

The 2015-16 Budget:

# California Spending Plan



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# Chapter 1: Key Features of the 2015-16 Budget Package

This publication summarizes California’s 2015-16 spending plan. It primarily reflects the Legislature’s passage of the budget and related trailer bills in mid-June 2015. While the text reflects

additional actions taken later in the summer—for example, trailer bills ratifying new labor agreements—the figures generally reflect estimated budget totals as of June 2015.

## BUDGET OVERVIEW

### State Spending

Figure 1 displays total state and federal spending in the 2015-16 budget package. As shown in the figure, the spending plan assumes total state spending of \$161 billion (not including bond funds), an increase of 1.3 percent over revised totals for 2014-15. The budget package also includes major increases in 2014-15 General Fund spending (primarily for education), which helps explain the large increase in expenditures between 2013-14 and 2014-15. General Fund spending grows little in 2015-16, increasing at only 0.8 percent. Programmatic spending growth, however, is masked by various one-time actions, including one-time spending in 2014-15 on debt payments

and mandate backlog claims, and the end of the “triple flip” mechanism used to finance the state’s prior deficit financing bonds.

### General Fund Revenues

Figure 2 (see next page) displays the revenue assumptions incorporated into the June 2015 budget package. The budget assumes \$115 billion in revenues and transfers in 2015-16, a 3.3 percent increase over 2014-15. The state’s “big three” General Fund taxes—the personal income tax (PIT), sales and use tax, and corporation tax—are assumed to increase at a slightly higher rate (4 percent). The PIT estimate for 2015-16 reflects a \$380 million revenue loss associated with the new state Earned Income Tax Credit (EITC). General

Fund revenue growth was much higher in 2014-15, increasing at a very healthy 7.7 percent rate.

### Proposition 2

Figure 3 (see next page) displays the calculations of Proposition 2 requirements incorporated

**Figure 1**  
**Total State and Federal Fund Expenditures**

*(Dollars in Millions)*

Fund Type	Revised		Enacted 2015-16	Change From 2014-15	
	2013-14	2014-15		Amount	Percent
General Fund	\$100,005	\$114,473	\$115,370	\$897	0.8%
Special funds	38,311	44,523	45,717	1,194	2.7
<b>Budget Totals</b>	<b>\$138,317</b>	<b>\$158,996</b>	<b>\$161,087</b>	<b>\$2,090</b>	<b>1.3%</b>
Selected bond funds	\$4,494	\$6,089	\$6,488	\$398	6.5%
Federal funds	72,583	93,554	97,957	4,404	4.7

**Figure 2**  
**General Fund Revenue Assumptions**

(Dollars in Millions, Includes Education Protection Account)

	2013-14	2014-15	2015-16	Change From 2014-15	
				Amount	Percent
Personal income tax	\$67,025	\$75,384	\$77,700	\$2,316	3.1%
Sales and use tax	22,263	23,684	25,240	1,555	6.6
Corporation tax	9,093	9,809	10,342	533	5.4
Subtotals, "Big Three" Taxes	(\$98,381)	(\$108,877)	(\$113,281)	(\$4,404)	(4.0%)
Insurance tax	\$2,363	\$2,486	\$2,556	\$70	2.8%
Other revenues	2,254	1,994	2,094	100	5.0
BSA deposit	—	-1,606	-1,854	-248	—
Other transfers and loans	376	-444	-1,045	-601	—
<b>Totals, Revenues and Transfers</b>	<b>\$103,375</b>	<b>\$111,307</b>	<b>\$115,033</b>	<b>\$3,726</b>	<b>3.3%</b>

BSA = Budget Stabilization Account.

**Figure 3**  
**Proposition 2 Calculations for 2015-16**

(In Millions)

<b>Proposition 2 Requirements</b>	
Base amount <sup>a</sup>	\$1,753
Excess capital gains taxes captured by Proposition 2	1,955
<b>Totals, Proposition 2 Requirement</b>	<b>\$3,708</b>
Deposit into Budget Stabilization Account	\$1,854
Debt payments	1,854
<b>Calculation of Excess Capital Gains Taxes</b>	
Total taxes from capital gains	\$11,659
Less amount equal to 8 percent of all General Fund taxes	-9,330
Subtotals, Capital Gains Taxes Over 8 Percent Threshold	(\$2,329)
Less Proposition 98 share	-\$374
<b>Totals, Excess Capital Gains Taxes Captured by Proposition 2</b>	<b>\$1,955</b>

<sup>a</sup> Equal to 1.5 percent of General Fund revenues.

spending assumptions of the 2015-16 spending plan, as estimated by the Department of Finance. As described above, the budget package requires a \$1.9 billion deposit in the BSA, bringing the total BSA balance to \$3.5 billion. Combined with the \$1.1 billion balance in the Special Fund for Economic Uncertainties (SFEU)—the state’s traditional

into the budget package. As shown in Figure 3, Proposition 2 requires a \$1.9 billion deposit into the Budget Stabilization Account (BSA) and \$1.9 billion of debt payments. Figure 4 displays the debt payments in the budget package that meet Proposition 2’s requirements.

**The Condition of the General Fund**

*2015-16 Assumed to End With \$4.6 Billion in Total Reserves.* Figure 5 displays the condition of the General Fund under the revenue and

**Figure 4**  
**Proposition 2 Debt Payments in 2015-16**

(In Millions)

	Amount
Special fund loan repayments	\$1,371
Special fund loan interest	47
Proposition 42 loan repayment	84
Proposition 98 settle up <sup>a</sup>	256
UC pension program	96
<b>Total</b>	<b>\$1,854</b>

<sup>a</sup> Related to 2006-07 and 2009-10 minimum guarantees.

budget reserve—the budget ends 2015-16 with \$4.6 billion in estimated total reserves. If revenues differ from the budget assumptions—for example, if 2015-16 revenues end up higher than the assumed level shown in Figure 5—reserves could differ from this \$4.6 billion total.

**Figure 5**  
**General Fund Condition**  
*(In Millions, Includes Education Protection Account)*

	2014-15	2015-16
Prior-year fund balance	\$5,590	\$2,423
Revenues and transfers	111,307	115,033
Expenditures	114,473	115,370
Ending fund balance	\$2,423	\$2,086
Encumbrances	971	971
SFEU balance	1,453	1,116
<b>Reserves</b>		
SFEU balance	\$1,453	\$1,116
Pre-Proposition 2 BSA balance	1,606	1,606
Proposition 2 BSA balance	—	1,854
<b>Total Reserves</b>	<b>\$3,059</b>	<b>\$4,576</b>

SFEU = Special Fund for Economic Uncertainties and BSA = Budget Stabilization Account.  
Source: Department of Finance.

## MAJOR FEATURES OF THE 2015-16 SPENDING PLAN

The centerpiece of the 2015-16 spending plan is a large increase in Proposition 98 funding for schools and community colleges. Outside of K-14 education, the budget package makes notable augmentations for child care and preschool, higher education, and Health and Human Services (HHS) programs. The major features of the budget package are summarized below. We discuss these and other actions in more detail in Chapter 2.

**Large Increase in Proposition 98 Funding.** Due primarily to state General Fund revenues exceeding June 2014 budget assumptions, the Proposition 98 minimum guarantees for 2013-14 and 2014-15 are up by \$612 million and \$5.4 billion, respectively. The 2015-16 minimum guarantee is up \$7.6 billion from the June 2014 estimate of the 2014-15 guarantee. The budget dedicates a portion of all this additional funding for ongoing purposes, with the largest ongoing augmentation for the Local Control Funding Formula (LCFF)

(\$6 billion). The budget package also dedicates a portion for one-time purposes, with the largest one-time augmentations for paying down the K-14 mandates backlog (\$3.8 billion) and eliminating K-14 payment deferrals (\$992 million).

**Notable Increase in Funding for Child Care and Preschool Programs.** The budget increases total funding for child care and preschool programs by \$423 million (18 percent), with the bulk of the increase coming from state General Fund (\$389 million). The additional funding supports rate and slot increases for non-California Work Opportunity and Responsibility to Kids (CalWORKs) child care and preschool programs. It also supports caseload and cost of care increases for CalWORKs child care programs.

**Also Notable Funding Increases for Universities.** The budget includes increases of \$241 million for the University of California (UC) and \$254 million for the California State University

(CSU), reflecting 8 percent year-over-year increases for each segment. The bulk of new funding is unallocated, with the universities allowed to use the funds for any operational or facility purpose. In exchange for the funding increases, the universities continue to agree to keep most resident undergraduate and graduate tuition charges flat. The budget also includes provisions relating to increasing resident enrollment at UC and CSU by 5,000 students and 10,400 students, respectively, in 2016-17 compared to 2014-15 levels. Part of UC's increase is to accelerate payments on UC's pension liabilities (\$96 million). This funding (counted as Proposition 2 debt repayment) is contingent on UC limiting the amount of compensation that can be factored into pension benefits for future employees.

**State EITC.** The 2015-16 budget creates a new state EITC, which is estimated by the

administration to reduce annual revenues by \$380 million. The federal EITC is an income tax credit that increases the after-tax income of low-income workers. The state EITC will supplement the federal credit for lower-income individuals and households.

**HHS Augmentations.** In addition to spending augmentations due to increased caseloads, utilization of services, and labor costs in the HHS area, the spending plan reflects a select number of HHS policy-driven augmentations. Specifically, the budget package includes \$226 million from the General Fund (one time) to restore the 7 percent reduction in In-Home Supportive Services service hours. Beginning May 2016, the spending plan provides Medi-Cal coverage to undocumented immigrants under the age of 19 who are otherwise eligible for those benefits but for their immigration status.

## EVOLUTION OF THE BUDGET

The Governor signed the *2015-16 Budget Act* and 18 budget-related bills on June 24, 2015. Between that date and September 2015, the Governor signed five additional budget-related trailer bills into law. These bills are detailed in Figure 6.

### ***January Budget Proposed \$3.4 Billion Reserve.***

On January 9, 2015, the Governor presented his 2015-16 budget proposal to the Legislature. The budget proposal included \$159 billion of state spending, consisting of \$113 billion from the General Fund and \$46 billion from special funds. The administration's revenue estimates for 2014-15 increased more than \$2 billion compared to its June 2014 estimates that were incorporated in the 2014-15 budget package. Those revenue estimates resulted in a multibillion-dollar influx of new funds for schools and community colleges under Proposition 98. The Governor's

Proposition 98 package included over \$3 billion to pay down K-14 obligations and \$4 billion for LCCFF implementation. In addition, the administration estimated Proposition 2 requirements to be \$2.4 billion—consisting of a \$1.2 billion deposit in the BSA and a \$1.2 billion debt payment requirement.

### ***May Revision: Higher Revenues, Increased Proposition 98 and Proposition 2 Requirements.***

In the May Revision, the administration revised its revenue estimates upward \$6.7 billion compared to the January budget proposal for 2013-14 through 2015-16 combined. The higher revenues were mostly offset by \$5.5 billion in higher General Fund spending necessary to meet the Proposition 98 minimum guarantee. In addition, the administration's May 2015 calculations of Proposition 2 requirements increased from \$2.4 billion to \$3.7 billion—requiring a \$1.9 billion



deposit in the BSA and \$1.9 billion of debt payments. Hundreds of millions of dollars in net General Fund savings in HHS programs, debt service, prisons, the Cal Grant program, and other programs provided the resources necessary to fund the Governor’s May Revision proposals. These proposals included (1) growing the SFEU reserve balance by almost \$600 million, (2) establishing a state EITC (\$380 million), and (3) providing over \$100 million to the universities. (The May Revision also included the final estimate of the mandates “trigger” included in the 2014-15 budget package—\$765 million.)

**Initial Legislative Package Included More Spending and Budget Reserves.** Our office’s May 2015 estimates of the state’s big three revenues were \$3.2 billion higher than the administration’s May 2015 estimates for 2013-14 through 2015-16 combined. The Legislature adopted our office’s revenue estimates—including our estimates of local property taxes—in the first budget package passed on June 15, 2015. The package also reflected our office’s estimates of General Fund spending in a few areas where they differed from the administration’s estimates. This initial budget package included \$2.1 billion in higher General Fund spending, including \$760 million in higher Proposition 2 debt

payments. Similarly, the Proposition 2 BSA deposit was also \$760 million higher, contributing to a total reserve of \$5.7 billion under the initial legislative budget plan. Key legislative priorities reflected in this initial budget plan were in the areas of HHS, child care and preschool, and higher education.

**Final Budget Package Reflects Governor’s Revenue Assumptions.** The Legislature passed the final budget package on June 19, 2015. The spending plan relies on the Governor’s lower May 2015 General Fund revenue assumptions and the resulting administration calculations of the Proposition 98 minimum guarantee and Proposition 2. While overall General Fund spending in the final budget package rose only

**Figure 6  
Budget-Related Legislation<sup>a</sup>**

Bill Number	Chapter	Subject
AB 93	10	2015-16 Budget Act
SB 97	11	Amendments to the 2015-16 Budget Act (“Budget Bill Junior”)
AB 95	12	Transportation
AB 104	13	Education and child care
AB 114	14	Public works: building construction
AB 116	15	Amendments to the 2014-15 Budget Act
AB 117	16	Resources
AB 119	17	Medi-Cal: nursing facilities
SB 75	18	Health
SB 78	19	Education finance: Local Control Funding Formula
SB 79	20	Human services
SB 80	21	Earned Income Tax Credit
SB 81	22	Higher education
SB 82	23	Developmental services
SB 83	24	Resources
SB 84	25	State government
SB 85	26	Public safety
SB 88	27	Water
SB 98	28	Vacant positions and state health premiums
<b>September Budget-Related Legislation</b>		
SB 99	322	State employees: memoranda of understanding
SB 101	321	Amendments to the 2015-16 Budget Act
SB 102	323	State government
SB 103	324	Education
SB 107	325	Redevelopment dissolution

<sup>a</sup> Includes budget bill and “trailer bills” identified in section 39.00 of the 2015-16 Budget Act that were enacted into law.

\$61 million above May Revision levels, various choices were made to shift spending priorities compared to the Governor's proposal. Specifically, with savings resulting from (1) rejection of various administration proposals, (2) an error in the administration's Medi-Cal estimates, (3) legislative changes made to the Middle-Class Scholarship Program, and (4) other legislative actions, the agreement made modest augmentations, generally in the areas of HHS, child care and preschool, and higher education.

***Budget Package Signed by Governor.*** The Governor signed the *2015-16 Budget Act* and related budget legislation on June 24, 2015. Similar to the 2014-15 budget, the Governor did not veto any General Fund appropriations, but vetoed \$1.3 million in appropriations from other funds.

***Late Session Budget Legislation.*** In September 2015, the Governor signed several trailer bills. We display these under "September Budget-Related Legislation" in Figure 6. These bills included legislative ratification of certain labor union bargaining agreements and the administration's proposal related to the dissolution of redevelopment agencies.

***Ongoing Special Sessions, Unallocated Cap-and-Trade Revenues.*** On the day the Governor signed the *2015-16 Budget Act*, he called special sessions related to transportation funding and health care and developmental services financing. As of the date of this publication, these special sessions are ongoing. In addition, at the time of this publication, a significant amount of cap-and-trade auction revenue remains unallocated.

## Chapter 2: Spending by Program Area

### PROPOSITION 98

State budgeting for school and community college districts is based primarily on Proposition 98, approved by voters in 1988. Below, we provide an overview of Proposition 98 funding and spending changes under the enacted budget package. We then highlight Proposition 98 spending changes specifically for K-12 education, adult education, and the California Community Colleges (CCC). In this section of the report, we also highlight notable non-Proposition 98 changes for the California Department of Education (CDE) and the Commission on Teacher Credentialing (CTC). In the subsequent section, we describe preschool and child care changes.

#### Overview

##### *Substantial Upward Revisions to Estimates of Proposition 98 Minimum Guarantee.*

Proposition 98 establishes a minimum funding requirement commonly called the minimum guarantee. Figure 1 shows estimates of the minimum guarantee for 2013-14, 2014-15, and 2015-16. As shown in the figure, the estimate of the 2013-14 and 2014-15 minimum guarantees have increased \$612 million and \$5.4 billion, respectively, from the June 2014

estimates. These increases are due primarily to state revenue being higher than assumed in last year’s budget package. The estimate of the 2015-16 minimum guarantee is \$7.6 billion (12 percent) higher than the *2014-15 Budget Act* level. Under the budget package, Proposition 98 spending is set at these latest estimates of the minimum guarantees.

##### *Increase in Estimated Property Tax Revenue Covers Increase in 2015-16 Guarantee.*

Figure 2 (see next page) shows approved Proposition 98 funding levels for each of the three years by segment and fund source. As shown in the figure, growth from the revised 2014-15 level to the enacted 2015-16 level is \$2.1 billion (3 percent). This relatively modest growth in the guarantee reflects growth in per capita personal income (3.8 percent) offset by a reduction due to spike protection (discussed below). In 2015-16, total Proposition 98 funding is \$68.4 billion. Of

**Figure 1**  
**Tracking Changes in Estimates of Proposition 98 Minimum Guarantee**

(Dollars in Millions)

	June 2014	June 2015	Increase	
			Amount	Percent
2013-14	\$58,302	\$58,914	\$612	1.0%
2014-15	60,859	66,303	5,444	8.9
2015-16	—	68,409	7,550 <sup>a</sup>	12.4

<sup>a</sup> Reflects increase from June 2014 estimate of 2014-15 minimum guarantee.

this amount, \$49.4 billion is General Fund and \$19 billion is local property tax revenue. The estimated increase in local property tax revenue from 2014-15 to 2015-16 (\$2.3 billion, 14 percent) is due in large part to the end of the triple flip and the shift of associated local property tax revenue back from cities, counties, and special districts to school and community college districts. Estimated growth in local property tax revenue (\$2.3 billion) is slightly greater than growth in the Proposition 98 minimum guarantee (\$2.1 billion), resulting in a slight reduction in Proposition 98 General Fund from 2014-15 to 2015-16.

**2015-16 Guarantee Affected by Spike**

**Protection Provision.** In a year when the minimum guarantee increases at a much faster rate than per capita personal income, a constitutional spike protection provision excludes a portion of Proposition 98 funding from the calculation of the minimum guarantee the subsequent year.

The significant increase in the 2014-15 minimum guarantee triggered the spike protection provision, resulting in a corresponding \$424 million reduction in the 2015-16 minimum guarantee (from what it would have been absent the spike protection provision). This is the second time spike protection has been triggered. (The first time was in 2013-14 based on a 2012-13 revenue surge.)

**Outstanding Maintenance Factor Obligation Reduced Significantly.** Due to the increase in state revenue, the estimated 2014-15 maintenance factor payment increased by \$2.8 billion compared to the June 2014 estimate—rising from \$2.6 billion to \$5.4 billion—resulting in the largest maintenance factor payment made to date by the state. The state is expected to end 2014-15 with an outstanding maintenance factor of \$743 million—the smallest outstanding maintenance factor obligation the state has owed since 2006-07. The maintenance factor obligation is projected to grow modestly in 2015-16,

**Figure 2**  
**Proposition 98 Funding by Segment and Source**

(Dollars in Millions)

	2013-14 Revised	2014-15 Revised	2015-16 Enacted	Change From 2014-15	
				Amount	Percent
<b>Preschool</b>	\$507	\$664	\$885 <sup>a</sup>	\$220 <sup>a</sup>	33%
<b>K-12 Education</b>					
General Fund	\$38,162	\$43,888	\$43,151	-\$737	-2%
Local property tax	13,736	14,432	16,380	1,947	13
Subtotals	(\$51,898)	(\$58,321)	(\$59,530)	(\$1,210)	(2%)
<b>Adult Education Block Grant</b>	\$25 <sup>b</sup>	—	\$500	\$500	—
<b>California Community Colleges</b>					
General Fund	\$4,223	\$4,975	\$4,801	-\$175	-4%
Local property tax	2,182	2,263	2,613	350	15
Subtotals	(\$6,406)	(\$7,238)	(\$7,414)	(\$176)	(2%)
<b>Other Agencies</b>	\$78	\$80	\$80	—	—
<b>Totals</b>	<b>\$58,914</b>	<b>\$66,303</b>	<b>\$68,409</b>	<b>\$2,106</b>	<b>3%</b>
General Fund	\$42,996	\$49,608	\$49,416	-\$192	-0.4%
Local property tax	15,918	16,695	18,993	2,298	14

<sup>a</sup> Includes \$145 million for existing wraparound care, formerly funded with non-Proposition 98 General Fund. Excluding this accounting shift, growth is \$75 million (11 percent).

