The 2015-16 Budget includes approximately $7.4 billion (various transportation funds, including $2.1 billion for locals) for streets, highways, and road projects. However, the main theme continues to be the estimated need for an extra $6 billion in annual revenues to maintain and repair state highways. As such, the Governor has called a special session with a focus of pay-as-you-go, permanent and sustainable funding for the maintenance and repair of the state's transportation and other critical infrastructure, improvement of the state's key trade corridors, and to supplement local efforts to maintain and repair local infrastructure.

Republicans have introduced SCA X1 1 (Huff, 2015) as a critical piece of any plan to increase transportation funding. SCA X1 1 will ensure that all existing and new transportation taxes and/or fees are used only for transportation purposes. Returning the $1 billion of annual truck weight fees to transportation projects is the first step towards fixing our transportation infrastructure problems. State General Fund can be backfilled from the billions of unanticipated state revenues that are filling the state treasury. While much of the new revenue is budgeted for K-14 education and the new Proposition 2 Rainy Day Fund – *as it should be* – there are still sufficient General Fund resources to prioritize our crumbling transportation infrastructure.

Additionally, as a result of the newly-imposed Cap and Trade tax on gasoline and diesel fuels, the LAO estimates $1.9 billion in additional tax revenue will be paid by motorists this fiscal year. SB X1 2 (Huff, 2015) proposes that the portion of the revenue generated from the Cap and Trade gas tax should be used to provide funding for more efficient roads and highways to reduce congestion and, as required by the Cap and Trade program, to reduce greenhouse gas emissions.

Using transportation taxes and fees for transportation purposes is fundamentally important, and Republicans believe that principle should be a state priority ***before hitting up our struggling middle class and low income families*** for more car and gas taxes.

Funding for Vehicle Miles Traveled Study. The Budget Act provides $10.7 million in State Highway Account funding to implement the Road Usage Charge Pilot Program (SB 1077 of 2014). This program will explore a mileage-based revenue collection system or Road Usage Charge that could replace the gasoline tax system. The final report is due June 30, 2018. Although such a program could increase revenues for transportation programs, obstacles to its implementation include constitutional privacy questions and pricing concerns related to having a mileage tracking device placed on personal vehicles, not to mention general resistance from California motorists.

Governor Proceeds With High Speed Rail Project Using Legally Questionable Funding Source. The Governor continues to fund his bullet train with a legally questionable funding source, as the project broke ground in Fresno last January. The 2015-16 Budget provides total funding of $3.1 billion ($1.4 billion Proposition 1A bond funds, $1.2 billion in federal funds, and $500 million Cap and Trade revenues); this includes $1.9 billion for HSR system infrastructure and $1.1 billion in local assistance for components necessary to blend HSR with local systems. Last year's Cap and Trade Trailer Bill (SB 862) allocated 25 percent of future Cap and Trade revenues, beginning in 2015-16, to the HSR project, giving the Governor a blank check 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 Cap and Trade program was established as a "market-based mechanism" to fund programs that reduce greenhouse gas emissions (GHG) to 1990 levels by 2020. The Cap and Trade tax revenues are supposed to be used for programs that would reduce greenhouse gas emissions in the short term, prior to 2020. Clearly, this project will have no GHG reductions prior to 2020 since the first piece of operational high-speed rail track will not be completed until 2021. The LAO has indicated that it will be a net emitter of GHGs for approximately the first 30 years of operation.

It should also be noted that although \$3.1 billion is planned to be spent on HSR this fiscal year, the Transportation Trailer Bill (AB 95) reduced oversight of the project by decreasing the frequency of project update reports from twice per year to every other year and eliminated staffing reports. Thus the HSR project rolls forward with less oversight.

Resources & Environmental Protection

Continued Drought Response Funding. The 2015-16 Budget Act funds $1.8 billion ($1.6 Proposition 1 Bond funds, $128 million General Fund, and $8 million special funds) on a one-time basis to continue drought response activities. The funding would be allocated as follows:

Emergency Drought Response (Dollars in Millions)				
Category	**Department**	**Program**	**May Revisio**	**Fund Source**
Protecting and Expanding Local Water Supplies	Water Board	Groundw ater Contamination	$783.4	Proposition 1
	Water Board	Water Recycling	$210.7	Proposition 1
	Water Board	Safe Drinking Water in Disadvantaged Communities	$175.3	Proposition 1
	Water Board	Wastew ater Treatment Projects	$158.4	Proposition 1
	Water Board	Stormw ater Management	$101.0	Proposition 1
	Department of Water Resources	Groundw ater Sustainability	$60.0	Proposition 1
	Department of Water Resources	Desalination Projects	$50.0	Proposition 1
Water Conservation	Department of Water Resources	Urban Water Conservation	$54.0	Proposition 1
	Department of Water Resources	Agricultural Water Conservation	$35.0	Proposition 1
	Department of Water Resources	Make Water Conservation a Way of Life	$13.0	Proposition 1
	Department of General Services	Water Conservation at State Facilities	$15.4	General Fund/ Special Funds
Emergency Response	Department of Forestry and Fire Protection**	Enhanced Fire Protection	$66.8	General Fund
	Office of Emergency Services	California Disaster Assistance Act	$22.2	General Fund
	Department of Water Resources	Removal of Emergency Salinity Barriers in the Delta	$11.0	General Fund
	Department of Community Services and Development	Farmw orker Assistance	$7.5	General Fund
	Department of Housing and Community Development	Rental Relocation Assistance	$6.0	General Fund
	Water Board	Executive Order Implementation	$1.4	General Fund
Total			**$1,771**	

Resource: Department of Finance

To date, the Legislature has appropriated $3.7 billion in drought funding to assist drought-impacted communities though most of the funding has gone towards long-term infrastructure projects. This funding does not include surface water storage projects since the California Water Commission will not allocate project funding from the $2.7 billion of continuous appropriation bond funds until December 2016, pursuant to Proposition 1.

More Enforcement Powers Given to the State Water Resources Control Board (Water Board). The Budget Act provides $1.4 million General Fund to the Water Board to increase enforcement of water use restrictions and conduct additional inspections of diversion facilities to verify compliance with water rights laws pursuant to the Governor's Executive Order B-29-15. In addition, a Drought Trailer Bill (SB 88) was passed that included new requirements on pre-1914 and riparian water rights holders to annually report their diversions, installation of diversion measuring equipment, and increased inspection authority for the Water Board. The bill also enhanced local enforcement authority, increased monetary enforcement penalties (up to $10,000 dollars), and allows funds to be used for local conservation efforts. These penalties are administered by wholesale and retail water agencies, as well as city and county governments. These local entities can now enforce local water waste restrictions and Water Board conservation restrictions. The bill also dramatically expanded the Water Board's authority to force the consolidation of local public water systems. ***Senate Republicans support water projects that provide both temporary and permanent water supplies, but oppose this new policy that facilitates the largest water grab by state government in the last 100 years. The contents of the bill were hidden from the people of California until only 24 hours before it was voted upon and passed by Legislative Democrats.***

No Agreement on New Cap and Trade Windfall. Last year, SB 862 designated how future Cap and Trade revenues would be spent. Beginning in 2015-16, the bill provided that 60 percent would be continuously appropriated for transit, affordable housing, sustainable communities, and High Speed Rail. Based upon the Administration's 2015-16 revenue projections of $2 billion, approximately $1.2 billion will be continuously appropriated to these programs.

The remaining 40 percent is subject to annual appropriation in the budget or legislation for low carbon transportation, natural resources programs, energy and other programs. At this time, the Governor and Legislative Democrats cannot agree on how to spend the windfall of new revenues being generated from fuels being brought under the cap in January of 2015 (i.e., "the hidden gas tax"). The appropriation of these revenues will be subject to future legislation this session. Most of the current projects have little, if any, nexus to greenhouse gas reduction (GHG) reductions, and the confirmation of GHG reductions is difficult to measure under the current program. Senate Republicans have a proposal that would better spend these new Cap and Trade revenues, and will provide demonstrable results and a greater benefit to all Californians while helping to create jobs and improve our transportation infrastructure (*See Transportation Section, page 33*).

As a result of Cap and Trade, and related policies, California now has the ***most expensive gasoline in the country and residential energy rates that are among the highest in the nation**.* The cost of living in California will continue to increase and low and middle income families will bear the greatest burdens because these policies favor the lifestyle of wealthy coastal Democrats. Senate Republicans do not support these Cap and Trade taxes, but if they continue to be imposed the revenues should be used to help rather than hurt low-income and middle class California families.

Payment In Lieu of Taxes (PILT) Owed to Counties Discretionary. The Budget appropriates $644,000 to provide payments to counties in lieu of taxes to compensate for property tax revenue lost in the 2014-15 fiscal year due to private property converting to state-owned. These payments, made by the Department of Fish and Wildlife for wildlife management areas, were made until the 2002 Budget Act eliminated them to achieve General Fund savings. The budget contains no additional funding to address the unpaid past PILT payments which total $8 million. To add insult to injury, the Resources Omnibus Trailer Bill, (SB 83) **makes PILT funding discretionary**. This may be unlawful and certainly dishonorable given that PILT payments were agreed to at the time the lands transferred to state ownership. This proposal could result in less wildlife management areas as counties will be unwilling to support this program if it means lost property tax revenue