<sup>b</sup> For adult education consortium planning grants. Available for expenditure in 2013-14 and 2014-15.

increasing to \$772 million. The increase is linked to the change in per capita personal income. Because growth in state General Fund is less than growth in per capita personal income, no maintenance factor payment is required in 2015-16.

**Budget Package Contains Many Spending Changes.** Given the increases in the minimum guarantees across the three-year period, the budget package includes notable spending increases each year of the period. For 2013-14, the budget accounts for higher LCFF costs and uses the remaining funding increase for paying down the K-14 mandate backlog. The many spending changes for 2014-15 and 2015-16 are shown in Figure 3 and

Figure 4 (see next page), respectively. In addition to these changes, the budget package includes a \$256 million settle-up payment related to meeting the Proposition 98 minimum guarantee for 2006-07 and 2009-10 and \$207 million in unspent prior-year Proposition 98 funds that have been repurposed. The remainder of this section of the report discusses these spending changes in more detail.

**Notably Reduces Backlog of K-14 Mandate Claims.** The largest one-time spending increase in the budget package affects both school and community college districts. The budget package includes \$3.8 billion to pay down the K-14 mandate

**Figure 3**  
**2014-15 Proposition 98 Changes<sup>a</sup>**

(In Millions)

**Technical Adjustments**

Make Local Control Funding Formula growth adjustments	\$306
Other <sup>b</sup>	149
Subtotal	(\$455)

**K-12 Education**

Pay down mandate backlog	\$2,748
Eliminate deferrals	897
Fund teacher training and support block grant	490
Fund career technical education (CTE) grants	150
Provide learning and behavioral supports for special education <sup>c</sup>	10
Fund Internet technology management, training, and technical assistance	10
Finish developing evaluation rubrics <sup>d</sup>	—
Subtotal	(\$4,306)

**California Community Colleges**

Pay down mandate backlog	\$393
Eliminate deferrals	94
Create basic skills transformation program	60
Extend CTE Pathways Program	48
Fund maintenance and instructional equipment	48
Fund CCC Innovation Awards	23
Create basic skills partnership pilot program	10
Support implementation of baccalaureate degree pilot program	6
Subtotal	(\$683)

**Total, 2014-15 Changes**

**\$5,444**

<sup>a</sup> All actions shown, except for technical adjustments, reflect one-time spending.

<sup>b</sup> Includes various property tax adjustments and adjustments to state agencies receiving Proposition 98 funding.

<sup>c</sup> Part of special education package.

<sup>d</sup> Provides \$350,000 for the State Board of Education.

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backlog (\$3.2 billion for the K-12 backlog and \$632 million for the CCC backlog). Of the K-12 backlog funding, \$40 million is earmarked for county offices of education (COEs), with

intent language that they prioritize the funds for supporting new responsibilities associated with their review of districts' Local Control and Accountability Plans (LCAPs). After the state

**Figure 4**  
**2015-16 Proposition 98 Changes**

*(In Millions)*

<b>Technical Adjustments</b>	
Back out prior-year funds <sup>a</sup>	-\$6,554
Other <sup>b</sup>	335
Subtotal	(-\$6,219)
<b>K-12 Education</b>	
Fund LCFF increase for school districts	\$5,994
Fund career technical education grants (one time)	250
Increase preschool funding	220 <sup>c</sup>
Fund various special education activities	50
Fund Internet infrastructure grants (one time)	50
Provide 1.02 percent COLA for select categorical programs	40
Pay down mandate backlog (one time)	31
Increase funding for the Charter School Facility Grant Program	20
Increase funding for Foster Youth Services	10
Other	-3
Subtotal	(\$6,663)
<b>California Community Colleges</b>	
Fund adult education consortia	\$500
Increase apportionment funding (above growth and COLA)	267
Fund 3 percent enrollment growth	157
Pay down mandate backlog (one time)	117
Augment Student Success and Support Program (SSSP) for matriculation services	100
Fund maintenance and instructional equipment (one time)	100
Augment SSSP for implementation of local student equity plans	85
Hire additional full-time faculty	62
Provide 1.02 percent COLA for apportionments	61
Fund CDCP noncredit courses at credit rate	50
Provide funds to restore enrollment earned back by districts	42
Supplement Cal Grant B awards for full-time CCC students	39
Augment Extended Opportunity Programs and Services	35
Fund new apprenticeships in high-demand occupations	15
Increase funding for established apprenticeships	14
Augment SSSP to fund dissemination of effective institutional practices	12
Augment SSSP for technical assistance to improve district operations and outcomes	3
Fund administration of higher Cal Grant B awards (one time)	3
Provide 1.02 percent COLA for select categorical programs	2
Subtotal	(\$1,663)
<b>Total, 2015-16 Changes</b>	<b>\$2,106</b>

<sup>a</sup> Includes one-time funds for retiring deferrals, paying down the K-14 mandate backlog, and supporting various other one-time initiatives.

<sup>b</sup> Includes LCFF growth adjustments, growth for K-12 categorical programs, and annualized funding for 4,000 preschool slots initiated in 2014-15.

<sup>c</sup> Includes \$145 million for existing wraparound care, formerly funded with non-Proposition 98 General Fund.

LCFF = Local Control Funding Formula; COLA = cost-of-living adjustment; and CDCP = Career Development and College Preparation.

makes the \$3.8 billion in payments, we estimate the outstanding K-14 mandate backlog will be \$2 billion (\$1.7 billion for schools and about \$300 million for community colleges).

**Eliminates K-14 Payment Deferrals.** As required by trailer legislation enacted last year, the budget package also provides \$992 million to eliminate all remaining K-14 payment deferrals. The budget year will be the first fiscal year since 2000-01 that the state is set to make all K-14 payments on time.

## K-12 Education

**\$59.5 Billion Proposition 98 Funding for K-12 Education in 2015-16.** This is \$1.2 billion (2 percent) more than revised 2014-15 funding and \$6 billion (11.2 percent) more than the 2014-15 Budget Act level. On a per-student basis, funding increases from the 2014-15 Budget Act level of \$8,931 per student to the 2015-16 Budget Act level of \$9,942

per student—an increase of \$1,011 (11.3 percent). These amounts exclude Adult Education Block Grant funding and preschool funding. We discuss specific K-12 augmentations below.

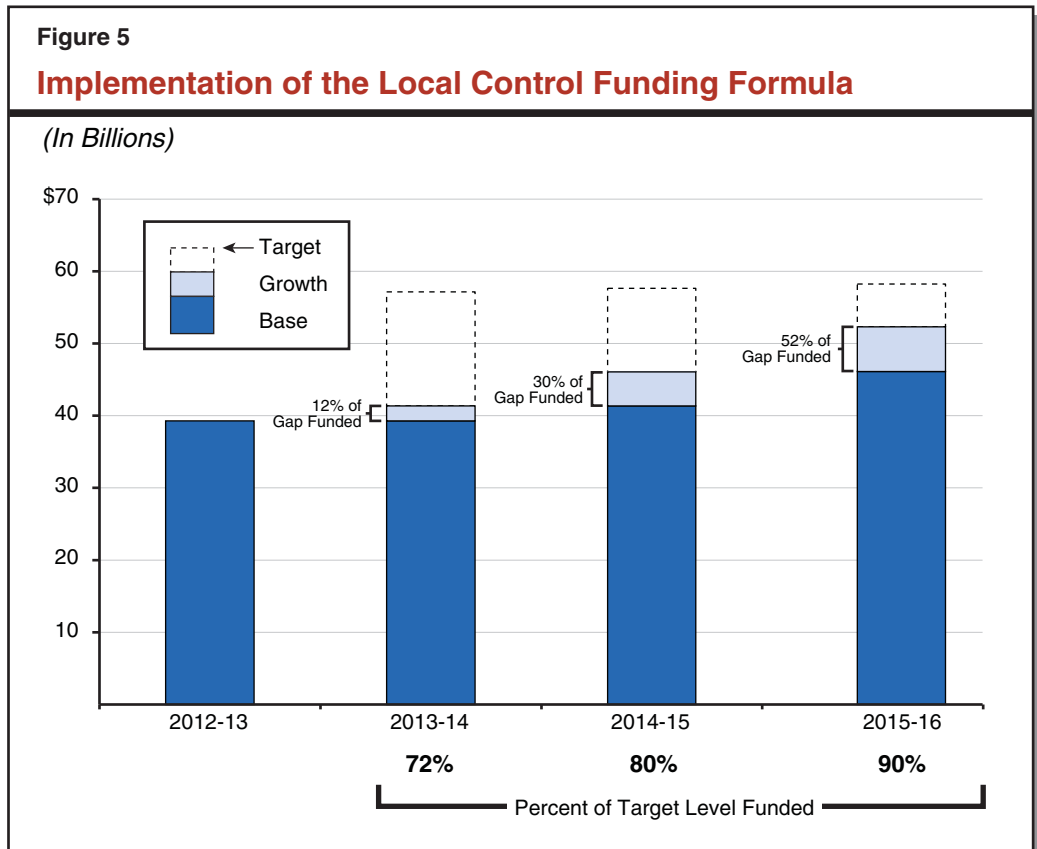
### Local Control Funding Formula

**Large Increase for LCFF.** The

largest ongoing augmentation in the state budget is \$6 billion for implementing the LCFF for school districts and charter schools—bringing total LCFF funding to \$52 billion. This reflects a 13 percent year-over-year increase in LCFF funding. The administration estimates this funding will close 52 percent of the gap to LCFF target rates. As shown in Figure 5, the budget funds 90 percent of the estimated statewide full LCFF implementation cost. School districts and charter schools may use LCFF monies for any educational purpose, including implementation of their LCAPs.

### Categorical Programs

**New Secondary School Career Technical Education (CTE) Competitive Grant Program.** The budget package includes \$900 million in one-time funding for a three-year competitive grant program to promote high-quality CTE. Of this amount, \$400 million is provided in 2015-16, \$300 million



in 2016-17, and \$200 million in 2017-18. School districts, COEs, charter schools, and Regional Occupational Centers and Programs operated by joint powers agencies (JPAs) may apply for grants, individually or in consortia. The program provides separate pools of funding for large-, medium-, and small-sized applicants, based on applicants' average daily attendance (ADA) in grades 7-12. Specifically, 88 percent of the funding is reserved for applicants with ADA greater than 550, 8 percent is reserved for applicants with ADA between 140 and 550, and 4 percent is reserved for applicants with less than 140 ADA. The Superintendent of Public Instruction (Superintendent), in collaboration with the executive director of the State Board of Education (SBE), will determine the number of grants to be awarded and specific grant amounts. Applicants that do not currently operate CTE programs; those that serve low-income students, English learners, foster youth, and students at high risk of dropping out; and those located in rural locations and areas with high unemployment will receive special consideration. In addition, the program prioritizes local applicants' collaboration with postsecondary education, other local education agencies (LEAs), and established CTE efforts. Grantees are required to match grant funds and commit in writing to funding CTE programs after their grants expire.

***One-Time Educator Effectiveness Block Grant.*** The budget includes \$500 million (one time) for training and support of certificated staff, including teachers, administrators and counselors. The CDE is to allocate a total of \$490 million to school districts, COEs, and charter schools based on the number of full-time equivalent certificated staff they employed in 2014-15. Funds may be used for a broad array of activities, including beginning teacher support, assistance for struggling veteran teachers, training for implementation of new state standards, and administrator training. The remaining \$10 million is allocated to the K-12

High-Speed Network (HSN) to provide LEAs with training and technical assistance to help them better manage their Internet connections. The HSN may partner with COEs and other LEAs to provide statewide access to training and resources.

***Pays Off Emergency Repair Program Obligation.*** Statute requires the state to provide a total of \$800 million to school districts for emergency facility repairs. To date, the state has provided \$527 million for the program. The budget includes \$273 million (one time) for the final Emergency Repair Program payment. Of the \$273 million, \$145 million comes from a settle-up payment and \$128 million comes from unspent prior-year Proposition 98 funds.

***Package of Special Education Actions.*** The budget includes \$67 million for a package of special education-related activities, as summarized in Figure 6. Of the \$67 million, \$52 million is ongoing and \$15 million is one time. The largest ongoing augmentations in this package are for expanding services for infants, toddlers, and preschoolers with disabilities as well as requiring preschool staff training and parent education relating to identifying and meeting preschoolers' special needs. The largest one-time augmentation is for one or two COEs to develop statewide resources and training opportunities for addressing students' diverse instructional and behavioral needs.

***Second Round of Broadband Internet Infrastructure Grants.*** The budget includes \$50 million in one-time funding for HSN to provide certain schools with grants to purchase Internet infrastructure. Eligible schools are those that cannot administer online tests or can administer the tests only by shutting down other essential online activities such as e-mail. The Department of Finance (DOF) must approve projects with costs exceeding \$1,000 per test-taking pupil and notify the Joint Legislative Budget Committee (JLBC). If any funds remain after



meeting this core objective, HSN may provide grants to other school sites that do not have Internet infrastructure that allows them to increase their Internet speeds in a cost-effective manner. These latter allocations also are pursuant to a DOF-approved plan and JLBC notification.

**Suspends HSN Budget Appropriation and Adds Annual Program Audit.** The Imperial COE receives an annual grant from CDE to assist LEAs with network connectivity, Internet services, and information sharing. In recent years, HSN has kept a large reserve. To help spend down this reserve, the budget package suspends HSN’s annual

budget appropriation of \$8.3 million and instead requires the agency to use up to that amount of its reserve for 2015-16 operating costs. The budget also increases state oversight of the program by requiring HSN to submit to CDE, DOF, Legislative Analyst’s Office (LAO), and JLBC an annual financial audit that accounts for all funding and use of funds.

**Expands Eligibility for Charter School Facility Grant Program.** The budget provides a \$20 million augmentation for this program, raising the total annual appropriation from \$92 million to \$112 million. The augmentation funds an increase

**Figure 6**  
**Package of Special Education Actions**

2015-16 (In Millions)

Program Area	Action	Amount
<b>Proposition 98 Funds</b>		
Infant and toddler services	Increase funding for districts to serve children with disabilities ages birth to three (brings total funding to \$119 million).	\$30.0
Preschool slots	Fund 2,500 additional part-day State Preschool slots, with priority given to students with disabilities.	12.1
Learning and behavioral supports	Provide funding for one or two county offices of education to develop statewide resources, provide trainings, and allocate subgrants to improve how districts meet students’ learning and behavioral needs.	10.0 <sup>a</sup>
Preschool training, parent information, and rate increase	Specify that State Preschool contractors must provide staff training and parent education on how to identify and meet students’ special needs. Increase part-day reimbursement rate by 1 percent to cover associated costs.	6.0
State Special Schools	Provide one-time increase for instructional activities at the state’s schools for deaf and blind students. <sup>b</sup>	3.0 <sup>c</sup>
Fund swap	Redirect federal funds from local assistance to state-level activities, then backfill with Proposition 98 funds.	2.0
Subtotal		(\$63.1)
<b>Federal Funds<sup>d</sup></b>		
Office of Administrative Hearings	Increase funding for state-level hearings regarding special education disputes (brings total funding to \$12.8 million).	\$1.9 <sup>a</sup>
Alternative dispute resolution	Increase funding for local grants to help districts and families resolve disputes without a trial (brings total funding to \$1.95 million).	1.7
State-level improvement activities	Fund CDE to develop resources and provide technical assistance to districts implementing the new federally required statewide plan for improving services for students with disabilities.	0.5
Subtotal		(\$4.0)
<b>Total</b>		<b>\$67.1</b>

<sup>a</sup> One-time allocation scored to 2014-15 Proposition 98 guarantee.

<sup>b</sup> The budget also requires that these schools spend at least \$4.8 million from their non-Proposition 98 funds in 2015-16 to address critical facility maintenance needs.

<sup>c</sup> Funded with one-time Proposition 98 Reversion Account monies.

<sup>d</sup> New state-level activities funded in part by an increase in the state’s federal grant and in part by redirecting \$2 million from local assistance.

CDE = California Department of Education.

in eligibility. Formerly, eligibility was limited to charter schools that (1) had at least 70 percent of their students qualifying for free or reduced-price meals or (2) were located in the attendance area of a surrounding elementary school that met this criterion. Trailer legislation reduces this threshold to 55 percent of students qualifying for free or reduced-price meals. In an effort to provide more certainty for charter schools regarding their eligibility for the program, trailer legislation also specifies that eligibility will be based on prior-year (rather than current-year) data.

**Ongoing \$10 Million Increase for Foster Youth Services.** The 2015-16 budget increases funding for Foster Youth Services from \$15 million to \$25 million. The increase in funding is intended to reflect the new program requirements set forth in Chapter 781, Statutes of 2015 (AB 854, Weber). This legislation shifts the program's focus from COEs providing foster youth services directly to school districts providing those services and COEs helping to coordinate services. Chapter 781 also expands the definition of foster youth to include children placed with relatives. This change makes the definition of foster youth the same as for LCFF.

**Funding for Some Former Quality Education Investment Act (QEIA) Districts.** The budget provides \$4.6 million (one time) for school districts that previously received QEIA funding but are not eligible to receive LCFF concentration funding. The funding is equivalent to half of the amount districts received from QEIA in 2014-15. The QEIA program sunsets at the end of 2014-15.

**Adds Two New Mandates to Block Grant.** The budget adds a new mandate related to pertussis (whooping cough) immunizations to the schools mandates block grant and provides an associated \$1.7 million augmentation to the block grant. This mandate requires schools on an ongoing basis to verify pertussis immunizations for all students entering the seventh grade and to undertake related

record-keeping and reporting activities. Enacted through Chapter 434, Statutes of 2010 (AB 354, Arambula), the mandate took effect starting in the 2011-12 school year. The budget also adds to the block grant a new mandate relating to Race to the Top activities. The budget provides no associated increase in block grant funding for this mandate, as its estimated statewide cost is very small (less than \$30,000).

### Other Augmentations and Actions

**CDE General Fund Augmentations.** In addition to K-12 Proposition 98 funding, the budget includes \$9.8 million in non-Proposition 98 General Fund augmentations and 3.5 new positions for CDE. Of this funding increase, \$8.7 million is one time and \$1.1 million is ongoing. The largest augmentations are \$3.7 million (one time) for CDE to continue to contract with a legal firm to represent the state in the *Cruz v. California* case and \$3.6 million (one time) to continue the Standardized Account Code System (SACS) upgrade project. Other notable augmentations include \$350,000 for two three-year limited-term positions to administer the new CTE Incentive Grant Program and \$335,000 for three existing CDE positions to support the new adult education consortia.

**SACS Upgrade Project.** The budget includes a total of \$12.2 million (\$5 million in federal carryover funds, \$3.6 million one-time General Fund highlighted above, and \$3.6 million General Fund carryover) to upgrade SACS. The California Department of Technology (CalTech) initially approved the project in 2011 with a cost of \$5.9 million. In 2014, CDE revised the cost to \$21.2 million, noting that it had significantly underestimated the project's cost and complexity. Changes in data storage standards and software licensing and maintenance costs contributed to the cost increase. As of spring 2015, CDE had

selected a vendor (M Corp) and planned to award a contract in the summer following final approval and legislative notification of the revised project scope and cost, as required by budget language. Subsequently, M Corp informed CalTech it would not extend the price quoted for the project, and, on August 12, 2015, CalTech terminated the project citing insufficient funding.