New Fee Increases on Water Agencies. The Resources Trailer Bill (SB 83) authorizes the Water Board, through emergency regulations, to administratively adopt an annual fee schedule to align revenues with expenditures to support the Safe Drinking Water Program. These emergency regulations and any subsequent **annual fee increases will <u>not</u> be subject to legislative oversight or approval**

by the Office of Administrative Law. Senate Republicans were concerned about last year's transfer of the Safe Drinking Water Program from the Department of Public Health to the Water Board since the Board is known for its burdensome regulations and excessive fees on the agricultural industry, water rights holders, and property owners. ***This new safe drinking water fee schedule will be similar to the Water Rights and Water Quality Fee programs which have seen millions of dollars in annual increases without any legislative oversight or recourse.***

Easy Access to Private Well Logs. The Resources Trailer Bill (SB 83) rescinds the confidentiality of well logs and makes them available to the general public even though the information was already required to be submitted to the Department of Water Resources and was available to the appropriate public agencies for the purposes of managing groundwater. It is difficult to understand the benefit of making this confidential private property information available to the public. The Department of Water Resources received $625,000 in one-time funding in the Budget Act (AB 93 of 2015) to upload well logs into a database system. These well logs will be available to the public via computer and there will be no requirement to obtain the information in person or show any form of identification. The department plans on redacting the owners name and address but the location of the wells will still be available. ***This appears to be another government overreach that infringes on personal privacy.***

More Energy Costs on California Families to Subsidize the Federal Government. The Resources Trailer Bill (SB 83) allows military bases to be eligible to interconnect as much as 12 megawatts of renewable energy generation through the net metering tariff program, which lets the federal government avoid many of the costs other large customers pay when installing comparably sized renewable generation, such as, public purpose program charges, departing load charges, and standby charges. ***These costs will be passed onto California families in the form of higher energy bills.***

Tire Fee Used as Tax Proceeds to Cleanup Illegally Disposed of Solid Waste Along the California-Mexico Border. The Budget Act provides $300,000 from the California Tire Recycling Fund (tire fee) to the California Environmental Protection Agency to support the California-Mexico Border Relations Council. SB 83 of 2015 authorized the use of the tire fee to cleanup solid waste illegally dumped into the Tijuana River. Thus, California tire consumers will be paying to cleanup solid waste coming from Mexico. The extension of the tire fee (AB 8 of 2013) received a two-third vote, therefore, the legislative Democrats are treating it ***as a new tax*** that no longer has to be used for tire abatement programs.

Inapropriate Use of the State Responsibility Area (SRA) Fee Revenue. The budget spends $95 million in SRA fees for fire prevention activities and programs that do not provide a direct benefit to the homeowners paying the fee. Most of these projects provide a general purpose benefit and should be General Funded. Of this amount, $1.3 million is for a public education campaign on fire preparedness and for archaeological assistance to implement the requirements of AB 52 of 2014 related to lead agency consultative requirements with Native American Tribes. This public awareness campaign and new CEQA workload may provide a public benefit, but it does not provide a direct benefit to the landowners paying the SRA fee. Targeting these funds to programs that do not provide a direct benefit to each homeowner paying the fee is inconsistent with Proposition 26 (2010) requirements. As such, the legality of the SRA fee remains under litigation.

Fireworks Disposal. An appropriation of $5 million one-time from the Toxic Substances Control Account is contained in the Budget Act for the Office of the State Fire Marshal (SFM) to manage various types of seized fireworks. The Resources Trailer Bill allows for the management, instead of the disposal, of seized fireworks. The flexibility given to the SFM is meant as a six month interim solution to enable the removal of existing and new fireworks that are seized by the state.

Re-opening of Magalia Conservation Camp. The Budget contains $3.1 million General Fund for CalFire to make repairs to the Magalia Conservation Camp in Butte County. In addition, annual funding of $3.1 million will be available for the conservation camps ongoing operations starting in 2016-17. This fire camp will provide corpsmembers training in fire suppression and provide important fire protection resources in Northern California and throughout the state. The camp is expected to re-open in the summer of 2016.

General Fund for California Fairs and Laboratory Network. The budget provides $3.1 million General Fund ongoing to assist with fair operations, improve the financial stability of smaller fairs statewide, and provide funding to support additional fair board training. General Fund support was eliminated for California fairs in 2011, and since that time many fairs have experienced fiscal hardship and are at risk of closing. The budget also includes one-time funding of $9 million General Fund for deferred maintenance at California fairs. The budget also includes an additional $4.3 million General Fund for the California Animal Health and Food Safety Laboratory Network and to meet the operational needs of the new South Valley Animal Health Laboratory in Tulare.