**Various Other Policy Changes.** The budget package also includes the following statutory changes.

- **Expands Transitional Kindergarten (TK) Enrollment.** Trailer legislation modifies TK rules to allow school districts and charter schools to enroll four-year-old children in TK if their fifth birthday falls between December 2 and the end of the school year. These children will begin generating attendance-based funding when they turn five. Formerly, only children turning five years of age between September 1 and December 2 could enroll in TK.
- **Clarifies Requirements Related to Identifying Low-Income Students.** Statute contains certain rules relating to how LEAs are to identify low-income students for the purposes of generating LCFF supplemental and concentration funding. The LEAs identify most low-income students based on annual paperwork that these students submit to participate in the National School Lunch Program. To identify some other low-income students, LEAs use what is known as the “alternative household income form.” Trailer legislation clarifies the information that LEAs must include on the alternative form and how the forms can be used and shared by LEAs.
- **Adds LCFF Reporting Requirements at Full Implementation.** Trailer legislation also adds intent language imposing new LEA reporting requirements once LCFF is fully implemented. At that time, LEAs will be required to report annually the amount of supplemental and concentration funding they received on behalf of low-income students, English learners, and foster youth as well as the amount they spent on behalf of these students.
- **Adds Homeless Youth as a New Student Subgroup.** Trailer legislation requires LEAs and schools with 15 or more homeless students to publish results of statewide assessments for homeless youth. In addition, it requires LEAs to include in their LCAPs specific goals for homeless youth in the eight state priority areas and specific actions the district will take to meet those goals.
- **Extends Deadline for SBE to Adopt Evaluation Rubrics.** Trailer legislation extends the deadline for SBE to adopt evaluation rubrics from October 2015 to October 2016. The evaluation rubrics are to measure and assess school district performance.
- **Extends Reduction in Routine Maintenance Set-Aside.** Trailer legislation modifies and extends provisions relating to the amount districts must annually deposit in their routine maintenance accounts. Prior to 2008-09, school districts were required to set aside 3 percent of their total expenditures for routine maintenance each year for 20 years after receiving state bond funding. From 2008-09 through 2014-15, statute reduced the routine maintenance

requirement to a 1 percent deposit. For 2015-16 and 2016-17, trailer legislation requires districts to deposit no less than they deposited in 2014-15. For the next three years (2017-18 through 2019-20), the required deposit increases to 2 percent, rising to 3 percent beginning in 2020-21.

## Commission on Teacher Credentialing

***Budget Includes \$33 Million for CTC.*** The budget provides \$33 million for CTC—\$26 million in special funds and \$7 million non-Proposition 98 General Fund. This is \$7 million (37 percent) more than the *2014-15 Budget Act* level. The budget contains four major CTC-related changes, as discussed below.

### ***Credential Fee Raised to Help Address Increased Teacher Disciplinary Workload.***

Trailer legislation increases the maximum credential fee from \$70 to \$100. The budget scores a corresponding increase of \$4.5 million in credential fee revenue. The bulk of this funding increase (\$3.9 million) is for addressing higher workload related to teacher disciplinary cases—specifically covering the costs of the Attorney General’s office, which represents CTC in discipline hearings when teachers appeal an adverse ruling from the commission. (Over the past several years, CTC has had an increase in the number of disciplinary cases appealed by teachers, resulting in a large backlog of unresolved cases that CTC expects will take several years to eliminate.) The remaining \$600,000 in new credential fee revenue is split evenly between CTC’s certification and professional services divisions, supporting higher ongoing costs in those areas.

### ***Streamlined Accreditation Data System.***

The budget package includes non-Proposition 98 General Fund of \$3.5 million in 2015-16 and \$1.5 million in 2016-17 for CTC to build a data system that it could use as part of a streamlined

system to accredit teacher preparation programs in the state. Specifically, CTC plans to focus its accreditation reviews on issues identified by the data, as well as provide additional public information on program quality through a data dashboard accessible from CTC’s website. The commission plans to implement some data collection and reporting in 2016-17, with full implementation of the new data system scheduled for 2017-18.

***Updates to the Teacher and Administrator Performance Assessments.*** For the past several years, the state has required that individuals seeking to become teachers pass a performance assessment. Currently, CTC has approved four allowable teacher performance assessments, and teacher preparation programs have discretion to select which of the four assessments they will administer to their teacher candidates. In 2013, the commission approved a similar requirement that candidates in administrator preparation programs pass a performance assessment in order to receive an administrator credential. The budget package provides non-Proposition 98 General Fund of \$4 million in 2015-16 and \$1 million in 2016-17 for various activities related to these assessments. Of the \$5 million provided across the two years, \$2 million is for updating the state-developed teacher performance assessment known as CalTPA to reflect the new state academic content standards, \$1 million is for conducting a study to determine equivalent scores across the four teacher performance assessments approved by CTC, and the remaining \$2 million is for developing the administrator performance assessment.

***Updates to Subject-Matter Exams in Science.*** The budget also includes \$600,000 from the Test Development and Administration Account to revise CTC’s teacher preparation science standards and update science content on required teacher exams to reflect the new state science standards.

## Adult Education

### *\$500 Million for Adult Education Block*

**Grant.** This funding implements a restructuring of adult education services begun in 2013. The restructuring is intended to improve coordination among providers and better serve the needs of adult learners. During the past two years, school districts and community college districts formed 70 consortia (largely coinciding with community college district service areas). With input from other regional groups (such as local workforce investment boards and libraries), the consortia developed joint plans to coordinate and deliver adult education in their regions. Each plan included (1) a needs assessment, (2) plans for coordinating and integrating existing adult education programs, and (3) strategies for improving student success. The block grant funding provides resources to begin implementing these plans.

### **Eligible Programs and Recipients**

#### *Instruction Authorized in Seven Areas.*

Consortia may use block grant funds for programs in seven adult education instructional areas: (1) elementary and secondary basic skills, (2) citizenship and English as a second language, (3) workforce programs for older adults, (4) programs to help older adults assist children in school, (5) programs for adults with disabilities, (6) CTE, and (7) preapprenticeship programs. (Providers may offer instruction in other adult education areas, such as parenting, home economics, and recreation, using other fund sources, including LCFF.)

**LEAs Eligible for Block Grant Funding.** Formal consortia membership is limited to school districts, community college districts, COEs, and JPAs. Each formal member may be represented only by an official designated by its governing board, and only members may receive block grant funding directly.

A consortium member, however, may pass through block grant funding to other adult education providers, such as libraries and community-based organizations, serving students in the region.

### **Funding**

#### *Guarantees Funding for Existing Adult*

**Schools.** In 2013-14 and 2014-15, school districts and COEs operated under a maintenance-of-effort (MOE) provision that required them to spend the same amount annually on adult education as in 2012-13. During this period, school districts and COEs funded adult education using LCFF monies. The MOE provision expired July 2015. The 2015-16 budget effectively extends the MOE for one additional year but begins funding adult education from the block grant rather than LCFF. Specifically, the 2015-16 budget requires the CCC Chancellor's Office to allocate up to \$375 million of the \$500 million block grant for existing school district and COE adult education programs. (If CDE determines the aggregate MOE level exceeds \$375 million, then school districts' and COEs' allotments will be prorated downward accordingly.) To receive a part of the \$375 million earmark, school districts and COEs must be formal members of adult education consortia.

**Remaining Funds Distributed to Consortia Based on "Need for Adult Education."** The CCC Chancellor and Superintendent will distribute the remaining 2015-16 funds to the regional consortia based on each region's need for adult education, as determined by measures relating to general adult population and immigrant population as well as low employment, educational attainment, and adult literacy. Beginning in 2016-17, the Chancellor and Superintendent will distribute the full block grant amount based on (1) the amount allocated to each consortium in the prior year, (2) the region's need for adult education, and (3) the consortium's effectiveness in meeting those needs. Trailer

legislation tasks the Chancellor and Superintendent with identifying associated measures of consortia effectiveness by January 1, 2016.

***Within Each Consortium, Locks in Funding for All Members Going Forward.*** Trailer legislation requires each consortium to align its Adult Education Block Grant allocation with its regional service plan. The trailer legislation, however, also specifies that members of a consortium generally are to receive at least as much as in the prior year. That is, if a consortium's total block grant funding in a given year is equal to or greater than its prior-year amount, then each of its consortium members is to receive at least the same level of block grant funding as in the prior year unless the member no longer wishes to provide the service, is unable to do so, or has been consistently ineffective in meeting expectations despite interventions.

***Requires State to Coordinate Federal Adult Education Funding.*** Trailer legislation requires the state to coordinate funding of two federal adult education programs with state Adult Education Block Grant funding. The two federal programs are: (1) the Adult Education and Family Literacy Act, also known as Workforce Innovation and Opportunity Act (WIOA) Title II, and (2) the Carl D. Perkins Career and Technical Education Act (Perkins). Statute requires the Chancellor and Superintendent to develop a plan to distribute funds from these two federal programs to regional adult education consortia. The two agencies are required to submit the plan to DOF, SBE, and the Legislature by January 31, 2016.

***Also Requires Local Coordination of Adult Education Funding.*** Trailer legislation also requires school districts, COEs, JPAs, and community college districts that receive funding from various state and federal adult education programs to become members of their regional consortia to better coordinate their programs. These other funding sources are community

college apportionments allocated for the seven authorized adult education instructional areas, Perkins funding, WIOA Title II funding, state adult education funds for CalWORKs participants, Adults in Correctional Facilities program funding, and LCFF monies used for adult education.

## **Other Features**

***Includes Planning and Reporting Requirements.*** Statute requires consortia to approve three-year adult education plans. Trailer legislation requires these plans to contain several additional components, including a list of all other entities that provide adult education in the region and a description of actions the consortia will take to integrate services. Consortia are required to provide data annually to the Chancellor and Superintendent about their services and outcomes. Based on these data, the Chancellor and Superintendent must report annually to DOF, SBE, and the Legislature on the status of consortia, including their funding allocations, types and levels of service, and effectiveness in meeting their region's adult education needs.

***Requires Transparent Decision-Making.*** Trailer legislation requires each consortium to develop rules and procedures, to be approved by the Chancellor and Superintendent, regarding participation, decision-making, and reporting. The language specifies that all consortium decisions (such as approval of a regional plan or funding allocations) must be considered in an open meeting where members of the public have an opportunity to comment. The language also requires consortia to request and respond to feedback from other entities providing workforce education and training in the region.

***Provides One-Time Funds to Develop Consistent Data Policies and Collect Data.*** The budget provides \$25 million Proposition 98 General Fund (\$12.5 million to CCC and \$12.5 million

to CDE) for data collection and reporting. The CCC and CDE must provide 85 percent of the \$25 million to consortia to develop or update data systems and collect specified data. The remaining 15 percent is for state-level activities to develop consistent data policies, measures, definitions, and collection procedures. In addition, CCC and CDE are to develop shared data agreements among state agencies, including the Employment Development Department and the California Workforce Investment Board. Statute specifies that performance measures must include improved literacy; attainment of high school diplomas or their equivalent; number of certifications, postsecondary degrees, or completion of training programs; job placement; and improved wages.

## Community Colleges

***\$7.4 Billion Proposition 98 Funding for CCC in 2015-16.*** This is \$176 million (2.4 percent) more than revised 2014-15 funding and \$812 million (12 percent) more than the *2014-15 Budget Act* level. On a per-full-time equivalent (FTE) student basis, funding increases from the *2014-15 Budget Act* level of \$5,753 per student to the *2015-16 Budget Act* level of \$6,379 per student—an increase of \$626 (10.9 percent). These amounts do not include the \$500 million the budget provides for the Adult Education Block Grant. The budget also appropriates bond monies for the construction phase of seven previously approved CCC capital outlay projects. We discuss specific CCC augmentations below.

### Apportionments

***Significant Ongoing Increase in Apportionment Funding.*** The budget augments apportionments for enrollment growth, cost of living, unrestricted educational and operational purposes, noncredit instruction, and full-time faculty. All combined, ongoing apportionment

funding increases 12 percent from 2014-15 to 2015-16. We discuss major apportionment increases below.

***Funds 3 Percent Enrollment Growth to Be Distributed Under New Formula.*** The 2015-16 budget includes \$157 million for 3 percent enrollment growth, supporting about 30,000 additional FTE students. The CCC Chancellor's Office will distribute these funds using a new allocation model it developed pursuant to 2014-15 budget legislation. Under the new model, CCC will determine a district's "need for access" using three factors: (1) its share of the state's adult population without a college degree, (2) its share of unemployed adults, and (3) its share of households with income below the federal poverty guideline. The Chancellor's Office will compare this measure of need with the district's current share of community college enrollment, then allocate funds to reduce gaps between the two. In an effort to balance need, demand, capacity, and equity, the model also considers current enrollment and recent enrollment growth patterns and gives each district the opportunity to grow at a minimum of 1 percent.

***Provides 1.02 Percent Cost-of-Living Adjustment (COLA).*** The budget provides \$61 million to fund the statutory 1.02 percent COLA for apportionments. The budget also includes \$2 million to provide a 1.02 percent COLA for four categorical programs: (1) CalWORKs Student Services, (2) Disabled Students Programs and Services, (3) Extended Opportunity Programs and Services (EOPS), and (4) Child Care Tax Bailout (which supports campus child care centers that serve as teaching labs for early childhood education students).

***Provides Additional Unrestricted Funds Beyond Growth and COLA.*** The 2015-16 budget also provides a \$267 million apportionment increase that districts may use for any educational

or operational purpose, including retirement costs, professional development, and facility maintenance. In addition, the budget provides \$50 million to increase the rate for certain noncredit courses (Career Development and College Preparation courses) to the credit rate, consistent with 2014-15 trailer legislation.

**Funds Additional Full-Time Faculty.** The budget includes \$62 million for districts to hire additional full-time faculty. The CCC Chancellor's Office is to distribute the funds to districts based on their share of FTE students. Provisional budget language sets forth rather complicated rules for adjusting each district's "faculty obligation number" (FON), which, in turn, affects how many new full-time faculty members each district must hire. Districts with a relatively low existing FON will see the greatest increase in their FON, and, to the extent they do not already meet their new FON, will have to spend more of their funding allocations to hire additional full-time faculty. Districts already in excess of their new FON will not be required to hire new full-time faculty. Budget language specifies that districts must use any funds not needed to meet their FON for enhancing student success through the support of faculty, including (but not limited to) support of part-time faculty office hours.

### Categorical Programs

**Increases Student Success and Support Program.** The budget augments the program by \$200 million. Since 2012-13, total funding for the program has increased significantly—growing from \$49 million in 2012-13 to \$472 million in 2015-16. The augmentation for 2015-16 includes four components.

- **\$100 Million for Matriculation Services.** These funds are to enhance orientation, counseling and advising, educational planning, assessment, and other student

services, primarily for new students. This increase brings total funding for matriculation services to \$285 million.

- **\$85 Million for Implementation of Student Equity Plans.** These funds are to further improve access and outcomes for disadvantaged groups through implementation of student equity plans. This increase brings total associated funding to \$155 million. Of this amount, up to \$15 million may be used to fund agreements with up to ten districts to provide enhanced student support services for foster youth, consistent with the intent of Chapter 771, Statutes of 2014 (SB 1023, Liu). Provisional budget language clarifies that student equity plan funding may be used for existing campus-based and categorical programs that advance student equity.
- **\$12 Million for Workshops and Training.** These funds are to help community college personnel improve student achievement, college operations, and leadership of statewide initiatives. The CCC also may use these funds to develop and disseminate effective practices through the creation of an online information clearinghouse. Provisional budget language specifies that effective practices shall include development of courses and educational programs for California Conservation Corps members, adult inmates of prisons and jails, and former inmates.
- **\$3 Million for Local Technical Assistance.** These funds are to expand technical assistance to community college districts that demonstrate low performance in any area of operations. The augmentation



brings total associated funding to \$5.5 million.

**Expands EOPS.** The budget provides \$35 million to restore EOPS to its pre-recession funding level. This program provides academic and support counseling, financial aid, and other support services to help disadvantaged students meet their educational goals. Total funding for the program in 2015-16 is \$123 million.

**New Financial Aid Program Supplements Cal Grant B Awards for Some Students.** The budget provides \$39 million to supplement the Cal Grant B access award for CCC students who are enrolled in 12 or more units. In 2015-16, the Cal Grant B access award, which provides aid for books, supplies, and living expenses, is \$1,656 without the CCC supplement. The size of the CCC supplement will depend on the number of eligible CCC students enrolled in 12 or more units. The Chancellor's Office estimates the new funding will provide additional support of about \$800 per eligible student. The budget provides campuses a total of \$3 million (one time) for administration of the new program.

**Augments Existing Apprenticeships and Funds New Apprenticeships in High-Demand Occupations.** The budget increases funding for existing apprenticeship programs by \$14 million, bringing total annual funding to \$37 million. Provisional budget language raises the hourly reimbursement rate for instruction from \$5.04 to \$5.46 to match the CCC noncredit rate. The budget also provides \$15 million to support the development of new apprenticeships in high-demand occupations. The Chancellor's Office indicates that new apprenticeships likely will be started in healthcare, advanced manufacturing, information technology, and green jobs (for example, jobs involving renewable energy) over the next two years.

## Other Augmentations and Actions

**Creates Basic Skills and Student Outcomes Transformation Program.** The budget provides \$60 million for a one-time incentive grant program to improve community college remediation practices. Districts may apply for grants to help them adopt or expand the use of evidence-based models for basic skills assessment, placement, instruction, and student support. Eligible activities under the grant program include curriculum redesign, professional development, release time for faculty and staff, and data collection and reporting. The number of awards and grant amounts will depend on the number of successful applicants. Statutory language specifies data collection requirements for participating community colleges and directs our office to evaluate the program's effectiveness in interim and final reports to be issued by December 1, 2019 and December 1, 2021, respectively.

**Creates Basic Skills Partnership Pilot Program.** Complementing the larger basic skills grant program is a one-time \$10 million grant program to promote more and better collaboration in delivery of basic skills instruction among high schools, community colleges, and CSU campuses. The CCC Chancellor's Office will award five grants of \$2 million each. To qualify for awards, community college districts must collaborate with local school districts and CSU campuses to better articulate English and math instruction across segments. Participating CSU campuses must commit to directing their underprepared students—either currently enrolled or planning to enroll—to basic skills instruction at community colleges. Statute requires the Chancellor's Office to report by April 1, 2017 on program effectiveness, cost avoidance, and recommendations regarding the expanded use of community colleges to deliver basic skills instruction to CSU students.

***Funds Start-up Costs for Baccalaureate Pilot Programs.*** The budget also includes \$6 million for start-up costs related to the implementation of Chapter 747, Statutes of 2014 (SB 850, Block), which authorizes CCC to establish up to 15 baccalaureate degree pilot programs. The pilot districts can use these funds for equipment, library materials, curriculum development, and faculty and staff professional development, among other costs. Professional development activities could include bringing in speakers from community colleges that already have made the transition to offering baccalaureate programs, collaborating with university and industry colleagues, and participating in academic conferences.

***Extends CTE Pathways Initiative.*** The budget provides \$48 million to extend for one additional year an existing CTE initiative. The goal of the initiative is to help regions develop sustainable policies and infrastructure to improve CTE pathways among schools, community colleges, and regional business and labor organizations. The CCC and CDE award three-year grants under the program. With the additional funding, the segments will allocate new awards (or renew existing ones) for 2015-16 through 2017-18. To qualify for funding, grantees must work toward eight specific objectives set forth in the program's authorizing legislation, Chapter 433, Statutes of 2012, (SB 1070, Steinberg). These objectives include aligning secondary and postsecondary CTE programs to create seamless transitions for students, providing professional development to facilitate CTE partnerships, and increasing the number of students who engage in work experience programs.

***Enhances Education for Adult Inmates.*** Provisional budget language directs the Chancellor to identify one or more districts that are willing to use at least \$5 million of their combined state funding on a one-time basis to develop effective

educational programs for adult inmates and former inmates. Districts could use any unrestricted funding for this purpose. The language responds to the availability of private foundation funds to improve inmate education requiring a match of \$1 in state funds for every \$3 in private funds. The Chancellor will allocate any private funds received to participating districts in proportion to their use of state funds for this purpose.

***Provides Physical Plant and Instructional Equipment Funding.*** The budget includes \$148 million (one time) for facilities and equipment. The Chancellor's Office is to allocate the funds to community college districts based on their FTE enrollment. Consistent with longstanding policy, districts may use the funds for scheduled maintenance, special repairs, hazardous substances abatement, architectural barrier removal, and seismic retrofit projects up to \$400,000, as well as replacement of instructional equipment and library materials. Provisional budget language further expands allowable uses to include certain water conservation projects, including replacement of water-intensive landscaping, drip or low-flow irrigation systems, building improvements to reduce water usage, and installation of meters for wells to monitor water usage.

***Increases Chancellor's Office Staffing.*** In addition to CCC Proposition 98 funding, the budget includes a \$340,000 non-Proposition 98 General Fund augmentation to begin supporting six new permanent positions in the Chancellor's Office. The 2015-16 budget assumes the Chancellor's Office will need some time to make all the new hires and correspondingly includes only a half year of funding, with the intent to annualize costs the subsequent year. The additional staffing is to help the system implement several statewide initiatives to improve student success and promote effective administrative and educational practices at community colleges.

## Capital Outlay

**Funds Construction Phase for Seven Previously Approved Projects.** The budget provides \$100 million from previously authorized general obligation bonds to support the construction phase of these projects. The state funded earlier phases of the projects in 2014-15. The projects include (1) \$33 million to replace fire suppression, electrical distribution, communication, storm water, sanitary sewer, wastewater, and natural gas systems at the College of the Redwoods, Eureka campus;

(2) \$20 million to make seismic and building code corrections to the L Tower at Rio Hondo College; (3) \$19 million to make seismic and code corrections to a campus center building at Santa Barbara City College; (4) \$13 million to replace an instructional building at El Camino College's Compton Center; (5) \$8.4 million to construct a new academic facility at Los Rios District's Davis Center; (6) \$4 million to replace a fire alarm system at Mt. San Jacinto College; and (7) \$1.7 million to renovate Hayden Hall at Citrus College.

## CHILD CARE AND PRESCHOOL

**Budget Act Provides \$2.8 Billion for Child Care and Preschool Programs.** As shown in Figure 7 (see next page), the 2015-16 budget includes \$1.6 billion for non-CalWORKs programs, \$1.1 billion for CalWORKs programs, and \$150 million for support programs. Combined, the 2015-16 Budget Act augments these programs by \$423 million (18 percent) from the 2014-15 Budget Act level. The bulk of the increase is covered by higher Proposition 98 and non-Proposition 98 General Fund support.

**Higher Spending Predominantly Due to Reimbursement Rate and Slot Increases.** New program enhancements and expansions account for the vast majority of the year-over-year increase. As shown in Figure 8 (see page 25), the largest augmentations are for reimbursement rates and additional slots, which receive an additional \$177 million and \$138 million, respectively. We discuss these augmentations and caseload adjustments in greater detail below.

### Reimbursement Rates

**Standard Reimbursement Rate (SRR) Increases by 5 Percent.** The state historically has funded General Child Care and State Preschool

through direct contracts based on the SRR. The 2015-16 budget provides \$61 million for a 5 percent increase to the SRR starting July 1, 2015. For the State Preschool program—both part-day and full-day—the 5 percent increase is in addition to a 1 percent increase to the part-day rate described below. Due to the higher increase in the part-day rate, the new State Preschool rates will be higher than the General Child Care rates—marking the first time differences have existed between rates for these two programs.

**Regional Market Rates (RMR) Increase by 4.5 Percent.** The state funds other child care centers, homes, and license-exempt providers using a voucher system based on the RMR. The 2014-15 Budget Act increased the RMR to the greater of the 85<sup>th</sup> percentile of the 2005 RMR survey or the 85<sup>th</sup> percentile of the 2009 RMR survey deflated by 10.11 percent. These rate increases were effective January 1, 2015. The 2015-16 budget provides \$34 million to annualize the cost of these rate increases. It also provides \$44 million to increase the RMR by an additional 4.5 percent starting October 1, 2015. As of this date, the RMR will be set at the higher of 104.5 percent of the 85<sup>th</sup> percentile of the 2005 RMR survey or 104.5 percent

of the 85<sup>th</sup> percentile of the 2009 RMR survey deficated by 10.11 percent.

**License-Exempt Rates Increase to 65 Percent of Family Child Care Home Rates.** The budget provides \$18 million to increase license-exempt rates from 60 percent to 65 percent of the RMR for family child care home providers starting October 1, 2015. License-exempt providers are family, friends, and neighbors who provide child care to children in the CalWORKs and Alternative Payment programs.

**Part-Day State Preschool Rate Increases 1 Percent.** The budget provides \$6 million to increase the part-day State Preschool rate by 1 percent to expand professional development

activities for teachers and increase training for parents. The full-day State Preschool rate—which is funded through a combination of the part-day State Preschool rate and a “wrap” rate—also receives a 1 percent increase for the part-day preschool portion of the rate. (In addition to the other full-day and part-day SRR increases, the budget provides \$14 million for a 1.02 percent inflationary adjustment.)

**Slots**

**Significant Increase in Slots.** The budget provides \$53 million to fund 6,800 additional Alternative Payment Program slots (that is, non-CalWORKs voucher slots). For State Preschool,

**Figure 7**  
**Child Care and Preschool Budget**  
(Dollars in Millions)

	2013-14 Actual	2014-15 Budget Act	2015-16 Budget Act	Change From 2014-15	
				Amount	Percent
<b>Expenditures</b>					
<b>CalWORKs Child Care</b>					
Stage 1	\$337	\$330 <sup>a</sup>	\$411	\$81	24%
Stage 2 <sup>b</sup>	367	355	414	60	17
Stage 3	202	220	278	58	27
Subtotals	(\$906)	(\$904)	(\$1,103)	(\$199)	(22%)
<b>Non-CalWORKs Programs</b>					
State Preschool	\$507	\$614	\$835	\$220	36%
General Child Care	464	544	450	-94	-17
Alternative Payment	177	182	251	68	37
Migrant	27	28	29	2	6
Handicapped	1	2	2	—	—
Subtotals	(\$1,177)	(\$1,370)	(\$1,567)	(\$197)	(14%)
<b>Support and Quality Programs</b>	<b>\$74</b>	<b>\$123</b>	<b>\$150</b>	<b>\$27</b>	<b>22%</b>
<b>Totals</b>	<b>\$2,157</b>	<b>\$2,397</b>	<b>\$2,820</b>	<b>\$423</b>	<b>18%</b>
<b>Funding</b>					
Non-Proposition 98 General Fund	\$764	\$809	\$977	\$169	14%
Proposition 98 General Fund	507	664	885	220	33
Federal CCDF	556	570	573	3	—
Federal TANF	330	353	385	31	9

<sup>a</sup> Reflects Department of Social Services' revised Stage 1 estimates for cost of care and caseload.  
<sup>b</sup> Does not include \$9.2 million provided to community colleges for Stage 2 child care.  
CCDF = Child Care and Development Fund and TANF = Temporary Assistance for Needy Families.

it provides \$34 million to fund 7,030 additional full-day slots beginning January 2016, \$33 million to annualize the cost of 4,000 slots initiated late in 2014-15, and \$12 million to fund 2,500 additional part-day slots intended for children with disabilities beginning July 2015. For the CalWORKs programs, the budget funds a 4 percent increase in caseload primarily due to more families projected to participate in welfare-to-work activities and, as a result, use Stage 1 child care.

**Other Major Child Care Actions**

**Budget Shifts \$145 Million in State Preschool Wrap Into Proposition 98.** Another major child care action involves a change in how the state accounts for preschool costs. Prior to 2015-16, the state funded the part-day preschool program using Proposition 98 General Fund whereas it funded the wraparound portion of the day using non-Proposition 98 General Fund. The budget package shifts the cost of wraparound care provided by LEAs into Proposition 98.

**Figure 8**  
**2015-16 Child Care and Preschool Changes**

(In Millions)

Change	Proposition 98	Other	Total
<b>Reimbursement Rates</b>			
Increases the Standard Reimbursement Rate 5 percent starting July 1, 2015	\$38	\$23	\$61
Increases Regional Market Rate 4.5 percent starting October 1, 2015	—	44	44
Annualizes Regional Market Rate increase initiated January 1, 2015	—	34	34
Increases license-exempt rate from 60 percent to 65 percent of family child care home rates starting October 1, 2015	—	18	18
Provides 1.02 percent COLA to Standard Reimbursement Rate	6	8	14
Increases part-day State Preschool rate 1 percent starting July 1, 2015	6	—	6
Subtotals	(\$50)	(\$127)	(\$177)
<b>Slots</b>			
Provides 6,800 Alternative Payment Program slots starting July 1, 2015	—	\$53	\$53
Provides 7,030 full-day State Preschool slots starting January 1, 2016 <sup>a</sup>	\$31	3	34
Annualizes funding for 4,000 full-day State Preschool slots initiated June 15, 2015	15	19	33
Provides 2,500 part-day State Preschool slots with priority for children with disabilities starting July 1, 2015	12	—	12
Increases non-CalWORKs slots for statutory growth <sup>b</sup>	2	3	5
Subtotals	(\$60)	(\$78)	(\$138)
<b>Other</b>			
Makes CalWORKs child care caseload and average cost of care adjustments	—	\$116	\$116
Provides one-time infant and toddler quality activity block grant	—	24	24
Carries forward one-time funds for federally required quality activities	—	3	3
Shifts LEA full-day State Preschool “wrap” into Proposition 98	\$145	-145	—
Removes one-time funding for State Preschool facilities and quality activities	-35	—	-35
Subtotals	(\$110)	(\$2)	(\$108)
<b>Totals</b>	<b>\$220</b>	<b>\$203</b>	<b>\$423</b>

<sup>a</sup> Of these slots, 5,830 are for local educational agency (LEA) providers, with the remainder for non-LEA providers.

<sup>b</sup> Applies 1.39 percent growth to Alternative Payment Program slots and 0.37 percent growth to all other non-CalWORKs child care programs.  
COLA = cost-of-living adjustment.

The Proposition 98 minimum guarantee is not rebenchmarked for this shift. Wraparound care provided by non-LEAs remains funded with non-Proposition 98 General Fund.

**One-Time Infant and Toddler Quality Rating and Improvement System (QRIS) Block Grant.** The budget also includes \$24 million in one-time funds for a QRIS block grant to support improvements in care for infants and toddlers. This funding builds upon the ongoing \$50 million provided

for the preschool QRIS starting in 2014-15. The CDE will allocate the one-time funds to existing regional consortia, which first developed under the federal Race to the Top grant. The bulk of the funding is for these consortia to offer professional development, training, technical assistance, and other resources to child care providers. No more than 20 percent of the funding may be allocated directly to child care providers.

## HIGHER EDUCATION

**\$14.8 Billion in General Fund Support for Higher Education.** As shown in Figure 9, this is a \$1.1 billion (8 percent) increase from 2014-15. The University of California (UC) and California State University (CSU) each grow 8 percent, whereas Hastings College of the Law (Hastings) grows 13 percent, and financial aid programs administered by the California Student Aid Commission (CSAC) increase 10 percent. Below,

we describe in more detail the budget for UC, CSU, Hastings, and CSAC.

### Universities

**Budget Package Departs From Various Aspects of Governor’s Multiyear Higher Education Funding Plan.** In 2013-14, the Governor proposed a four-year funding plan for UC, CSU, and Hastings that called for (1) base augmentations of 5 percent

**Figure 9  
Higher Education General Fund Support**

(Dollars in Millions)

	2013-14 Actual	2014-15 Revised	2015-16 Budget Act	Change From 2014-15	
				Amount	Percent
University of California <sup>a</sup>	\$2,844	\$2,991	\$3,232 <sup>b</sup>	\$241	8%
California State University <sup>a,c</sup>	2,769	3,026	3,280	254	8
California Community Colleges <sup>a,d</sup>	4,636	5,408	5,742	334	6
Hastings College of Law <sup>a</sup>	10	11	12	1	13
California Student Aid Commission <sup>e</sup>	1,699	1,937	2,135	198	10
California Institute for Regenerative Medicine <sup>a</sup>	95	275	369	93	34
Awards for Innovation in Higher Education	—	50	—	-50	-100
<b>Totals</b>	<b>\$12,053</b>	<b>\$13,698</b>	<b>\$14,770</b>	<b>\$1,072</b>	<b>8%</b>

<sup>a</sup> Includes general obligation debt service.

<sup>b</sup> Does not include \$25 million that UC will receive if it meets 2015-16 Budget Act enrollment expectations.

<sup>c</sup> Includes health benefit costs for retirees.

<sup>d</sup> Includes state contributions to the California State Teachers’ Retirement System, Quality Education Investment Act funds, Adult Education Block Grant funds, and funding for CCC Chancellor’s Office.

<sup>e</sup> Includes Temporary Assistance for Needy Families, Student Loan Operating Fund, and Student Loan Authority Fund support that directly offsets General Fund costs.

in 2013-14 and 2014-15 and 4 percent in 2015-16 and 2016-17, (2) broad discretion for the segments to determine how to spend their state funds, (3) no increases in tuition, and (4) no expectations regarding enrollment. The 2015-16 budget departs from this framework for UC and CSU by providing funding on top of each segment's 4 percent base augmentation, earmarking some funding for specific purposes, and setting expectations for enrollment growth. Consistent with the Governor's multiyear plan, the 2015-16 budget assumes no tuition increases for resident undergraduate students at any of the three segments. The UC, however, increased 2015-16 tuition for nonresident undergraduate students as well as certain graduate professional degree students (both residents and nonresidents). The UC also increased its mandatory Student Services Fee by 5 percent (or \$48) in 2015-16.

***\$3.2 Billion General Fund Support for UC.***

This is an increase of \$241 million (8 percent) from 2014-15. Of this increase, \$119 million is ongoing and \$122 million is one time. The bulk of the ongoing funding is unallocated, but the budget includes various earmarks for the remaining funds. Specifically, the budget earmarks (1) \$96 million (one time) from Proposition 2 funds to supplement payments made by UC toward its unfunded pension liability, (2) \$25 million (one time) for deferred maintenance (provided through a budget control section), (3) \$6 million (ongoing) to support two UC centers on labor research and education, (4) \$1 million (one time) for the Wildlife Health Center at the Davis campus to administer grants to local marine mammal stranding networks, (5) up to \$1 million for UC to continue planning a medical school at the Merced campus, and (6) \$770,000 (ongoing) for an elections database housed at the Berkeley campus. In addition, the budget specifies funding is available from UC's base budget for the California DREAM Loan Program,

though it does not designate a set dollar amount for this purpose.

***\$3.3 Billion in General Fund Support for CSU.***

This is a \$254 million (8 percent) increase from 2014-15. Of this amount, \$229 million is ongoing. As with UC, the bulk of ongoing funding for CSU is unallocated, but the budget includes several new earmarks. Specifically, of the new ongoing funding, the budget earmarks at least \$11 million for CSU to hire additional tenure-track faculty, \$500,000 for the Center for California Studies to increase staff and fellow stipends (replacing funding previously provided from the Assembly's budget), up to \$500,000 to plan for an engineering program at the Channel Islands campus, \$250,000 for the Mervyn M. Dymally African American Political and Economic Institute, and \$200,000 to increase awareness of federal financial aid programs for teachers. The ongoing increase also includes \$7.6 million for lease-revenue debt service for previously approved capital projects and \$4 million to fund benefit rate changes for CSU retirees. As with UC, the budget specifies funding is available from CSU's base budget for the California DREAM Loan Program, though it does not designate a specific amount for this purpose. As with UC, the budget also provides CSU with \$25 million in one-time funding for deferred maintenance.

***\$12 Million in General Fund Support for Hastings.*** This is a \$1.4 million (13 percent) increase from 2014-15. Of this amount, \$335,000 is for debt service on general obligation bonds issued in the past to pay for capital projects at Hastings. Unlike UC and CSU, Hastings has full discretion in deciding how to use the remainder of its funding increase.

***Enrollment Expectations.*** The budget sets enrollment expectations for UC and CSU. For UC, the budget sets an expectation for the system to enroll at least 5,000 additional resident undergraduate students by the 2016-17 academic

year, as compared to the 2014-15 academic year. Further, the budget authorizes the Director of Finance to augment UC's budget by \$25 million should UC demonstrate prior to May 1, 2016 that it will meet the state's expectation. For CSU, the budget states a goal to increase enrollment by at least 10,400 resident FTE students over the 2014-15 level. The budget establishes no enrollment expectations for Hastings.

***\$1 Million for Freshman Eligibility Study.***

The budget provides the Office of Planning and Research with \$1 million for a study to determine the proportion of high school graduates eligible for admission to UC and CSU as freshmen. Trailer legislation directs the office to convene an advisory group that includes representatives from UC, CSU, CDE, DOF, and LAO to consider the overall approach to the study. The office may contract out to perform all or portions of the study. The office must submit the completed study to the Legislature and Governor by December 1, 2016.

***Findings, Declarations, Required Actions, and Reporting Requirements.*** The budget package includes a number of findings, declarations, and required actions pertaining to UC, as well as reporting requirements for UC, CSU, and Hastings. Figure 10 summarizes these provisions for each segment. Figure 11 (see page 30) provides additional detail on the required UC report relating to performance and cost reduction measures.

**Financial Aid**

***\$2.1 Billion for Financial Aid.*** Of this amount, \$1.6 billion is from the General Fund and \$521 million is federal Temporary Assistance for Needy Families (TANF) funding. Financial aid spending from these sources increases \$198 million (10 percent) from 2014-15 to 2015-16. The budget includes several Cal Grant expansions, eligibility changes for Middle Class Scholarships, state funding to backfill expiring federal funds

supporting state loan assumption and student outreach programs, and two augmentations for CSAC's state operations. It also includes \$1.9 million for Cal Grants from the College Access Tax Credit Fund. We highlight the main financial aid components of the budget package below.

***\$2.0 Billion in Cal Grant Funding.*** Of this amount, \$1.5 billion is state General Fund, \$521 million is federal TANF funding, and \$1.9 million is from the College Access Tax Credit Fund. Cal Grant funding increases \$164 million (9 percent) from 2014-15 to 2015-16, consisting of the following specific augmentations:

- ***Fully Funds Cal Grant Participation Growth.*** The budget includes an increase of \$145 million (9 percent) to account for increased Cal Grant participation. The largest portion of this increase is due to growth in new awards in recent years, which results in more renewal awards in 2015-16. In addition, the second cohort of Dream Act students accounts for some (about 15 percent) of the increase.
- ***Delays Scheduled Reduction in Cal Grant Award for Some Students.*** The budget includes \$9.1 million to delay a reduction in the maximum award for students at private colleges accredited by the Western Association of Schools and Colleges. The 2012-13 budget scheduled a reduction in the maximum award for these students from the 2013-14 level of \$9,084 to \$8,056 in 2014-15, but subsequent budgets have postponed the reduction. Under the current budget package, this reduction is further postponed until 2017-18.
- ***Increases Number of New Cal Grant Competitive Awards.*** The budget includes \$8 million to increase the number of new



**Figure 10**

**Declarations, Reports, and Requirements for Universities<sup>a</sup>**

<b>University of California</b>	
Findings and declarations	<ul style="list-style-type: none"> <li>(1) The UC Regents have endorsed a long-term funding framework that calls for flat tuition in 2015-16 and 2016-17 and actions to reduce the cost structure of the university.</li> <li>(2) The framework will create capacity for all campuses to serve more resident students.</li> <li>(3) Funding besides state funding (such as financial aid currently provided to nonresident students) is available to serve more resident students.</li> <li>(4) The Legislature intends for funds from nonresident enrollment growth and nonresident tuition increases be used to increase resident enrollment.</li> <li>(5) The appropriation in the 2015-16 budget for unfunded liabilities of the University of California Retirement Plan (UCRP) does not constitute an obligation on behalf of the state to appropriate any additional funds in subsequent years for UCRP.</li> </ul>
Reporting requirements	<ul style="list-style-type: none"> <li>(1) Report by November 30, 2015 a sustainability plan with enrollment projections, performance targets, and changes needed to ensure expenditures do not exceed available resources, using General Fund and tuition revenue assumptions provided by the Department of Finance.</li> <li>(2) Report by December 1, 2015 on performance and cost reduction measures undertaken as a result of the Select Advisory Committee on the Cost Structure of the University.</li> <li>(3) Supplemental report by December 10, 2015 on university fund sources legally allowable to support educational costs, the factors used to determine which funds support educational activities, and the sources of funds used to calculate educational costs.</li> <li>(4) Report by April 1, 2016 on funds used for targeted support services to increase graduation rates of low-income and underrepresented students.</li> <li>(5) Upon receipt of funding appropriated for the UCRP unfunded liability, UC must submit a report demonstrating the funds have been used to supplement and not supplant funding otherwise available for UCRP.</li> </ul>
Required actions	<ul style="list-style-type: none"> <li>(1) The UC Regents are required to consider state employee compensation when considering compensation for employees in its “Senior Management Group.” At a minimum, the UC Regents are required to consider comparable positions designated as “state officers” (such as the Governor, Superintendent of Public Instruction, and a Member of the Legislature) and certain state agency directors (such as the Director of Finance and the Secretary of Transportation).</li> <li>(2) The UC Regents are required to post information online for each subcategory within its “Managers and Senior Professionals” personnel category as well as disaggregate all personnel categories by fund source.</li> </ul>
<b>California State University</b>	
Reporting requirements	<ul style="list-style-type: none"> <li>(1) Report by November 30, 2015 a sustainability plan with enrollment projections, performance targets, and changes needed to ensure expenditures do not exceed available resources, using General Fund and tuition revenue assumptions provided by the Department of Finance.</li> <li>(2) Report by April 1, 2016 on factors impacting graduation rates for all students and for low-income and underrepresented students separately.</li> </ul>
<b>Legislative Analyst’s Office</b>	
Reporting requirement	Report by January 1, 2017 on the need for new CSU campuses within certain regions of the state and by January 1, 2018 on the need for new UC campuses statewide (Chapter 22).
<b>Office of Planning and Research</b>	
Reporting requirement	Report by December 1, 2017 on the proportion of high school graduates eligible for admission to UC and CSU as freshmen (Chapter 324).
<b>Hastings College of the Law</b>	
Reporting requirement	Supplemental report by September 30, 2015 on a proposed formula to fund enrollment growth and adjust for enrollment declines.