More Funding to Continue Existing Service Levels at State Parks. The budget includes a one-time appropriation of $16.8 million from the State Parks and Recreation Fund in 2015-16 to maintain existing park service levels throughout the state park system. The department is also receiving $20 million General Fund for critical infrastructure and deferred maintenance needs at the parks.

Labor and Workforce Development

Labor and Workforce Development Agency (Agency)

Temporary Worker Pilot Program. The budget includes $148,000 General Fund to establish a 2-year pilot program to improve transparency and accountability in the recruitment of these workers to reduce exploitation and prevent labor violations. Senate Republicans are generally supportive of protecting immigrants that are taking the lawful path to work in this state.

Employment Development Department (EDD)

Unemployment Insurance (UI) Administration. The budget includes about $31 million General Fund in 2015-16 to fund the shortfall between the federal government's estimate of what it should cost to administer the UI program and resources available in EDD's budget.

UI Loan Interest Rate Reduction. The budget includes $174.5 million General Fund to pay interest due to the federal government in September 2015 for an Unemployment Fund loan secured to pay Unemployment Insurance (UI) benefits. The UI fund began incurring this debt in January 2009 at the height of the "great recession." In October 2014 the EDD reported that, "The UI Fund deficit was $9.7 billion at the end of 2013. The deficit is projected at $8.7 billion at the end of 2014, $7.4 billion by the end of 2015, and $5.5 billion by the end of 2016 if changes are not made to the financing structure."

Workforce Innovation Opportunity Act (Opportunity Act) Discretionary Funds. The budget includes $40.1 million federal funds to continue such workforce initiatives as the Slingshot Program, the Regional Workforce Accelerator Grant Program, and the Governor's Award for Veterans Grants Program, as well as administrative resources for the new Opportunity Act. Senate Republicans have been supportive of the Opportunity Act and its coordinated regional approach to improving the range of educational outcomes and providing tangible skills that meet the needs of employers.

Employment Training Panel (ETP). The budget includes an annual $10 million Employment Training Fund (Fund) beginning in 2015-16, which is projected to provide $26.3 million in contracting capacity (approximately 145 training contracts) to serve approximately 23,000 additional employees. This is in addition to the one-time $10 million augmentation provided in the 2014 Budget Act. ETP's core program is funded by the Employment Training Tax, which California employers participating in the UI system pay to promote the development of their workers. Employers train their own employees to perform new or higher-level jobs and then apply to ETP for training cost reimbursements when employees meet certain achievement requirements.

Department of Industrial Relations

Elevator Inspections and Inspection Fee Reduction. The budget includes an increase of $4.4 million from the Elevator Safety Account to meet annual inspection requirements for approximately 108,000 conveyances throughout the state. **Due to the account's surplus, the budget also includes a fee holiday for routine elevator inspections and an ongoing reduction in the inspection fee.** This may be the first time in the last decade that government fees have decreased instead of increased!

Local Government

Redevelopment Agencies

When the state eliminated RDAs in 2011, it established "successor agencies" to ensure the timely retirement of outstanding RDA debts and other legal obligations. The change resulted in property tax dollars being redirected back to cities, counties, special districts, and K−14 schools. According to the Department of Finance, since 2011-12 approximately $4.2 billion in general purpose revenue has been returned to cities, counties and special districts, and $4.3 billion of additional property tax revenues has been distributed to K-14 schools. The following table reflects how much has been allocated to these entities, and also reflects amounts of revenues that are projected to be allocated through 2017-18.

Fiscal Year	Total to be Allocated	Schools	Cities	Counties	Special Districts
2011-12 & 2012-13	$4,057.3	$2,252.6	$619.8	$875.1	$309.9
2013-14	$2,169.4	$1,229.1	$374.4	$444.0	$122.0
2014-15	$1,645.3	$963.8	$272.8	$309.4	$99.3
2015-16 Estimate	$2,056.1	$1,116.8	$335.6	$481.2	$122.5
2016-17 Estimate	$2,039.3	$1,112.4	$375.8	$420.8	$130.3
2017-18 Estimate	$2,379.3	$1,307.6	$434.7	$486.5	$150.5

Resource: Department of Finance

Pursuant to Proposition 98, increased property taxes for schools effectively reduce the amount of General Fund revenues necessary to meet the annual minimum funding guarantee. On an ongoing basis, Proposition 98 General Fund savings are estimated to exceed $1.1 billion annually, and it is estimated that additional ongoing property tax revenues of more than $900 million annually will be distributed to cities, counties, and special districts.