<sup>a</sup> Authorized in the 2015-16 Budget Act, the Supplemental Report of the 2015-16 Budget Act, Chapter 22, Statutes of 2015 (SB 81, Committee on Budget and Fiscal Review), and Chapter 324, Statutes of 2015 (SB 103, Committee on Budget and Fiscal Review).

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Cal Grant competitive awards from 22,500 to 25,750 per year. As more competitive awards, in turn, are renewed, the associated costs are expected to increase to \$14.4 million in 2016-17, \$19.9 million in 2017-18, and \$23.4 million in 2018-19.

- **Provides Small Supplement to Cal Grant B Access Award.** The budget includes \$1.9 million to supplement the Cal

Grant B access award by \$8 per student, on top of the base award amount of \$1,648 per student. These funds come from the College Access Tax Credit Fund.

**Adjusts Eligibility Rules for Middle Class Scholarships.** Trailer legislation makes a few modifications to Middle Class Scholarships. Whereas the program previously had no asset ceiling, trailer legislation establishes a ceiling of

**Figure 11**  
**UC Performance and Cost Reduction Measures**

Measure	Description	Implementation Time Line
Streamline Transfer Pathways	UC is to closely align its lower-division requirements for its 20 most popular majors with those used by CSU and CCC for associate degrees for transfer. It also will consider adopting the common course numbering system used by CSU and CCC.	During 2015-16 and 2016-17.
Increase Transfer Enrollment	UC has committed to admitting one transfer student for every two freshman students at all campuses (but Merced).	By 2017-18.
Review Units Required for Majors	UC has agreed to reduce the number of units required for a major to no more than 45 upper-division units “wherever possible” in 75 percent of majors at each campus (except the Los Angeles campus because it already has undertaken such a review).	Not specified.
Review Exam Credit Policies	The UC President is to strongly encourage UC faculty to review its policies on awarding credits to students successfully passing (1) Advancement Placement tests taken in high school and (2) exams administered by the College Board to measure mastery of college-level material.	Not specified.
Create Alternative Pricing Models for Summer Session	Three campuses are to create alternative pricing models for the summer session to provide an incentive for more students to enroll during that term.	Start by summer 2016.
Identify Three-Year Degree Pathways	UC is to identify three-year degree pathways in 10 of its top 15 majors, with a goal of having 5 percent of students enrolled in these accelerated degree pathways.	Develop degree pathways by March 1, 2016. Achieve enrollment goal by summer 2017.
Increase Use of Data and Technology	UC is to report on how campuses are using data and technology to help students succeed and close achievement gaps. It also will initiate a multicampus pilot program to use adaptive learning technologies to improve instruction and student persistence.	Not specified.
Expand Online Course Offerings	UC is to expand upon efforts begun in recent years to increase the number of online courses it offers. As part of this effort, UC will convene a group of industry leaders to identify which online certificate and master’s degree programs could benefit California’s workforce.	Convene industry group during summer 2015. No time line specified for course expansion.
Implement New Way of Calculating Costs	Three UC campuses are to pilot “activity-based costing” to calculate educational costs in certain departments.	Not specified.

\$150,000. (The asset ceiling excludes primary residences and funds in retirement accounts.) Starting in 2015-16, students with household assets above the ceiling are ineligible to receive a Middle Class Scholarship. Starting in 2016-17, the legislation also prohibits recipients from receiving a total amount of assistance under the program that exceeds the equivalent of four years (or, in some cases, five years) of full-time attendance. Additionally, the legislation requires both income and asset limitations for eligibility to be adjusted for inflation starting in 2016-17. To reflect savings from these changes as well as lower-than-anticipated participation in the program, trailer legislation adjusts the statutory appropriations for the program down from \$152 million to \$82 million in 2015-16, from \$228 million to \$116 million in 2016-17, and from \$305 million to \$159 million thereafter.

**Modifies College Access Tax Credit.** Created in 2014, the College Access Tax Credit is scheduled to sunset in 2016. In the near term, budget trailer legislation continuously appropriates moneys deposited into the fund to CSAC to supplement the amount of the Cal Grant B access award. (Previously, the Legislature had to appropriate the funds in the annual budget.) Trailer legislation modifies and extends the tax credit through 2017.

**Backfills Expiring Federal Funds.** The budget includes a \$15 million state General Fund augmentation to replace expiring federal College Access Challenge Grant funds formerly used to support three state programs—the Assumption Program of Loans for Education (\$7.2 million), the California Student Opportunity Access Program (\$7.2 million), and the Cash for College program (\$586,000).

**Increases CSAC State Operations by \$935,000.** The budget provides CSAC with \$840,000 and three positions to begin planning for a new information

technology system to administer financial aid programs. The budget also provides \$95,000 and one position for CSAC to implement program changes to the Cal Grant C program, as required by Chapter 692, Statutes of 2014 (SB 1028, Jackson).

## Capital Outlay

**Authorizes UC to Fund 15 Capital Outlay Projects From Support Appropriation.** Pursuant to Chapter 50, Statutes of 2013 (AB 94, Committee on Budget), UC's state-funded capital outlay projects no longer are approved by the Legislature in the state budget but instead are approved by DOF. On April 7, 2015, DOF authorized UC to fund 15 projects totaling \$297 million from its support appropriation, with no future state costs for subsequent project phases expected. In addition to state funding, the university is expected to provide \$136 million toward the projects from nonstate sources. The 15 projects include:

- **New Buildings, Building Replacements, and Building Additions.** These projects include (1) a new biological and physical sciences building at San Diego, (2) a new environmental health and safety facility at Santa Cruz, (3) a new assembly hall and demolition of an existing assembly hall at Santa Barbara, (4) new research and meeting space at the Intermountain Research Extension Center (located in northeastern Siskiyou County), and (5) an addition to a sciences building at Riverside.
- **Existing Building System Renewals.** These projects are for (1) a sciences building at Riverside and (2) a classroom building at Berkeley.
- **Seismic, Fire, and Life Safety Improvements.** These projects are for (1) a chemistry building at Davis, (2) a clinical sciences

building at San Francisco, (3) a medical school building at Los Angeles, and (4) various buildings at Irvine.

- **Campus Infrastructure Improvements.** The one project in this area is to install new campus telecommunications and data infrastructure at Santa Cruz.
- **Equipment for Newly Constructed Buildings.** The equipment is for (1) a new classroom and academic office building at Merced, (2) an expanded environmental health and safety facility at Riverside, and (3) a new coastal biology building at Santa Cruz.

Additionally, trailer legislation relating to the classroom and academic office building project at Merced authorizes UC to use projected savings from the preliminary plans and working drawings phases for the construction phase.

**Allows UC to Enter Public-Private Partnerships.** Trailer legislation expands upon Chapter 50 to allow UC to use its state support appropriation to enter into public-private partnerships. Under such a partnership, a private entity typically would finance, design, build, operate, and maintain a capital project whereas UC, in turn, would make a series of payments to the private entity so long as the facility remains available for its use. Though trailer legislation grants UC broad authority to engage in these types of partnerships, it requires UC to receive DOF approval for specific projects. The UC indicates that it plans to seek approval from DOF in the future to enter into a public-private partnership to expand the Merced campus to accommodate 10,000 students—up from the current campus enrollment level of 6,200. For this project only, the trailer legislation requires UC employees to perform all routine maintenance work, with more complex

infrastructure upgrades and servicing required to maintain buildings undertaken by the private partner.

**Authorizes CSU to Fund 117 Capital Outlay Projects From Support Appropriation.** Similar to the changes made for UC capital outlay approvals, Chapter 34, Statutes of 2014 (SB 860, Committee on Budget and Fiscal Review), delegated approval for state-funded CSU capital outlay projects to the DOF. Because CSU missed statutory deadlines for submitting its 2014-15 projects, trailer legislation authorizes CSU to initiate both 2014-15 and 2015-16 projects over the coming year. In total, DOF approved 117 projects and \$310 million in associated state funding. Of this amount, \$191 million is for improvements to campus infrastructure, including upgrades to main campus utility plants, electrical systems, gas, sewage, and water piping. An additional \$116 million is for various facility projects, including improvements to roofing and elevator systems, seismic corrections, demolitions, improvements to heating and air conditioning systems, and new equipment for labs and physical education facilities. The remaining \$3 million is for campus pathways and roadwork.

**Four Relatively Large CSU Projects.** Four of CSU's authorized projects have estimated costs of \$20 million or more per project. These projects are (1) a campuswide renewal of utility lines, chillers, boilers, telephone lines, and emergency power at Los Angeles; (2) the replacement and expansion of water, gas, and sewer lines at Long Beach; (3) a multiphase project to demolish abandoned structures at Monterey Bay remaining from the original Fort Ord base; and (4) a multiphase project to provide seismic and code compliance corrections to the physical sciences building at Los Angeles.

**Modifies Timeline for CSU Capital Outlay Approvals.** Chapter 34 requires CSU to submit a list of proposed capital outlay projects for the coming fiscal year to DOF by September 1. The

CSU indicates it missed this deadline for 2014-15 because its Board of Trustees did not adopt a capital outlay plan until November 2014. To accommodate the Trustees' later timeline for capital outlay approvals moving forward, trailer legislation requires CSU to submit only a preliminary list of capital outlay projects to DOF by September 1, with the final list due by December 1.

***Authorizes \$36.8 Million in State Lease-Revenue Bonds to Build a New Academic Facility at Hastings.*** Unlike for UC and CSU, the Legislature continues to approve capital outlay projects for Hastings in the annual budget and authorizes associated state bond funding. The budget authorizes \$36.8 million in state lease-revenue bonds to build a new academic facility on vacant land owned by Hastings using a design-build procurement method. The new facility is intended to replace an existing academic facility whose building systems are reaching the end of their useful lives. Demolition of the existing building is not included in the project scope.

#### **Bureau for Private Postsecondary Education**

***Gives Nonprofit Colleges and Universities Access to State Complaint Resolution Process.*** A federal regulation effective July 1, 2015 requires

postsecondary institutions to be subject to a state complaint resolution process as a condition of participation in federal financial aid programs. To enable the state's nonprofit colleges and universities to comply with this law, trailer legislation permits these institutions to contract with the state's Bureau for Private Postsecondary Education to review and act on complaints concerning the institution. (These institutions otherwise are exempt from bureau oversight.) The legislation permits the bureau to refer complaints to the institution, an accrediting agency, or another entity, though it requires the bureau to ensure all complaints are resolved.

#### ***Requires Bureau to Report on Complaints Against Nonprofit Colleges and Universities.***

The bureau is to report the following information to the Legislature by February 1, 2017: (1) a list of institutions executing a complaints-related contract with the bureau, (2) the total number of complaints against each of these institutions, (3) the nature of the complaints, (4) the number of complaints referred to another entity, (5) the number of complaints resolved, and (6) the number of complaints pending. The last three items are to be disaggregated by the type of entity handling the complaint.

## **HEALTH**

***Overview of Spending.*** The spending plan provides \$20.2 billion General Fund for health programs. This is an increase of \$715 million, or 3.7 percent, compared to the revised 2014-15 spending level, as shown in Figure 12 (see next page). This year-over-year increase in spending reflects increases in both caseload and utilization of services (including increased use of high-cost drugs), as well as a Medi-Cal-related funding restoration and some new health care initiatives.

Figure 13 (see next page) shows the major policy changes adopted by the Legislature as part of the 2015-16 spending plan. These changes are discussed in more detail below. In addition to signing the *2015-16 Budget Act*, the Governor convened a special session of the Legislature to address the financing of Medi-Cal (among other health and human services issues), as discussed below.

**Figure 12**

**Major Health Programs and Departments—Spending and Trends**

*General Fund (Dollars in Millions)*

	2013-14	2014-15	2015-16	Change From 2014-15 to 2015-16	
				Amount	Percent
Medi-Cal—local assistance	\$16,488	\$17,521	\$18,040	\$519	3.0%
Department of State Hospitals	1,463	1,547	1,604	57	3.7
Department of Public Health	115	120	132	12	10.0
Other Department of Health Care Services programs	46	133	254	121	91.0
Emergency Medical Services Authority	7	8	8	—	—
All other health programs (including state support)	178	178	184	6	3.5
<b>Totals</b>	<b>\$18,297</b>	<b>\$19,507</b>	<b>\$20,222</b>	<b>\$715</b>	<b>3.7%</b>

**Department of Health Care  
Services (DHCS)—Medi-Cal**

The spending plan provides \$18 billion General Fund for Medi-Cal local assistance expenditures administered by DHCS. This is an increase of \$519 million, or 3 percent, compared to the revised 2014-15 spending level. Spending in 2014-15 was \$241 million greater than the 2014-15 budget appropriation. Major factors that contributed to this deficiency include higher-than-expected enrollment among families and children during the state’s implementation of the Patient Protection and Affordable Care Act (ACA), and increases in Medi-Cal payments for Medicare services used by individuals who are dually eligible for both programs.

Differences in Medi-Cal spending between 2014-15 and 2015-16 are in large

part the result of underlying cost drivers in the program, such as changes to caseload and the cost of providing health care services. For example, the spending plan assumes that overall caseload will grow by 2.5 percent compared to 2014-15, and that managed care rates will increase by 1.6 percent. We discuss some of the major policies related to the 2015-16 Medi-Cal budget below.

*Expands Full-Scope Benefits to Undocumented Children.* The 2015-16 Budget

**Figure 13**

**Major Policy Changes—State Health Programs**

*2015-16 General Fund Effect (In Millions)*

Program	Amount
<b>Medi-Cal—Department of Health Care Services</b>	
Expands full-scope coverage to undocumented children	\$40.0
Restores rates previously reduced for dental providers	30.0
<b>Department of Public Health</b>	
Establishes ongoing state syringe exchange program	3.0
Demonstration projects for Hepatitis C virus prevention	2.2
Outreach/education pilot programs to reduce HIV exposure	2.0
<b>Department of State Hospitals</b>	
Increases capacity for incompetent-to-stand-trial patients	17.0
Increases capacity for the Restoration of Competency program	10.1
Increases capacity for CDCR-committed patients	4.6
Increases secured capacity at Metropolitan state hospital	3.6

CDCR = California Department of Corrections and Rehabilitation.

*Act* expands full-scope Medi-Cal coverage to eligible children under the age of 19 regardless of immigration status. Previously, undocumented children who would otherwise have been eligible for Medi-Cal but for their immigration status were eligible for restricted scope Medi-Cal coverage, which provides emergency and pregnancy services. The spending plan assumes implementation of this coverage expansion will begin May 1, 2016, resulting in \$40 million in General Fund costs in 2015-16. The estimated full-year General Fund cost of this expansion is \$160 million.

***Restores Provider Payment Rates for Dental Providers.*** The 2011-12 budget authorized a reduction in Medi-Cal provider payments by up to 10 percent. Following a period in which these reductions were temporarily enjoined by the courts, the state began implementing many of the reductions in the fall of 2013. Effective July 1, 2015, the 2015-16 budget eliminates the 10 percent payment reduction for dental providers, at an annual General Fund cost of \$30 million.

***Includes Enhanced Federal Funding for Children's Health Insurance Program (CHIP).*** CHIP is a joint federal-state program that provides health coverage to children in low-income families, but with incomes too high to qualify for Medicaid. In California, both CHIP coverage and Medicaid coverage are provided through Medi-Cal. Currently, the federal government provides a 65 percent federal cost share for CHIP coverage (roughly a two-dollar match for every dollar the state spends). Recently, the federal government enacted legislation to fund an increase in the federal cost share for CHIP from 65 percent to 88 percent as authorized by the ACA. The higher federal cost share will be in place from October 1, 2015 through September 30, 2017. Consistent with the recent federal action, the spending plan assumes \$381 million in additional federal funds in 2015-16 (and an equivalent offset in General Fund

spending) relative to the amount of federal funds the state would have received at the 65 percent cost share.

***Expands Benefits Available Through Drug Medi-Cal (DMC) Delivery System.*** DHCS is currently seeking a DMC Organized Delivery System Waiver from the Centers for Medicare and Medicaid Services (CMS). This waiver seeks to demonstrate that organized substance use disorder services improve outcomes for DMC beneficiaries. Counties that opt into the waiver would provide a continuum of care to DMC beneficiaries and would provide additional benefits that are not currently available, such as residential treatment services. Implementation of the waiver would be done on a regional basis and would phase in over several years. The spending plan assumes the waiver will be approved in early 2015-16 and 22 counties will opt into the waiver and begin providing the additional services in 2015-16.

***Changes to Services for Certain Pregnant Women.*** Based on recent guidance from CMS, the administration now expects that pregnancy-only Medi-Cal coverage—available to pregnant women with incomes between 139 percent and 208 percent of the federal poverty level—will count as minimum essential coverage under ACA. This is because the scope of California's pregnancy-only coverage is expansive enough to qualify as minimum essential coverage. At the time of the 2014-15 spending plan, pregnancy-only Medi-Cal coverage was not expected to count as minimum essential coverage. Accordingly, the 2014-15 spending plan assumed this population would obtain the minimum essential coverage through Covered California and therefore the state planned to provide Medi-Cal coverage that would only “wrap around” the Covered California coverage. Because of timing issues and the updated CMS guidance, the plan to provide for wraparound coverage was never implemented in 2014-15. The

2015-16 spending plan assumes that this group will be enrolled in pregnancy-only Medi-Cal (that is, getting more than just wrap-around coverage), at a slightly higher overall cost to the state.

***2015-16 Budget Enacted in June Did Not Modify Existing Managed Care Organization (MCO) Tax.*** CMS recently issued guidance that California’s current MCO tax structure is likely incompatible with federal Medicaid requirements. The Governor’s 2015-16 budget proposed a new MCO tax structure that would meet these requirements while funding two objectives: (1) restoring service hours previously reduced in the In-Home Supportive Services (IHSS) program (at a cost of \$226 million in state funds) and (2) maintaining the General Fund offset in the Medi-Cal program that is achieved by the current tax (roughly \$1.1 billion). The Legislature did not adopt the Governor’s MCO tax proposal as part of the 2015-16 budget package enacted in June. However, because the current MCO tax does not expire until the end of June 2016, and the federal deadline to bring the tax into compliance is August 2016, failure to modify the tax does not affect the Medi-Cal budget in 2015-16. (As discussed in the “Human Services” section of this report, the spending plan includes one-time General Fund resources to fund the IHSS restoration in 2015-16.)

***Special Session.*** In part to address the eventual need for a replacement MCO tax and/or alternative funding sources, the Governor convened a special legislative session on June 19 to address this and other aspects of health and human services financing. Other financing issues to be covered in the special session include providing funding to continue the restoration of IHSS service hours beyond 2015-16 and for rate increases for providers of Medi-Cal and developmental services. While the Legislature held several special session hearings and considered various pieces of proposed legislation from July through September of this

year, no special session-related financing legislation had been enacted as of the time of this publication.

### **President’s Executive Actions on Immigration**

The President’s recent executive actions on immigration include those that allow certain undocumented immigrants to request deferred action status, which provides temporary relief from deportation, and employment authorization. The President’s executive actions expand the Deferred Action for Childhood Arrivals (DACA) program and create the Deferred Action for Parents of Accountability (DAPA) program (also known as the Deferred Action for Parents of Americans and Lawful Permanent Residents program). For more details on these programs, please see our analysis of the President’s executive actions in our report, *The 2015-16 Budget: Analysis of the Health Budget*. The President’s executive actions have not yet been implemented as a result of legal action challenging that they violate the United States Constitution as an overreach of executive power. There are several layers to the legal challenge and currently it is not clear if and when the actions may be implemented. Some undocumented immigrants affected by the President’s executive actions—if such withstand legal challenge—may newly qualify for full-scope Medi-Cal, IHSS, and the Cash Assistance Program for Immigrants (CAPI). Although individuals granted deferred action under the President’s executive actions are not eligible for CalFresh or CalWORKs, there may be an indirect effect on enrollment in these programs. This is because some adults who are granted deferred action status will have children who are currently eligible for CalWORKs and CalFresh but are not enrolled, and some of these parents may now choose to enroll the eligible children as a result of the deferred action process.