In 2011 Republicans generally opposed the elimination of RDAs because, despite the many anecdotes of abuses, there were also many success stories of cities statewide using this tool to improve transportation infrastructure, provide affordable housing, and revitalize town centers. Over the past two years, there have been numerous attempts to pass legislation that would provide for exemptions or solutions to fix "problems" caused by the elimination of RDAs.

Changes to RDA Statutes. The budget does not include any changes related to the redevelopment dissolution statutes. However, the Governor has proposed significant changes that are contained in AB 113/SB 86 (budget trailer bills), which will likely be voted upon before the end of legislative session. Senate Republicans will work with our local government partners and other stakeholders to ensure that this proposal does not exacerbate the problems created by RDA dissolution.

State Mandated Local Programs

Pre-2004 Mandate Reimbursements. On May 27, 2015 the Department of Finance pulled the "trigger mechanism" that was included in the 2014 Budget Act, which allows the state to repay $765 million to cities, counties, and special districts for mandate costs incurred prior to the passage of Proposition 1A in 2004. Of the $765 million, cities will receive approximately $168 million (or 22 percent), counties will receive $592.8 million (or 77 percent) and special districts will receive about $4.2 million (or 1 percent).

Funded Mandates. The budget includes $47 million ($44.4 million General Fund) to fund the ongoing costs of 20 public safety- and property tax-related mandates in 2015-16. With funding in the Budget Act, these mandates will be active in 2015-16 as mandatory obligations of local governments. This funding also includes $9.6 million General Fund (one-time) to pay back costs that local governments incurred between 2001 and 2013 for performing activities under the Public Records Act, which is no longer a reimbursable state-mandated local program (pursuant to Proposition 42 of 2014).

Election-Related Mandates. This budget does not include $77.4 million that Senate Republicans fought to include in order to activate election-related mandates for 2015-16. The Legislative Analyst's Office indicates that, *"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."* Senate Republicans continue to believe that the state must fund these mandates to ensure fair, uniform, and transparent elections statewide.

Employee Compensation and Retiree Benefits

Elimination of Vacant Position Oversight Leaves No Stick. The State Government budget Trailer Bill (SB 98) repeals Government Code Section 12439, which requires the State Controller's Office to abolish state employee positions that are vacant for six consecutive months so state departments do not use the funds for other unauthorized purposes. After being publicly rejected in Budget Conference Committee the proposal mysteriously re-emerged after secret closed-door budget negotiations between the Governor and the Legislative Democrats. **For years, Republicans have raised concerns about the bureaucratic "shell games" that allow government officials to misuse funds connected to vacant state job positions for other purposes.** According to a recent investigative report by the Sacramento Bee, state records show that there were 5,200 employees from 2010-11 through 2012-13 who had three or more transfers while keeping the same job title. The illegal job shifting cost taxpayers at least $80 million. Senate Republicans were instrumental in uncovering the problem and establishing reforms that led to the requirement that state government officials eliminate job positions if they are unfilled for six months. Eliminating the only protection in place without establishing new oversight and control procedures could further reward bureaucrats who flaunt the law and waste taxpayer dollars. It may be the case that rules need to be enforced with consequences rather than changed to give departments more flexibility to misuse funds.

It's Good to be a Government Employee in California. 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 2015 Budget includes an additional $581.1 million ($211.2 million General Fund) for employee raises and increases in health and dental benefits, bringing the **total cost of state employee salaries and benefits to about $25 billion**. Since 2006-07, base employee compensation costs have increased $3.6 billion ($1.7 billion General Fund), and cumulatively, employee compensation increases have resulted in an additional $21.3 billion ($10.6 billion General Fund) of state employee compensation expenditures at the same time taxes and fees have been increased by tens of billions of dollars.

California will continue to spend more for government employees than almost all other states. California currently has the 4th highest level of monthly earnings for state, local and federal employees ($4,789 per month) behind Washington D.C. ($6,069), New York ($4,888), and New Jersey ($4,849), ranking near the top nationally in how much government workers earn according to the new U.S. Census Bureau data. **And not only does California pay more than most, California is home to more public employees than any other state, with 11 percent of the nation's total government workforce** (the next closest state is Texas with 8 percent of the workforce). The continuing trend of increased employee compensation, health and retirement costs will eventually require a larger percentage of the state's General Fund resources, leaving the state with no choice but to increase college tuition and reduce resources for vital programs such as K-14 education, public safety, and the social safety net.

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 $900 million since 2005-06, cumulatively costing the state $4.3 billion. Merit salary adjustments are <u>automatic</u> salary increases, and are not affected by furloughs or personal leave programs. Auto pilot pay raises should not occur while core government services to California's families are reduced and taxes raised. 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.