***2015-16 Budget Includes Funding for Potential Caseload Increases Due to President’s Executive***



**Actions on Immigration.** The spending plan includes \$26.7 million General Fund to account for potential increased caseloads in health and human services programs, including Medi-Cal, IHSS, CAPI, CalWORKS, and CalFresh, should the courts ultimately decide to allow the President’s executive actions on immigration to be implemented during 2015-16. The spending plan assumes that the executive actions will be implemented beginning October 2015 and that implementation will ramp up over a 24-month period. Specific amounts of General Fund provided for individual programs are displayed in Figure 14.

**Department of State Hospitals (DSH)**

Under the budget plan, General Fund spending for DSH will be approximately \$1.6 billion in 2015-16, an increase of \$58 million, or 4 percent, from the revised 2014-15 level. The year-over-year increase is largely due to various plans to increase capacity in the state hospitals and psychiatric programs.

**Activation of Additional Beds.** The budget plan includes a \$21.6 million General Fund increase for the activation of an additional 105 patient beds. This total includes (1) \$17 million for 105 beds to treat incompetent to stand trial (IST) patients in DSH facilities and (2) \$4.6 million for 30 beds at DSH-Vacaville to treat patients referred by the California Department of Corrections and Rehabilitation. In addition, the budget package includes \$8.3 million in reimbursement authority for the activation of 40 beds at DSH-Metropolitan for patients committed under the provisions of the Lanterman-Petris-Short (LPS) Act. Counties will contract with the state for these beds for LPS patients.

**Restoration of Competency (ROC) Expansion.** The budget provides an additional \$10.1 million from the General Fund to expand the ROC program, which provides services to IST patients

**Figure 14**  
**Funding for Potential Caseload Increases Due to President’s Executive Actions on Immigration**

2015-16 General Fund (In Millions)	
Medi-Cal	\$16.8
IHSS	4.0
CAPI	0.4
CalWORKs	5.4
CalFresh administration	— <sup>a</sup>
<b>Total</b>	<b>\$26.7</b>

<sup>a</sup> The spending plan includes \$22,000 General Fund for potential increased CalFresh administrative costs.  
 IHSS = In-Home Supportive Services; CAPI = Cash Assistance Program for Immigrants; and CalWORKs = California Work Opportunity and Responsibility to Kids.

in county jails, by up to 78 beds in two counties. This includes (1) \$6.1 million for 46 additional ROC beds in San Bernardino County and (2) \$4 million for up to 32 additional ROC beds in one additional county that has not yet been identified. In addition, DSH expects to activate 30 additional ROC beds during 2015-16 in San Bernardino County that were funded, but not activated, in 2014-15.

**Secured Capacity at Metropolitan.** The budget package also includes \$3.6 million from the General Fund for preliminary plans and working drawings for a project to increase the amount of secure capacity at DSH-Metropolitan. Specifically, the project would increase the security of 505 beds, including 273 beds that are currently activated and 232 beds that are not. According to the department, these 232 beds would be prioritized for IST patients once the project is completed in 2017-18.

**Department of Public Health (DPH)**

The spending plan provides \$2.7 billion from all fund sources for DPH programs. This is an increase of \$173 million, or about 7 percent, compared to the revised prior-year spending levels. Of this total, the spending plan provides \$132 million General Fund for DPH, an increase

of \$12 million or 10 percent. This year-over-year increase in General Fund largely reflects a number of relatively small program augmentations initiated by the Legislature, as discussed further below.

***Licensing and Certification (L&C) Program.***

The department's L&C Program licenses and certifies over 7,500 health care facilities and agencies that do business in the state. The spending plan includes a number of special fund augmentations to address workload-related requirements (including addressing workload backlogs) and improve program quality in the L&C Program. The quality improvement funding is in response to recent issues of inconsistent and inadequate oversight, monitoring, and enforcement of L&C standards. These augmentations include:

- ***L&C Workload and Quality Improvement.*** The spending plan includes \$19.8 million in 2015-16 for 237 permanent positions (123 positions become effective July 1, 2015 and 114 positions become effective April 1, 2016), and an increase of \$30.4 million in 2016-17, to address L&C workload. The spending plan also includes \$2 million in 2015-16 to implement quality improvement projects recommended by an outside consultant.
- ***Los Angeles County L&C Workload and Contract Monitoring.*** The spending plan includes \$14.8 million to augment the Los Angeles County contract to perform L&C activities in Los Angeles County. The spending plan also includes \$378,000 and three positions to provide on-site oversight and perform workload management, training, and quality improvement activities to improve the efficiency and effectiveness of Los Angeles County L&C activities.

- ***L&C Timelines.*** The spending plan includes budget-related legislation that specifies timelines for the completion of complaint investigations and reporting on the department's compliance with these new timelines.

***Legislative General Fund Augmentations for New Program Activities.*** The spending plan includes the following legislative General Fund augmentations that were approved by the Governor:

- \$3 million ongoing to establish a state syringe exchange program in an effort to prevent the spread of the Hepatitis C virus and HIV.
- \$2.2 million for three years in grant funding for demonstration projects aimed at preventing the Hepatitis C virus.
- \$2 million ongoing for Pre-Exposure Prophylaxis outreach and education pilot programs in an effort to reduce new HIV infections for uninsured and underinsured at-risk individuals.

***AIDS Drug Assistance Program (ADAP).*** In addition to the \$2.2 million mentioned above for demonstration projects aimed at preventing the spread of the Hepatitis C virus, the spending plan reflects the following program and funding changes to ADAP:

- ***ADAP Modernization.*** The Legislature updated and expanded financial eligibility for ADAP and the Office of AIDS Health Insurance Premium Payment program, by considering family size and increasing the income limit.

- **ADAP Enrollment Process.** The spending plan includes an increase of \$3 million in federal funds and eight positions to improve the enrollment process, develop quality metrics, and provide funding to local health jurisdictions to support ADAP enrollment activities.
- **ADAP Client Eligibility Verification Workload.** The spending plan includes

\$536,000 (special funds) and five positions to manage the increase in client eligibility verification workload within ADAP.

**Ebola Emergency Preparedness.** The spending plan includes an increase of \$15.5 million in federal expenditure authority in 2015-16 to support accelerated state and local public health preparedness and operational readiness for responding to the Ebola virus.

## HUMAN SERVICES

**Overview of Spending.** The spending plan provides nearly \$11.6 billion from the General Fund for human services programs. This is an increase of \$1.1 billion, or about 11 percent, compared to the revised prior-year spending level, as shown in Figure 15. This is largely the result of higher spending in the Department of Developmental Services (DDS) and the IHSS program, reflecting increased caseloads, costs per consumer, and labor costs, as well as a funding restoration in IHSS.

Figure 16 (see next page) shows the major policy changes adopted by the Legislature as part of the 2015-16 spending plan. These changes are discussed in more detail below. In addition to signing the *2015-16 Budget Act*, the Governor convened a special session of the Legislature to address the financing of developmental services (among other health and human services issues), as discussed below.

**Figure 15**

### Major Human Services Programs and Departments—Spending Trends

General Fund (Dollars in Millions)

	2013-14	2014-15	2015-16	Change From 2014-15 to 2015-16	
				Amount	Percent
SSI/SSP	\$2,772.6	\$2,789.5	\$2,811.6	\$22.1	0.8%
Department of Developmental Services	2,801.0	3,140.2	3,520.7	380.4	12.1
CalWORKs	1,161.9	673.7 <sup>a</sup>	738.4	64.7	9.6
In-Home Supportive Services	1,926.3	2,193.3	2,805.3	612.0	27.9
County Administration/Automation	674.5	841.7	825.1	-16.6	-2.0
Department of Child Support Services	304.6	313.6	313.6	-0.1	—
Department of Rehabilitation	57.0	58.4	58.6	0.2	0.3
Department of Aging	31.5	32.3	31.5	-0.9	-2.7
All other social services (including state support)	252.6	403.2	466.2	63.0	15.6
<b>Totals</b>	<b>\$9,982.0</b>	<b>\$10,446.0</b>	<b>\$11,571.0</b>	<b>\$1,125.0</b>	<b>10.8%</b>

<sup>a</sup> Reflects the impact of a \$425 million shift of General Fund costs to counties related to the expansion of Medi-Cal under the federal Patient Protection and Affordable Care Act.

**Figure 16**

**Major Policy Changes—Human Services Programs**

2015-16 General Fund Effect (In Millions)

Program	Amount
<b>CalWORKs</b>	
Increase child care reimbursement rates	\$21.7
Augment funding for homeless and housing supports	15.0
<b>Immigration</b>	
Create immigration services program	15.0
Fund potential caseload increases resulting from executive actions on immigration	9.9
<b>In-Home Supportive Services (IHSS)<sup>a</sup></b>	
Restore 7 percent service hours <sup>b</sup>	225.9
<b>Developmental Services<sup>a</sup></b>	
Develop community-based services for persons moving from Sonoma DC	46.9
Activate 41 additional beds in Secure Treatment Program at Porterville DC	18.8
Backfill lost federal funding at Sonoma DC	13.2
<b>Child Welfare Services</b>	
Funding for continuum of care reform efforts	21.5
<b>Community Care Licensing</b>	
Additional quality enhancements and program improvements	3.0
<sup>a</sup> We note that the 2015-16 budget includes a total of about \$285 million in IHSS and the Department of Developmental Services (not included in this table) to fund compliance with new federal regulations for overtime for home care workers. The policy to comply with the new regulations was adopted as part of the 2014-15 budget, but was not implemented due to federal litigation. The policy will only be implemented in 2015-16 if there is a federal court decision directing states to do so.	
<sup>b</sup> The General Fund support for the restoration of service hours is limited to one year. The administration called a special session to identify a sustainable, alternative funding source to continue the restoration in future years. DC = Developmental Center.	

**Department of Developmental Services**

Under the budget plan, General Fund spending for DDS will increase from about \$3.1 billion in 2014-15 to over \$3.5 billion in 2015-16, or by about 12 percent. To a large extent, this year-over-year increase reflects increased regional center (community-based) caseload and other workload-related adjustments. Below, we discuss the most significant other spending changes that were adopted in the DDS budget.

**Governor Announces That Developmental Center (DC) Closure Plans Will Be Submitted to the Legislature.** The DCs are large, state-run institutional facilities that serve individuals with developmental disabilities. There are currently just over 1,000 residents in DCs out of a total DDS caseload of over 290,000. The spending plan

reflects legislative approval of the Governor’s plan to initiate and develop closure plans for the remaining DCs (with the exception of the secure treatment portion of Porterville DC), with the last closure completed in 2021. In this regard, the administration submitted a closure plan for Sonoma DC to the Legislature in October 2015—beginning the process to close Sonoma DC by the end of 2018. Budget-related legislation sets criteria for the closure plan and makes implementation of the plan contingent upon legislative approval in the 2016-17 budget process. Related to this planned closure, the spending plan includes \$46.9 million General Fund for the development of new community-based services and supports for persons moving from Sonoma DC. The spending plan includes the approval of new staff at DDS

headquarters and at the regional centers to ensure proper planning implementation and oversight, and budget-related legislation provides for increased reporting to ensure the Legislature is informed as this process moves forward.

***Expansion of Secured Treatment Program at Porterville DC.*** The spending plan includes an increase of \$18.8 million General Fund and 182 positions in 2015-16 to activate 41 additional beds in the Secure Treatment Program at Porterville DC. This reflects the increasing number of IST individuals who need to be restored to competency so that they can stand trial.

***Backfill for Lost Federal Funding and Implementation of DC Program Improvement Plans.*** The spending plan includes an increase of \$13.2 million General Fund in 2015-16 to backfill the continued loss of federal funding associated with four decertified units at Sonoma DC. The spending plan also includes a total of \$21.4 million (\$12.8 million General Fund) to implement program improvement plans at all the DCs.

***Delayed Implementation of Federal Fair Labor Standards Act (FLSA) Overtime Rules.*** The spending plan includes a total of \$37.5 million (\$15.6 million General Fund) for a rate increase to regional center vendors employing workers providing home care services. Vendors that employ workers providing services—including personal assistance, supported living services, and in-home respite—to consumers in their homes are impacted by new federal labor regulations (originally to take effect on January 1, 2015) requiring overtime pay for home care workers. As these regulations are currently being challenged in the courts, the spending plan assumes an effective date no sooner than October 1, 2015. A recent appeal to the U.S. Supreme Court to continue to delay implementation of the new regulations beyond mid-October was denied.

***Reporting on Rate-Setting and Regional Center Operations Core Staffing Methodologies.***

Budget-related legislation requires the department to report to the Legislature during the 2016-17 budget process on its evaluation of (1) existing rate-setting methodologies for community-based services and supports and (2) the regional centers' operations budget core staffing formula.

***Special Session Actions to Address Developmental Services Financing.*** As discussed further above under the "Health" section of this report, the Governor convened a special legislative session in June to address various health and human services issues. These include the provision of sufficient funding for additional rate increases for providers of developmental disability services. In addition to this funding goal, the special session is to consider and act upon legislation to increase oversight and the effective management of services provided to consumers of the regional center system. While the Legislature held several special session hearings and considered various pieces of proposed legislation from July through September of this year, no special session-related financing legislation had been enacted as of the time of this publication.

**CalWORKs**

The spending plan provides a total of \$5.8 billion (all funds) to support the CalWORKs program, an increase of \$91 million (2 percent) over the prior year. This year-over-year increase reflects the net effect of (1) \$37 million in costs for new augmentations, (2) roughly \$140 million in net costs to pay for a full year of implementation of previously approved policy changes, and (3) offsetting savings of roughly \$85 million associated with various changes in estimated caseload levels. Within the total funding amount, the spending plan provides \$738 million from the General Fund to support CalWORKs, an increase

of \$65 million (10 percent) over the prior year. Major changes in CalWORKs funding in the 2015-16 spending plan are described in greater detail below.

***Housing Support Funding Augmented.*** The CalWORKs Housing Support Program (HSP), created as part of the 2014-15 budget package, provides funding from a capped allocation to select counties to provide housing assistance to CalWORKs families that are homeless or experiencing housing instability. The Governor's January budget proposed to continue funding HSP at \$20 million (all funds), the same level of funding provided in the prior year. The 2015-16 spending plan provides a total of \$35 million (all funds) for HSP in 2015-16, an increase of \$15 million (General Fund).

***Child Care Reimbursement Rates Increased.*** Providers of child care for CalWORKs recipients can be either licensed by the state or license-exempt. Licensed providers are generally reimbursed up to a specified regional market rate (RMR). License-exempt providers—generally family, friends, and neighbors—are reimbursed at a fraction of the RMR (60 percent under current law). Effective October 2015, budget legislation increases the current RMR by 4.5 percent and also increases the fraction of the RMR received by license-exempt providers to 65 percent. The spending plan includes \$22 million (General Fund) in the CalWORKs budget to pay for the partial-year costs of these rate increases. For more information on these changes and their broader effect on the state budget, see the “Child Care and Preschool” write-up in the “Education” section of this report.

***Full-Year Funding Provided for April 2015 Grant Increase.*** As part of the 2014-15 budget package, CalWORKs grants were increased by 5 percent, effective April 2015. The 2015-16 spending plan includes \$187 million (all funds), an increase of \$140 million over the prior year,

to reflect the full-year costs of providing higher grants. Of this total funding, \$122 million is paid for from the Child Poverty and Family Supplemental Support Subaccount, a special fund dedicated to providing CalWORKs grant increases, with the remaining \$65 million paid for from the General Fund. Under current law, General Fund support for this grant increase will be reduced in future years as funds in the subaccount continue to grow.

***Savings From Declining Caseload.*** The spending plan reflects roughly \$85 million of General Fund savings in CalWORKs relative to the prior year due to a smaller estimated caseload in 2015-16. These savings include both reduced cash assistance funding to reflect fewer families enrolled in the program, partially offset by modest increases in funding for employment services and child care to reflect higher estimated need for these services.

### **In-Home Supportive Services**

The budget increases General Fund support for IHSS by over \$600 million (nearly 28 percent) in 2015-16 when compared to the revised 2014-15 level. The major budget-related changes for IHSS involve (1) the one-time use of General Fund to restore IHSS service hours previously reduced and (2) contingency funding for the possible implementation of new federal labor regulations for home care workers.

***Restores IHSS Hours From Prior-Year 7 Percent Reduction.*** The 2015-16 budget includes \$226 million from the General Fund, on a one-time basis, to restore IHSS service hours that had been reduced by 7 percent in a prior-year budget action. The Legislature and the Governor have stated their intent to continue this restoration of service hours beyond 2015-16 with the use of an alternative funding source. On June 16, 2015, the Governor called a special session to consider and act upon legislation to identify permanent and

sustainable funding from a restructured MCO tax and/or alternative fund sources to achieve a number of goals, including maintaining the restoration of IHSS service hours beyond 2015-16. While the Legislature held several special session hearings and considered various pieces of proposed legislation from July through September of this year, no special session-related financing legislation had been enacted as of the time of this publication.

***Provides Contingent Funding for Delayed Implementation of New Federal Labor***

***Regulations Affecting IHSS.*** As part of the 2014-15 budget, funding was provided and legislation was enacted to respond to new federal labor regulations issued by the Department of Labor (DOL) that required states to (1) pay overtime to IHSS providers for all hours worked that exceed 40 in a week and (2) compensate IHSS providers for time spent waiting during medical appointments and traveling between the homes of IHSS recipients. These are two work activities for which providers are not currently paid. In a lawsuit brought by associations of home care companies, a federal district court ruled in December 2014 that DOL overreached its rulemaking authority when it promulgated the revised FLSA regulations for the home care industry. Effectively, the court ruling invalidated the DOL's new regulations—causing the state to halt its implementation of the new rules. The DOL appealed the decision, and in August 2015, the ruling was overturned. The plaintiffs appealed to the U.S. Supreme Court to further delay implementation of the new regulations until the Supreme Court has time to fully consider the case. On October 6, the Chief Justice denied the postponement request. At the time of this publication, the plaintiffs had not decided whether or not to pursue a full appeal to the Supreme Court. The new FLSA regulations are expected to go into effect mid-October with a 30 day nonenforcement period. The 2015-16 budget package provides

funding (\$270 million General Fund, plus federal funds) for IHSS to comply with these regulations—contingent on the legal validity of the regulations being upheld—and assumes a delayed effective implementation date of October 1, 2015.

**Community Care Licensing (CCL)**

***Funds Additional CCL Quality***

***Enhancements.*** The 2015-16 spending plan funds the Governor's proposal for a multiyear, multistage plan to further reform the CCL division within the Department of Social Services (DSS). (See *The 2014-15 Budget: California Spending Plan* for a description of the initial quality enhancements.) The spending plan includes an increase of 28.5 positions (13 two-year limited-term positions) and \$3 million General Fund to (1) hire and begin training staff in preparation for an increase in the frequency of inspections for all facility types beginning in 2016-17 and (2) make various other changes intended to strengthen enforcement capacity and improve the quality of care delivered at facilities under the regulatory purview of CCL. The reforms will go into effect incrementally through 2018-19. The plan includes additional funding and positions in budget years beyond 2015-16 to fully implement the plan. When fully implemented, the plan would add a total of 145 new permanent positions within DSS, at a total cost of \$37.3 million General Fund over the three-year period over which the positions are ramping up. The annual cost of these reforms once they are fully implemented is expected to be \$14.1 million. Below, we describe the main components of the plan.

- ***Multiyear, Multistage Plan to Increase Inspection Frequency.*** The final budget package incrementally increases the frequency of inspections from at least once every five years for most facilities to at least once every three years or more frequently for some facilities. The CCL division will

continue to conduct random inspections on at least 30 percent of all facilities for the first stage of the plan, but will subsequently scale down random inspections as routine inspection frequencies increase. Once fully implemented in 2018-19, child care facilities will be inspected every three years with 30 percent random inspections, children’s residential care facilities will be inspected every two years with 20 percent random inspections, and adult and senior care facilities will be inspected annually.

- ***Additional CCL Quality Enhancements.*** The spending plan also provides (1) temporary resources to address the current complaint backlog, (2) three nurse practitioners to monitor the medical needs of residents at CCL-regulated facilities, (3) resources to expand supportive services to providers and clients, and (4) the establishment of a new Southern California training unit for licensing analysts and expanded refresher training offered statewide.

***Interest in Further Increasing Inspection Frequency.*** The final budget package also includes legislation that requires DSS to update the Legislature frequently regarding the implementation status of the multiyear plan and an analysis of the policy and fiscal implications of implementing annual inspections for facility types not currently proposed to move towards annual inspections.

### **President’s Executive Actions on Immigration**

Please see the “President’s Executive Actions on Immigration” write-up under the “Health” section of this report, for a discussion of this issue that affects both health and human services programs.

### **New Immigration Assistance Program**

The spending plan provides \$15 million (General Fund) to establish a new program in DSS that will (1) provide grants for qualified nonprofit legal services organizations to assist individuals with applications for DACA status, DAPA status, or naturalization; and (2) provide grants for other nonprofit organizations (as more broadly defined) to provide free education and outreach to increase community awareness of issues related to DACA, DAPA, naturalization, and other immigration remedies. Of the \$15 million total funding amount, \$440,000 is dedicated to program administration at DSS, with the remainder available for grants. The implementation of this program is not completely dependent on the implementation of the President’s executive actions, because it targets a broader population of immigrants—such as those eligible for naturalization—than those who would be impacted by the executive actions. The new Federal Immigration Assistance program builds on the Unaccompanied Undocumented Minors Legal Services Funding (UUM) program, approved as part of the 2014-15 budget package, which contracts with qualified nonprofit legal services organizations to provide similar legal services to unaccompanied, undocumented immigrant minors. The 2015-16 spending plan continues funding for the UUM program at the prior-year amount of \$3 million (General Fund).

### **Child Welfare Services**

***Background on Continuum of Care Reform (CCR) Efforts.*** In legislation connected with the *2012-13 Budget Act*, DSS was required to establish a stakeholder workgroup to recommend revisions to rates, services, and programs in the foster care system, focusing attention, at a minimum, on services and programs provided by group homes and Foster Family Agencies (FFAs). The Legislature



specified that the workgroup consider, among other things, (1) how assessment processes could be structured to match a foster child's characteristics to the appropriate placement setting, (2) how providing services more comprehensively could improve foster child outcomes, (3) how these services could be better provided in family-like settings, and (4) how quality evaluations and rate-setting systems could be used to improve the quality of placements. The Legislature required that DSS submit recommended revisions for the Legislature's consideration by October 2014.

The DSS convened a stakeholder workgroup pursuant to this legislative direction in 2012. Workgroup discussions continued through the following three years. In January 2015, concurrent with the release of the Governor's budget proposal, DSS released *California's Child Welfare Continuum of Care Reform*, a report that features 19 recommendations based on workgroup discussions. The main objective of the recommendations is to improve the experience and outcomes of children and youth in foster care by (1) improving assessments of children and families to make better initial placement decisions, (2) emphasizing family-based placements by providing appropriate services and supports, (3) changing the goals of group home placements, and (4) increasing transparency and accountability for child outcomes.

***Spending Plan Provides Funding for Initial CCR Efforts.*** As an initial step towards implementing the CCR efforts, the 2015-16 budget and Chapter 773, Statutes of 2015 (AB 403, Stone), make changes to California's child welfare system that, at a high level, aim to improve the state's

child welfare system by performing comprehensive assessments of children to ensure that their initial placement is in the most appropriate setting, increasing the use of home-based family care, and reducing the use of group homes. Included in Chapter 773's numerous changes is the transformation of group homes to short-term residential treatment centers (STRTCs) intended to provide short-term, specialized and intensive treatment for children only when their needs cannot be met initially in a family-based foster care setting. Chapter 773 also makes changes to the services FFAs are required to provide for the families that they certify. In recognition of the changing roles of the STRTCs and the FFAs in the child welfare continuum of care, the legislation also requires DSS to develop new rate structures for STRTCs and FFAs to become effective in 2017. (We note that the 2015-16 spending plan includes \$4.3 million from the General Fund to support a 15 percent increase in FFA social worker rates.) Because one of the primary goals of the CCR effort is to reduce reliance on group care and increase reliance on home-based settings, the spending plan also includes \$17.2 million from the General Fund to support foster parent recruitment, retention, and training efforts.

### **California Earned Income Tax Credit**

Please see the "California Earned Income Tax Credit" write-up in the "Other Major Provisions" section of this report for a discussion of the new Earned Income Tax Credit enacted as part of the 2015-16 budget package.

## RESOURCES AND ENVIRONMENTAL PROTECTION

The budget package provides a total of \$9.8 billion from various fund sources—the General Fund, bond funds, and various other special funds—for programs administered by the California Natural Resources and Environmental Protection Agencies (CNRA and CalEPA, respectively). This is a decrease of about \$1.9 billion (16 percent) compared to 2014-15 estimated expenditures. Most of the reduction in spending is related to estimated bond expenditures in the resources area. Some of this decrease, however, is related to how bond funds are accounted for in the budget, making year-over-year comparisons difficult. In total, about two-fifths of the budget for resources and environmental protection departments is from special funds, while the General Fund and bond funds each support about one-quarter of these budgets. The remainder is supported with federal funds.

### Crosscutting Issues

#### Cap-and-Trade

Figure 17 summarizes the 2015-16 cap-and-trade expenditure plan. Consistent with statute that was adopted as part of the 2014-15 budget, 60 percent of cap-and-trade revenue in 2015-16 will be continuously appropriated to: high-speed rail (25 percent), affordable housing and sustainable communities (20 percent), transit and intercity rail capital (10 percent),

and low-carbon transit operations (5 percent). The administration estimates that the state will receive a total of \$2 billion in auction revenue in 2015-16, resulting in \$1.2 billion to be continuously appropriated to the above programs in 2015-16. The remaining \$800 million, as well as about \$900 million in unspent revenue generated in prior years, are available for appropriation by the Legislature, as discussed below.

The budget appropriates \$251 million from revenue that is not continuously appropriated. Most of the additional funding will be used to provide incentives for low-carbon vehicles, energy efficiency and solar projects for low-income households, and water efficiency improvements. The budget also includes funding for state departments to administer cap-and-trade funds allocated as part of the 2014-15 and 2015-16 budgets, including ongoing oversight of previously funded projects. The remaining unspent revenue—estimated to be about \$1.5 billion by the end of 2015-16—is available to be allocated in future legislation.

**Figure 17**  
**2015-16 Cap-and-Trade Expenditure Plan**

<i>(In Millions)</i>	
<b>Continuously Appropriated Funds (60 Percent of Revenue)<sup>a</sup></b>	
High-speed rail	\$500
Affordable housing and sustainable communities	400
Transit and intercity rail capital	200
Low-carbon transit operations	100
Subtotal, Continuously Appropriated	(\$1,200)
<b>Non-Continuously Appropriated Funds</b>	
Incentives for low-carbon vehicles	\$90
Energy efficiency and solar for low-income households	70
Agricultural water and energy efficiency	40
Urban water-energy efficiency	20
Other administrative costs	31
Subtotal, Non-Continuously Appropriated	(\$251)
<b>Total<sup>a</sup></b>	<b>\$1,451</b>

<sup>a</sup> Based on Governor's May Revision \$2 billion 2015-16 revenue estimate. Actual funding depends on actual 2015-16 revenue.

**Drought**

**Budget Funds Various Drought-Related Projects.** The 2015-16 budget includes \$1.8 billion for various drought-related activities to be administered by several state departments, particularly the State Water Resources Control Board (SWRCB) and Department of Water Resources (DWR). As shown in Figure 18, the budget funds projects designed to improve water conservation and develop local infrastructure related to groundwater cleanup, safe drinking water, wastewater treatment, and water recycling

among others. In addition, the budget includes funding for emergency drought-response activities, such as fire protection and drinking water deliveries. Of the total \$1.8 billion provided for drought-related activities, about 90 percent of it is from Proposition 1, the water bond measure passed by voters in November 2014. About \$120 million is supported by the General Fund. In addition to the funding provided in the budget, in March 2015, the Legislature passed and Governor signed Chapter 1, Statutes of 2015 (AB 91, Committee on Budget), which appropriated \$1.1 billion for drought and flood protection activities.

**Figure 18**  
**Drought Funding in the Budget Act**

2015-16 (In Millions)

Department	Purpose	Amount	Fund Source
<b>Water Conservation</b>			
DWR/CDFA	Agricultural water conservation	\$82	Proposition 1/SF
DWR	Urban water conservation	76	Proposition 1/SF
DGS	Water conservation in state buildings	15	GF/SF
DWR	Save Our Water campaign	4	GF
Subtotal, Water Conservation		<u>(\$177)</u>	
<b>Infrastructure Programs</b>			
SWRCB	Groundwater cleanup	\$783	Proposition 1
SWRCB	Safe drinking water	175	Proposition 1
SWRCB	Water recycling	161	Proposition 1
SWRCB	Wastewater treatment projects	158	Proposition 1
SWRCB	Stormwater projects	101	Proposition 1
DWR	Groundwater sustainability grants	60	Proposition 1
DWR	Desalination grants	50	Proposition 1
Subtotal, Infrastructure Programs		<u>(\$1,488)</u>	
<b>Emergency Drought Response</b>			
CalFire	Enhance fire protection	\$67	GF/SF
OES	Drinking water delivery	22	GF
DWR	Removal of emergency rock barriers	15	GF/SF <sup>a</sup>
CSD	General assistance to migrant farm workers	8	GF
HCD	Move households without potable water	6	GF
SWRCB	Implement executive order	1	GF
Subtotal, Emergency Drought Response		<u>(\$119)</u>	
<b>Total</b>		<b>\$1,784</b>	

<sup>a</sup> Funds are "off-budget" so are not appropriated in 2015-16 Budget Act.

DWR = Department of Water Resources; CDFA = California Department of Food and Agriculture; SF = Special Fund; DGS = Department of General Services; GF = General Fund; SWRCB = State Water Resources Control Board; CalFire = California Department of Forestry and Fire Protection; OES = Office of Emergency Services; CSD = Department of Community Services and Development; and HCD = Department of Housing and Community Development.

**Statutory Changes to Address Effects of**

**Drought.** The budget plan also includes several changes to state law in response to the drought. In general, these changes are intended to improve access to clean drinking water, accelerate completion of certain projects, increase water conservation, increase monitoring of water diversions, and improve accountability. Specific changes include:

- **Drought Water System Consolidation.** Authorizes SWRCB to require water systems serving disadvantaged communities with unsafe or unreliable water supplies to merge with or receive water from other public water systems.
- **California Environmental Quality Act (CEQA) Exemptions.** Provides exemptions from CEQA for certain types of projects, subject to certain conditions. Project types that could be exempted are recycled water pipelines, development of state building codes for dual plumbing, and local groundwater protection ordinances.
- **Local Enforcement.** Allows local water agencies to issue penalties for violations of local and state water conservation regulations, with penalties up to \$10,000 for first violation (increasing for continuing violations). Penalties for residential water users is generally limited to \$1,000.
- **Monitoring and Reporting.** Generally requires water diversions of greater than ten acre-feet per year to have a measuring device to accurately identify amount diverted, and increases the frequency of water diversion reporting to at least annually.
- **Accountability.** Implements additional reporting requirements on Proposition 1 project outcomes, costs, and time frames.

**Proposition 1 Funding**

The budget appropriates a total of \$1.8 billion from Proposition 1, which authorized a total of \$7.5 billion in water-related funding. In addition to the amount provided for drought-related activities discussed above, the spending plan for 2015-16 also includes \$200 million from Proposition 1 for other, nondrought-related activities. Most of this funding—\$163 million—is for watershed protection and restoration projects administered by state conservancies (\$88 million), the Wildlife Conservation Board (\$39 million), and the Department of Fish and Wildlife (DFW) (\$37 million). The total from Proposition 1 also includes \$33 million for the Integrated Regional Water Management program administered by DWR, as well as \$3 million for DWR staff to support the California Water Commission, which is charged with evaluating and selecting water storage projects to be funded by Proposition 1. Figure 19 provides a summary of all funding provided from Proposition 1 in Chapter 1 and the 2015-16 budget plan.

**Timber Regulation and Forest Restoration**

The budget provides a total of \$10.7 million and 15 positions for the Secretary of Natural Resources (\$2.1 million), California Department of Forestry and Fire Protection (CalFire) (\$5.2 million), SWRCB (\$2.6 million), DFW (\$285,000), and the Department of Conservation (DOC) (\$597,000) to expand the Timber Regulation and Forest Restoration Program. Specifically, this funding will support (1) data collection and analysis for timber harvest regulatory activities and grant programs, (2) information technology, (3) increased monitoring and field inspections, and (4) local assistance grants related to forest improvement and water quality.

**Figure 19**  
**Proposition 1 Bond Funds**

(In Millions)

Purpose	Implementing Departments	Bond Allocation	2014-15 <sup>a</sup>	2015-16
<b>Water Storage</b>		<b>\$2,700</b>	<b>\$0</b>	<b>\$3</b>
Water storage projects	CWC <sup>b</sup>	2,700	0	3
<b>Watershed Protection and Restoration</b>		<b>\$1,496</b>	<b>\$0</b>	<b>\$163</b>
Various state obligations and agreements	CNRA	475	0	0
Watershed restoration benefiting state and Delta	DFW	373	0	37
Conservancy restoration projects	Conservancies	328	0	88
Enhanced stream flows	WCB	200	0	39
Los Angeles River Restoration	Conservancies	100	0	0
Urban watersheds	CNRA	20	0	<1
<b>Groundwater Sustainability</b>		<b>\$900</b>	<b>\$0</b>	<b>\$843</b>
Groundwater cleanup projects	SWRCB	800	0	783
Groundwater sustainability plans and projects	DWR	100	0	60
<b>Regional Water Management</b>		<b>\$810</b>	<b>\$0</b>	<b>\$232</b>
Integrated Regional Water Management	DWR	510	0	33
Stormwater management	SWRCB	200	0	101
Water use efficiency	DWR	100	0	98
<b>Water Recycling and Desalination</b>		<b>\$725</b>	<b>\$132</b>	<b>\$211</b>
Water recycling	SWRCB	725	132	161
Desalination	DWR		0	50
<b>Drinking Water Quality</b>		<b>\$520</b>	<b>\$136</b>	<b>\$333</b>
Drinking water for disadvantaged communities	SWRCB	260	136	175
Wastewater treatment in small communities	SWRCB	260	0	158
<b>Flood Protection</b>		<b>\$395</b>	<b>\$0</b>	<b>\$0</b>
Delta flood protection	DWR and CVFPB	295	0	0
Statewide flood protection	DWR and CVFPB	100	0	0
<b>Administration and Oversight</b>		<b>\$0</b>	<b>\$0</b>	<b>\$1</b>
Administration <sup>c</sup>	DWR and CNRA	0	0	1
<b>Totals</b>		<b>\$7,546</b>	<b>\$267</b>	<b>\$1,786</b>

<sup>a</sup> Appropriated in emergency drought legislation (Chapter 1, Statutes of 2015 [AB 91, Committee on Budget]).

<sup>b</sup> With staff support from DWR.

<sup>c</sup> Bond does not provide specific allocation for bond administration and oversight. It allows the use of other allocations for this purpose.

CWC = California Water Commission; CNRA = California Natural Resources Agency; DFW = Department of Fish and Wildlife; WCB = Wildlife Conservation Board; SWRCB = State Water Resources Control Board; DWR = Department of Water Resources; and CVFPB = Central Valley Flood Protection Board.

## Resources

As shown in Figure 20, the budget includes \$5.1 billion (including \$2.5 billion from the General Fund) for the support of various resources programs in 2015-16. This is a decrease of \$2.5 billion, or 33 percent, from the revised 2014-15 spending level. Most of this reduction in year-over-year spending is attributable to lower bond spending in 2015-16, particularly for DWR.

### California Natural Resources Agency

The budget includes \$54.9 million from various fund sources to support the CNRA, a net reduction of about \$3.2 million, or 6 percent, from the estimated 2014-15 level. This is primarily due to a reduction in planned Proposition 84 bond expenditures, which is partially offset by funding increases related to Proposition 1.

### Environmental License Plate Fund (ELPF).

The CNRA administers the ELPF, which faced a projected shortfall of \$10.5 million in 2015-16. As shown in Figure 21, the budget package includes various changes to address this shortfall. Most savings are due to shifting activities previously funded by the ELPF to special funds administered by DFW (\$7.5 million) and the Department of Parks and Recreation (\$3.3 million). Other departments receiving ELPF support are expected to meet 5 percent savings targets, resulting in savings of about \$1 million. Additionally, funding for the fourth climate change assessment and Climate Ready grants were delayed by one year to achieve one-time savings. The budget package also includes budget trailer legislation (1) allowing ELPF monies to be used for deferred maintenance in state parks and (2) requiring the CNRA to convene a working group to review and make

**Figure 20**  
**Resources Budget Summary**

(Dollars in Millions)

	2013-14	2014-15	2015-16	Change From 2014-15	
				Amount	Percent
<b>Expenditures</b>					
Department of Forestry and Fire Protection	\$869	\$1,268	\$1,243	-\$25	-2%
General obligation bond debt service	1,009	958	965	7	1
Department of Water Resources	824	2,887	925	-1,962	-68
Department of Parks and Recreation	515	628	529	-99	-16
Energy Resources Conservation	244	778	422	-356	-46
Department of Fish and Wildlife	320	495	407	-88	-18
Wildlife Conservation Board	59	105	114	8	8
California Conservation Corps	76	88	98	10	11
Department of Conservation	90	92	89	-2	-3
Coastal Conservancy	5	149	63	-86	-58
Other resources programs	164	223	284	61	28
<b>Totals</b>	<b>\$4,175</b>	<b>\$7,671</b>	<b>\$5,140</b>	<b>-\$2,531</b>	<b>-33%</b>
<b>Funding</b>					
General Fund	\$2,177	\$2,558	\$2,481	-\$76	-3%
Special funds	928	1,806	1,324	-482	-27
Bond funds	953	3,053	1,111	-1,941	-64
Federal funds	117	255	223	-32	-13

recommendations regarding future priorities for ELPF expenditures.

**Department of Forestry and Fire Protection**

The budget includes \$1.2 billion (mostly General Fund) to support CalFire, which is about the same level as in 2014-15. Both the 2014-15 and 2015-16 budgets include augmentations for drought-related wildfire protection.

**Illegal Fireworks Disposal.** The budget provides \$5 million on a one-time basis (Toxic Substances Control Account [TSCA]) for the disposal of seized illegal fireworks. The budget package also includes budget trailer legislation that temporarily changes how the State Fire Marshal handles seized fireworks. Specifically, the State Fire Marshal is no longer required to dispose of all seized fireworks, but instead is required to manage them. Specifically, under the legislation, if fireworks are determined not to be hazardous by certain explosives experts, the State Fire Marshal is required to store them. If they are determined to be hazardous, the State Fire Marshal must contract with a federally permitted hazardous waste hauler to haul and dispose of them. This additional flexibility could reduce state costs since all seized illegal fireworks currently must be shipped out of state for disposal, which can be very expensive.

**Department of Water Resources**

The budget includes \$925 million from various fund sources to support DWR, a net reduction of about \$2 billion, or 68 percent, from the revised 2014-15 level. This is primarily due to a reduction in planned bond expenditures.

**Figure 21**

**Addressing the Environmental License Plate Fund (ELPF) Shortfall in the Short Term**

*Positive (+)/Negative (-) Impact on ELPF Reserve (In Thousands)*

Action	2014-15	2015-16	2016-17
Delay first year of climate change assessment	\$2,500	-\$2,500	—
Delay second year of climate change assessment	—	2,500	-\$2,500
Delay Climate Ready grants	1,300	-1,300	—
Shift DPR expenditures to SPRF	200	3,300	—
Shift DFW expenditures to FGPF	900	7,500	—
Savings targets and other reductions	—	1,100	—
<b>Total Savings</b>	<b>\$4,900</b>	<b>\$10,600</b>	<b>-\$2,500</b>

DPR = Department of Parks and Recreation; SPRF = State Parks and Recreation Fund; DFW = Department of Fish and Wildlife; and FGPF = Fish and Game Preservation Fund.

**Proposition 1E.** The budget provides \$463 million to DWR from Proposition 1E (2006) to support flood protection activities. This total includes \$300 million for systemwide capital projects (such as building bypasses) and \$163 million for state operational activities (such as planning, analysis, levee maintenance, and equipment purchases). Chapter 1—the emergency drought legislation passed in March 2015— included \$660 million (primarily from Proposition 1E) for flood protection projects in urban and rural areas, as well as for grants to local governments for local flood protection activities.