Four Bargaining Units with Expiring Contracts in 2015. Of the 21 bargaining units (BU), 17 bargaining units have contracts in place through 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). Four

BU's (about 52,800 employees out of 200,000 included in the 21 bargaining units) will be seeking new agreements in 2015. These include BU 6- Corrections, BU 9-Professional Engineers, BU 10- Professional Scientific, and BU 12- Craft and Maintenance, whose contracts expire between June 30, 2015 and July 2, 2015 depending on the bargaining unit. As it is already near the end of the contract period and no new legislation has been proposed for approval of a new agreement, it is likely the Legislature will see legislation seeking approval of new agreements within the next few months.

The Administration's plan to seek additional contributions from state employees to begin prefunding retiree health care will likely lead to new agreements including these concessions. It will be important for the state to minimize the cost of contract concessions agreed to as offsets to the pre-funding strategy**. If concessions were to include salary increases for example, as has been the case in the past, long-term state pension costs would increase, potentially mitigating any benefit from the proposal to have state employees begin prefunding retiree health care.**

Retiree Health Care Benefits
The 2015-16 Budget includes $4.8 billion ($3.0 billion General Fund) for health care benefits for more than 800,000 state employees, retirees, and their family members. Of the $4.8 billion, $1.9 billion General Fund is for state retiree health care benefits in 2015-16, **an increase of $1.5 billion compared to costs for retiree health care benefits in 2001-02.**

Fails to Enact Significant Retiree Health Care Reforms. The budget does not include any significant retiree health care reforms as proposed by the Governor. In addition to cost sharing with state employees, the Governor had called for the following changes to begin to address the growth of state health care benefit costs:

- Require CalPERS to offer a high deductible health plan, with the Administration proposing to provide contributions to an employee's Health Savings Account to defray higher out-of-pocket expenses.
- Pursue changes to lower the state's premium subsidy, currently based on a formula using the average premiums of the four highest enrolled plans as a way to encourage employees to select lower-cost plans.
- Increase time newly hired employees must work for full vesting of health care benefits from 10-20 years to 15-25 years. Additionally, the Governor's plan would reduce the state's contribution for retirees from the current 100/90 percent to what they received during their working years (either 80/80 percent or 85/80 percent).

These policy changes would have reduced the state's costs for future employees' retiree health benefit and should be part of a long-term plan to address the state's significant unfunded retiree health liabilities. The 2015-16 Budget does not include any significant changes and will not begin to address the state's $72 billion unfunded liability for retiree health benefits. Apparently, legislative Democrats will not make any reforms without state employee union approval so it is up to Governor Brown to negotiate meaningful reforms through the collective bargaining process. **Senate Republicans are concerned that such an important issue is delegated to a secret negotiation, and are skeptical that the critical changes necessary to address the spiraling liability can be achieved without providing new salary increases or other benefits that will drive costs elsewhere.**

Statewide Debts and Liabilities

Updated Debt Payments in Budget Act. The budget includes funding to repay about $7.6 billion of debts and liabilities by the end of the 2015-16 fiscal year (approximately $1.9 billion is related to Proposition 2 of 2014 – see chart below), as follows:

- $765 million General Fund to cities, counties and special districts to reimburse them for costs incurred prior to 2004 for state-mandated programs. This payment would be made pursuant to “trigger” language included in the 2014 Budget Act.
- Approximately $1 billion General Fund will be returned to K-12 schools in the current year to unwind deferrals that were employed during the recession as budget solutions. This unwinding of deferrals is also tied to the “trigger” language discussed above.
- Approximately $1.5 billion General Fund will be used in 2015-16 to repay special fund loans, which were used in prior years to solve General Fund budget deficits. This payment counts toward the Proposition 2 (2014) requirement that a portion of General Fund revenues be used to pay down certain wall-of-debt obligations (see table below).
- General Funds of approximately $450 million in 2014-15 and $3.8 billion in 2015-16 will be used to repay costs incurred by schools to comply with various education mandates. Of this amount, approximately $256 million would settle-up “underfunding” of Proposition 98 obligations (consistent with Proposition 2 and reflected in the table below).
- $96 million General Fund in 2015-16 (Proposition 2) to cover unfunded University of California pension debt, consistent with implementing a cap on salary eligible for pensions (*see Education page 17*).

Debts and Liabilities Eligible for Accelerated Payments Under Proposition 2
(Dollars in the Millions)

	At Start of 2015-16	Proposed Use of Proposition 2 Funds				Remaining Liabilities
		2015-16	2016-17	2017-18	2018-19	
Budgetary Borrowing						
Loan from Special Funds*	$3,112	$1,502	$974	$560	$277	$0
Underfunding of Proposition 98 - Settle-Up	1,512	256	390	368	498	$0
Undpaid Mandate Claims for Local Governments prior to 2004-05	0	0	0	0	0	$0
State retirement Liablitlies					0	
State Retiree Health	71,773	0	0	0	0	N/A
State Employee Pensions	43,303	0	0	0	0	N/A
Teachers' Pensions (state portion = 14.916 billion)	72,718	0	0	0	0	N/A
Judges' Pensions	3,358	0	0	0	0	N/A
Deferred payments to CalPERS	530	0	0	0	0	N/A
University of California Reitrement Liabitlies						
University of California Employee Pensions	7,633	96	171	169	0	$7,197
University of California Retiree Health	14,519	0	0	0	0	N/A
Unallocated					263	-$263
Totals	$218,458	$1,854	$1,535	$1,097	$1,038	$7,197

Long-Term Infrastructure Debt. In addition to the debts and liabilities discussed above, there is little fanfare for the $79 billion of General Obligation (GO) debt and $11.2 billion of Lease Revenue (LR) debt that the state already owes to investors. The budget assumes General Fund payments of about $5.3 billion in 2014-15 and $5.6 billion in 2015-16 to service the state’s GO debt, as well as $928.3 million in 2014-15 and $997.3 million in 2015-16 to service the state’s LR debt (a majority of which is General Fund supported).

Additionally, the state has the authority to issue approximately $31.1 billion of GO debt to investors that has been "authorized, but not issued" to date. This includes the $7.5 billion of GO debt recently authorized by voters this past November for water bonds (Proposition 1 of 2014). While it is likely that the state will not issue all of this debt at once, over time the issuance of this debt will drive up annual debt service costs. Approximately $3.6 billion of additional GO debt is expected to be issued during 2015, including $52.9 million pursuant to Proposition 1 for the purpose of drought relief.

Other Liabilities Not Included in Budget Act. In addition to the GO, LR, Proposition 2, and other debt repayments noted above (including $200+ billion of unfunded retiree health and pension costs), the complete picture of California's outstanding debt obligations should also include the following significant components.

- Unemployment Insurance (UI) Debt. In order to pay all eligible unemployment insurance claims during the "great recession," the UI fund began borrowing from the federal government in January 2009. In May 2015 the Employment Development Department reported that, "The UI Fund deficit was $8.6 billion at the end of 2014. **The deficit is forecast to drop to $7.0 billion by the end of 2015, and $5.0 billion by the end of 2016** if changes are not made to the financing structure." The budget does not include any funding to pay down the principal balance of this loan.
- Education Mandates. By the end of the 2015-16 fiscal year, the Department of Finance estimates that the state will still owe approximately $2.6 billion to schools for past state-mandated costs.
- Suspended/Deferred/Expired Mandate Costs. There are three categories of mandate costs whereby the state has opted to defer reimbursing local governments for costs already incurred for non-education mandates. The budget does not include any funding for these categories. The state currently owes:
    - *$620.3 million for suspended mandates*. These costs were incurred after 2004, but prior to the state suspending 56 non-education mandates. This includes $77.4 million for elections-related mandates discussed on page X in the Local Government section.
    - *$276.4 million for expired mandates*. There are 12 mandates that have expired, been repealed, or been replaced by subsequent legislation. Existing law does not specify when the state must reimburse local government for these costs.
    - *$87.8 million deferred mandates.* Existing law allows the state to defer reimbursement for two mandates (Peace Officers Procedural Bill of Rights and Local Government Employment Relations) while they remain active. Existing law does not specify when the state must reimburse local government for these costs.

- National Mortgage Settlement. On June 12, 2015 the Superior Court of California ruled that in 2012 California inappropriately spent $331 million from the mortgage settlement funds to help bridge the state's budget shortfall instead of assisting homeowners, which was the purpose of the settlement. Even though it ruled that money had been used unlawfully and requested the Governor and Legislature to return it, the court did not order the Legislature to appropriate funds for that purpose. On June 12th, thirteen Senate Republican members sent a letter to the Governor offering bipartisan support for a trailer bill to restore the misappropriated funds, which would be in the best interest of homeowners in distress.
- Statewide Deferred Maintenance. Even though the budget includes $125 million General Fund for various deferred maintenance projects (*see General Government section on page 46*), California's 2015 Five-Year Infrastructure Plan reports that the statewide deferred maintenance need totals $66.1 billion, including an estimated $59 billion of deferred transportation maintenance. These costs are not traditionally considered debts or liabilities; however, they are state obligations as the state is responsible for maintaining its assets and limiting future replacement costs.

General Government

California Arts Council. The budget includes $7.1 million General Fund to continue a wide array of programs, including Arts Education (CREATE California, Creativity at the CORE, Turnaround Schools, and other arts education programs focused on youth in the juvenile justice system), Economic and Community Development, Veterans Initiative for the Arts (also serves active duty military members and their families), Cultural and Community Engagement, and Arts-in-Corrections Programs. Senate Republicans have generally been supportive of efforts to ensure funding for the Arts Council programs.

Commission on Status of Women and Girls. The budget includes $615,000 General Fund to continue operations at the Commission. In 2013 the Legislature created the Women and Girls Fund to receive gifts, bequests, or donations to support the activities of the Commission, but private donations have been sparse. As a result, General Fund resources are being provided to support the Commission despite questions about the appropriateness of such funding.

Deferred Maintenance. The budget includes $125 million General Fund for the following departments to fund various deferred maintenance projects:

- University of California – $25 million
- California State University – $25 million
- Department of Parks and Recreation – $20 million
- Department of Corrections and Rehabilitation – $15 million
- Department of Food and Agriculture – $9 million
- State Department of State Hospitals – $7 million
- State Department of Developmental Services – $7 million
- Department of General Services – $5 million
- Office of Emergency Services – $3 million
- State Special Schools - $3 million (included as a Proposition 98 expenditure)
- Military Department – $2 million
- Department of Veterans Affairs – $2 million
- Department of Forestry and Fire Protection (appropriated earlier in the fiscal year as part of the drought relief package)

Department of Technology. The budget includes $1.5 million to fund the ongoing operations of a new Project Management Office (PMO) to develop a new project management framework for managing state information technology (IT) projects. The PMO was initiated last year, following numerous significant, news-worthy IT failures (including projects at the Department of Motor Vehicles, Employment Development Department, Department of Consumer Affairs, and State Controller's Office), to provide skilled project management resources on an as-needed basis to state departments and agencies that lack the expertise to manage the projects themselves. In tandem with updated IT project planning procedures, the PMO is intended to improve outcomes in the IT procurement process, prevent future IT failures, and limit cost over-runs.

Consumer Affairs. The 2015-16 Budget includes $25.2 million (various special funds) for the BreEZe licensing and enforcement information technology system. Project costs have ballooned from $27 million to $95 million, and the boards and bureaus that have migrated to this system experienced severe problems in the past, including the Board of Registered Nursing, whose licensing backlog in 2013 resulted in missed job opportunities for applicants. The focus moving forward is to get the system that is partially implemented to meet the needs of the boards and bureaus that have already migrated to the new system. The current contract has been severed, and the Department of Consumer Affairs plans to go out to bid for a new contract to bring the remaining 19 boards and bureaus onto the system. This new contract will add to the cost overrun for this project, which is funded by the boards and bureaus with fee payer monies. Since the cost overruns are primarily a result of the Department of Consumer Affairs failing to adequately plan, staff, and manage the project, the fee payers should not bear the cost burden. Strapping the fee payers with this liability will drive up the cost of doing business and in turn drive up the cost of services to the public. Instead, a more appropriate funding source would be General Fund.

Veterans Affairs. The 2015-16 Budget continues, on an ongoing basis, the $3 million General Fund provided to County Veterans Service Officers (CVSOs) in 2013-14 and 2014-15. This funding is used by the CVSOs to increase outreach to California's veteran population and provide assistance to veterans in obtaining veterans benefits and other matters. Senate Republicans have been supportive of these efforts because these benefits not only help provide financial assistance to our veterans but can also provide relief to California's social benefit programs by shifting veterans to federally funded veterans programs. The CVSOs also help California's economy as more federal dollars come back into California in the form of benefit payments to our veterans.

Appendix A – Veto List

Governor's Vetoes - 2015 Budget Act (Dollars in Thousands)		
Department	**Issue**	**2015-16 Non General Fund**
Natural Resources Agency, Secretary	AB 1492 Advisory Council	$100
Department of Transportation	Tower Bridge Relinquishment	Language
Tahoe Conservancy	Reduction in Environmental License Plate Fund	100
Department of Conservation	Mine Mapping Software	100
Department of Fish and Wildlife	Restoration of Clear Lake	1,000
Employment Development Department	Paid Family Leave Outreach Program	Language
	Total	**$1,300**

Senate Republican Fiscal Staff Assignments

Seren Taylor, Fiscal Director
Andrea Mullen, Budget Committee Assistant

Contact Number: (916) 651-1501

Assignment Area	**Consultant**
Education	Cheryl Black
Public Safety, Judiciary, Corrections	Matt Osterli
Energy & Environment	Rocel Bettencourt
Health	Kirk Feely
Human Services, Public Employees Retirement	Chantele Denny
Revenue, State & Local Government, Taxes	Joseph Shinstock
Transportation, Veterans, Housing & Consumer Affairs	Heather White

For more information, please visit our website at http://cssrc.us/newsroom/fiscal/current