Proposition 1E requires all funds to be appropriated by July 1, 2016. The budget act and Chapter 1 fully appropriate the remaining funds available from Proposition 1E. Under these bills, the department will have five years to commit Proposition 1E funds and three additional years to spend the funds, after which time the authorization to use the funds will expire.

**Department of Fish and Wildlife**

The budget includes \$407 million from various fund sources to support DFW, a net reduction of \$88 million, or 18 percent, from the revised 2014-15 level. This is primarily due to the expiration of

one-time funding provided in 2014-15, such as for drought-mitigation activities.

**Payment in Lieu of Taxes (PILT).** The budget provides \$644,000 to resume PILT payments to local governments. These payments are provided to offset lost property tax revenues that local governments otherwise would have collected if wildlife management areas in those jurisdictions had not been transferred to the state in the past. There are 36 counties identified to receive PILT payments. Budget trailer legislation specifies that PILT payments (1) are made at the discretion of the Legislature, and (2) can only be made to nonschool local governments (so as not to be duplicative with General Fund Proposition 98 payments to school districts that already take into account local property tax revenue collected by districts).

### **Department of Conservation**

The budget provides a total of \$89 million for the DOC from various funding sources, a net decrease of \$2 million, or 3 percent, from the revised 2014-15 level.

**Underground Injection Control (UIC) Program.** The budget provides \$3.5 million and 23 positions from the Oil, Gas, and Geothermal Administrative Fund (OGGAF) for the DOC to conduct activities related to the state's UIC Program, which regulates certain oil and gas wells to ensure they comply with the federal Safe Drinking Water Act. (The budget also includes \$2.9 million for SWRCB to assist with UIC regulatory activities related to water quality, as discussed below.) Specifically, the funding and positions will be used to improve the oversight and regulation of the state's UIC Program and comply with U.S. Environmental Protection Agency (U.S. EPA) orders. The DOC is currently working with the U.S. EPA to address various program deficiencies that have been identified and bring the program into compliance with federal

requirements. This work includes reevaluating aquifers to determine which ones potentially contain drinking water and ensuring well operators are not injecting harmful fluids into such aquifers. If an aquifer does not have water that would potentially be used for drinking water, the state may request an exemption from the federal government. An exemption allows operators to inject fluid into the aquifer.

In addition, the Legislature passed budget-trailer legislation that made the following changes:

- **SWRCB Approval of Aquifer Exemptions.** The DOC must consult with the SWRCB and the appropriate regional water quality control board prior to proposing an aquifer exemption to the U.S. EPA. If the DOC and SWRCB concur that the exemption proposal merits consideration, the agencies are required to provide a public comment period on the proposal and to jointly conduct a hearing prior to submitting the exemption request to the U.S. EPA.
- **Reports on Compliance With U.S. EPA Requirements.** Beginning January 30, 2016, the DOC and SWRCB must provide a report to the Legislature every six months regarding the status of the UIC Program and DOC's progress in meeting U.S. EPA requirements to review aquifer exemptions.
- **Independent Review Panel to Improve Program Effectiveness.** The Secretaries of CalEPA and CNRA are required to appoint an independent review panel to evaluate the UIC Program and to make recommendations on how to improve the effectiveness of the program by January 1, 2018.

**Oil and Gas Data Management System.** The budget includes \$6 million from the OGGAF to develop a new oil and gas data management system,



subject to approval by the California Department of Technology. The budget also gives the Department of Finance the authority to provide an additional \$4 million after providing a report to the Joint Legislative Budget Committee (JLBC) regarding the implementation of (1) an assessment of the operations and business practices of the Division of Oil, Gas, and Geothermal Resources and (2) the development of an oil and gas data management system. The total estimated cost for the system, including planning, design, and development, is \$20 million.

### Environmental Protection

As shown in Figure 22, the budget includes \$4.7 billion (mostly special funds and bond funds) for various environmental protection programs. This is an increase of \$650 million, or 16 percent, from the revised 2014-15 spending level. This increase largely reflects Proposition 1 bond funding provided to SWRCB.

### State Water Resources Control Board

The budget includes \$2.4 billion (mostly Proposition 1 bond funds) to support SWRCB, a net increase of \$1 billion, or 77 percent, from the revised 2014-15 level. This is primarily due to the provision of Proposition 1 bond funding, as described above.

**Underground Storage Tank Cleanup.** The budget for the board includes a \$164 million increase in Underground Storage Tank Cleanup Funds, which primarily reflects implementation of recent policy changes adopted by the Legislature to (1) increase fees on petroleum stored in underground tanks and (2) use the resulting revenues for new and existing programs related to cleaning up contamination from underground storage tanks.

**Bay Delta Water Quality Control Plan.** The budget includes \$7.8 million from the General Fund to update and implement the Bay Delta Water Quality Control Plan. This plan is designed to

**Figure 22**

### Environmental Protection Budget Summary

(Dollars in Millions)

	2013-14	2014-15	2015-16	Change From 2014-15	
				Amount	Percent
<b>Expenditures</b>					
State Water Resources Control Board	\$568	\$1,348	\$2,387	\$1,039	77%
Department of Resources Recycling and Recovery	1,432	1,527	1,508	-20	-1
Air Resources Board	486	834	469	-365	-44
Department of Toxic Substances Control	167	209	204	-5	-2
Department of Pesticide Regulation	83	87	90	3	4
Other environmental programs	30	39	36	-3	-8
<b>Totals</b>	<b>\$2,765</b>	<b>\$4,044</b>	<b>\$4,694</b>	<b>\$650</b>	<b>16%</b>
<b>Funding</b>					
General Fund	\$45	\$89	\$72	-\$17	-1%
Special funds	2,397	2,798	2,814	15	1
Bond funds	156	789	1,442	653	21
Federal funds	167	368	367	-1	—

provide the board with more current water quality information—such as flow requirements—to inform ongoing Delta operations.

**Underground Injection Program.** The budget provides \$2.9 million (mostly from OGGAF) and 19 positions to enable the board to perform various oversight and regulatory activities related to the UIC Program in conjunction with DOC, as discussed in more detail above. Activities to be performed by the board include inventory and enforcement activities for ponds that contain oil and gas wastewater in the Central Valley, technical reviews of aquifer exemption submittals from DOC, and hydrological reviews of injection well proposals submitted by well operators.

### **Air Resources Board (ARB)**

The budget provides a total of \$469 million for the ARB from various funding sources, a net decrease of \$365 million, or 44 percent, from the revised 2014-15 level. This year-over-year reduction is largely the result of a one-time \$240 million appropriation of Proposition 1B bond funds for port modernization that was included in the 2014-15 budget.

**Southern California Mobile Emissions Testing Laboratory.** The budget provides a total of \$5.9 million from the Motor Vehicle Account (MVA) (\$3.8 million), the Air Pollution Control Fund (\$1.2 million), and the Vehicle Inspection Repair Fund (\$900,000) to begin the planning work necessary to move mobile emissions testing operations—including light duty vehicle testing operations at a state-owned facility in El Monte and heavy duty vehicle testing operations at a facility in Los Angeles—to a new consolidated facility in Southern California. Budget-year funding will be used to assess the suitability of two potential sites (\$200,000) and develop performance criteria (\$5.7 million). Of the \$5.9 million, \$2.9 million will be available only after the ARB’s site evaluation

process is complete, including onsite presentations from location representatives in Riverside and Pomona to the ARB site evaluation team, and a summary of the site selection action taken by the ARB is submitted to the JLBC for 30-day review. The total estimated project cost is \$366 million, including site assessment and development of performance criteria (\$5.9 million), construction (\$258 million), and equipment (\$102 million). Construction is scheduled to begin July 2017 and be completed January 2020.

### **Department of Toxic Substances Control**

The budget includes \$204 million from various funds to support the Department of Toxic Substances Control, which is about the same level as in 2014-15.

**Program Improvements.** The budget provides several temporary funding augmentations intended to help the department implement its “Fixing the Foundation” initiative, which is designed to improve its performance and reduce backlogs. Specifically, the budget includes funding for:

- **Enhanced Enforcement.** The budget provides \$2.1 million (\$222,000 Hazardous Waste Control Account [HWCA] and \$1.9 million TSCA) for two years and 11 positions to implement and evaluate approaches to address environmental violations in vulnerable communities. The department will focus inspection and enforcement resources on the metal recycling industry and the hazardous waste transportation industry.
- **Permitting Coordination and Backlog Support.** The budget provides \$1.6 million from the HWCA for two years and 16 positions to (1) reduce the department’s backlog of continued hazardous waste facility permit applications,

and (2) streamline and strengthen the enforcement and permitting processes.

- Improving Enforcement Performance.** The budget provides \$1.4 million (TSCA) for two years and 11 positions to conduct a review of the department’s hazardous waste management enforcement program. This funding is intended to address concerns that the program has provided inadequate protection against environmental hazards in some communities. Specifically, the department will assess its enforcement program including evaluation of its

workload, inspections, investigations, policies, and statutory mandates.

The budget package also includes trailer legislation to establish an independent review panel to oversee the department’s activities and report to the Legislature and Governor every 90 days on the department’s performance. The panel will also make recommendations for program improvements beginning in January 2016. The budget also establishes an Assistant Director for Environmental Justice to provide outreach and information to communities disproportionately affected by hazardous waste facilities.

## TRANSPORTATION

The spending plan provides \$17.6 billion from various fund sources for transportation programs. As shown in Figure 23, this is an increase of \$2.1 billion, or 13 percent, when compared to the revised level of spending in the prior year. The greater spending is due primarily to the development of the high-speed rail project.

**Special Session on Transportation.** On the day the Governor signed the *2015-16 Budget*

*Act*, he called a special legislative session on transportation. Specifically, he called on the Legislature to adopt legislation to (1) provide a permanent and sustainable increase in funding for transportation, (2) establish clear performance objectives, and (3) improve project delivery. As of the date of this publication, no legislation has been adopted as part of the ongoing special session.

**Figure 23**

### Transportation Program Expenditures

*Various Funds (Dollars in Millions)*

Program/Department	2013-14	2014-15	2015-16	Change From 2014-15	
				Amount	Percent
Department of Transportation	\$10,863	\$10,277	\$10,490	\$212	2%
High-Speed Rail Authority	1,339	916	3,089	2,173	237
California Highway Patrol	1,917	2,128	2,283	156	7
Department of Motor Vehicles	1,009	1,082	1,093	10	1
Transit Capital (Proposition 1B)	278	649	150	-499	-77
State Transit Assistance	408	420	451	31	7
California Transportation Commission	7	28	28	—	—
<b>Totals</b>	<b>\$15,822</b>	<b>\$15,501</b>	<b>\$17,584</b>	<b>\$2,083</b>	<b>13%</b>

## Department of Transportation (CalTrans)

The budget plan includes total expenditures of \$10.5 billion from various fund sources for Caltrans. This level of expenditures is more than in 2014-15 by \$212 million (or 2 percent). The increase primarily reflects the shifting of some workload initially assumed to occur in 2014-15 into 2015-16. The budget provides roughly \$3.9 billion for transportation capital outlay, \$2 billion for local assistance, \$1.7 billion for capital outlay support, and \$1.5 billion for highway maintenance. The budget plan also assumes that \$560 million will be available for mass transportation programs, including \$300 million in cap-and-trade auction revenues to increase transit and intercity rail ridership and encourage transit and rail operators to adopt clean technologies. (As discussed earlier in this report, existing state law continuously appropriates 10 percent of all cap-and-trade auction revenue for intercity rail capital projects and 5 percent for low-carbon transit operations.) The balance of the funding supports program development, legal services, and other programs.

### *Road Usage Charge Pilot Program.*

Chapter 835, Statutes of 2014 (SB 1077, DeSaulnier) requires the California State Transportation Agency (CalSTA) to implement a road usage charge pilot program by January 2017, and report on the outcomes of the pilot to the Legislature by June 2018. The budget provides \$10.7 million to Caltrans, working under the direction of CalSTA, for the design and implementation of the pilot program. Specifically, the budget includes \$618,000 for five full-time positions, \$7.7 million for an existing consultant contract, \$1.1 million for future consultant contracts, and \$1.3 million for overtime and other costs to accelerate the pilot by one year. The budget also provides \$162,000 and one limited-term position to the California Transportation Commission to assist in the design and implementation of the pilot.

*Fleet Greening.* The budget includes an ongoing increase of \$12 million (State Highway Account) to help the department comply with two ARB regulations that limit emissions from certain diesel-powered equipment. Specifically, the additional funds will help support the department's plan to replace roughly 600 pieces of equipment by 2020-21. Caltrans also plans to defer the replacement of other equipment in order to ensure that sufficient funds are available to replace all of the particular equipment affected by the regulations within the specified time frame.

*Project Initiation Documents (PIDs).* The budget includes \$53.8 million to support 362 positions to develop PIDs—project planning documents that establish the initial project scope, cost, and schedule for highway projects. This is a net increase of \$3.4 million and 25 positions above the levels provided in 2014-15. Of this increase, \$2 million and 14 positions is for Caltrans to develop additional PIDs over the next two years for projects totaling \$500 million. This would provide the department with a shelf of projects to the extent that there are unexpected funding increases in the future (such as unanticipated federal funds).

## Transit Programs

### *Proposition 1B Transit Capital.*

Proposition 1B, approved by voters in November 2006, authorized the issuance of \$20 billion in general obligation bonds for state and local transportation improvements, including \$3.6 billion for capital improvements to local transit systems. The budget includes expenditures of \$150 million in Proposition 1B bond funds for transit projects—a 77 percent decline from 2014-15. This decline reflects the fact that many projects funded by Proposition 1B are completed or nearing completion.

*State Transit Assistance (STA) Program.* The budget plan includes about \$450 million for the

STA program to support local transit operations and capital projects, an increase of 7 percent from 2014-15. This amount includes about \$350 million from the public transportation account and an estimated \$100 million from cap-and-trade auction revenues for “low-carbon transit” projects—transit operations that reduce greenhouse gas emissions, such as by expanding services to increase transit ridership.

### **High-Speed Rail Authority (HSRA)**

The budget plan includes total expenditures of \$3.1 billion for HSRA, an increase of \$2.2 billion (or more than three times) above the level of expenditures in 2014-15. The increase is primarily due to an increase in construction activities and in grants for local transit projects that will support the operation of the high-speed rail. The total expenditures include \$1.2 billion in federal funds and \$1.4 billion from proceeds of bonds authorized by Proposition 1A (2008). The budget plan also assumes that \$500 million in cap-and-trade auction revenues will be available for the project in 2015-16. (As discussed earlier in this report, existing law continuously appropriates 25 percent of all cap-and-trade auction revenue for the planning and capital costs of the first phase of the high-speed rail project.)

## **JUDICIARY AND CRIMINAL JUSTICE**

The 2015-16 budget provides \$11.9 billion from the General Fund for judicial and criminal justice programs, including support for ongoing programs and capital outlay projects, as shown in Figure 24 (see next page). This is an increase of \$221 million, or 2 percent, above the revised 2014-15 General Fund spending level.

### **California Highway Patrol (CHP)**

The budget provides \$2.3 billion to fund CHP operations, about \$155 million (or 7 percent) more than 2014-15. Almost all of this amount is from the MVA, which generates its revenues primarily from driver license and vehicle registration fees. The budget includes \$136 million for the design and construction of five area field offices—in Crescent City, Quincy, San Diego, Santa Barbara, and Truckee. In addition, the budget includes \$1 million for a pilot program to test the use of body cameras—cameras worn on the uniform of an officer to film events occurring while the officer is on duty.

### **Department of Motor Vehicles (DMV)**

The budget provides \$1.1 billion for DMV operations, \$10 million, or 1 percent, more than in 2014-15. Of this total amount, nearly all funding is from the MVA. The budget includes \$4.7 million to fund the initial phase of the administration’s multiyear plan to replace eight DMV facilities over the next several years. In addition, the budget includes \$2.5 million and ten positions to increase information system security in order to safeguard information stored by the department, including a new security operations center to provide 24-hour monitoring of the DMV’s information systems.

### **Judicial Branch**

The budget provides \$3.5 billion for support of the judicial branch—an increase of \$110 million, or 3.3 percent, from the revised 2014-15 level. This amount includes \$1.6 billion from the General Fund and \$499 million from the counties, with most of the remaining balance from fine, penalty, and court fee revenues. The General Fund amount is a net increase of \$176 million, or 12 percent,

**Figure 24**

**Judicial and Criminal Justice Budget Summary**

*General Fund (Dollars in Millions)*

Program/Department	2013-14	2014-15	2015-16	Change From 2014-15	
				Amount	Percent
Department of Corrections and Rehabilitation	\$9,188	\$9,977	\$10,031	\$54	0.5%
Judicial Branch	1,208	1,414	1,590	176	12.0
Department of Justice	172	201	201	—	—
Board of State and Community Corrections	44	69	68	-1	-1.4
Other criminal justice programs <sup>a</sup>	32	24	17	-8	-32.0
<b>Totals</b>	<b>\$10,644</b>	<b>\$11,685</b>	<b>\$11,907</b>	<b>\$221</b>	<b>1.9%</b>

<sup>a</sup> Includes debt service on general obligation bonds, Office of the Inspector General, and State Public Defender.

from the revised 2014-15 amount. Funding for trial court operations is the single largest component of the judicial branch budget, accounting for around four-fifths of total spending.

**General Fund Support for Trial Court**

**Operations.** The budget package includes an ongoing net \$185 million General Fund augmentation to trial court operations in 2015-16. This amount includes the following increases:

- **Five Percent Base Increase (\$91 Million).** The budget includes a \$91 million augmentation for trial court operations, which reflects a second 5 percent General Fund increase initially approved as part of the 2014-15 budget.
- **Fine and Fee Backfill (\$66 Million).** The amount of fine and fee revenue collected to support trial court operations continues to be lower than expected. In recognition of this, the budget provides \$66 million in additional General Fund support to backfill an expected decline in fine and fee revenue in 2015-16. This amount includes \$31 million to make the one-time backfill provided in 2014-15 ongoing.
- **Health Benefits and Retirement Costs (\$39 Million).** The budget includes

\$39 million for increased trial court health benefit and retirement costs.

- **Proposition 47 Workload (\$27 Million).** The budget provides \$27 million in General Fund support in 2015-16 for trial courts to process resentencing petitions from offenders currently serving felony sentences for crimes that Proposition 47 (2014) reduced to misdemeanors.
- **Dependency Counsel (\$11 Million).** The budget provides a total of \$115 million for the support of court-appointed dependency counsel. This amount includes an ongoing \$11 million General Fund augmentation to reduce dependency counsel caseloads.
- **Telecommunications Network (\$6 million).** The budget provides \$6 million in General Fund support to expand the Local Area Network/Wide Area Network (LAN/WAN) telecommunications network infrastructure program to include the last four trial courts not currently participating in the program.

The above augmentations are partially offset by a \$24 million reduction in General Fund support for trial court operations in 2015-16 in order to reflect

the availability of property tax revenue in accordance with Control Section 15.45 and Section 2578 of the Education Code. Such funds are remitted to the state by counties that collect more property tax than state law allows them to spend on education.

***Improvement and Modernization Fund (IMF).*** In recent years, the judicial branch's IMF has experienced persistent operational shortfalls that steadily depleted the IMF's fund balance. (The IMF is a judicial branch special fund that supports various projects and programs that broadly benefit trial courts, such as information technology projects.) To help address the immediate insolvency of the IMF, the budget package ends a \$20 million annual transfer of funding from the IMF to the Trial Court Trust Fund (TCTF)—which provides most of the funding to support trial court operations. This transfer was first approved as part of the 2011-12 budget package to help offset trial court budget reductions. Partially offsetting this benefit to the IMF, the budget shifts \$6.3 million in costs for supporting the California Case Management System Version 3 (CCMS V3) from the TCTF to the IMF. (The CCMS V3 is a civil, small claims, probate, and mental health case management system currently used by five trial courts.) These costs will need to be addressed by the resources freed by the terminated TCTF transfer—resulting in a net \$14 million augmentation in IMF resources.

***Capital Outlay.*** The budget provides \$218 million for various court construction projects. This amount consists of (1) \$131 million in lease revenue bond authority for the construction or renovation of three previously approved projects (Lakeport, Yreka, and Willows) and (2) \$87 million from the Immediate and Critical Needs Account (ICNA) for acquisition, design, and construction activities for 11 projects. (In accordance with state law, ICNA receives revenue from certain court fee and fine increases.)

## **Corrections and Rehabilitation**

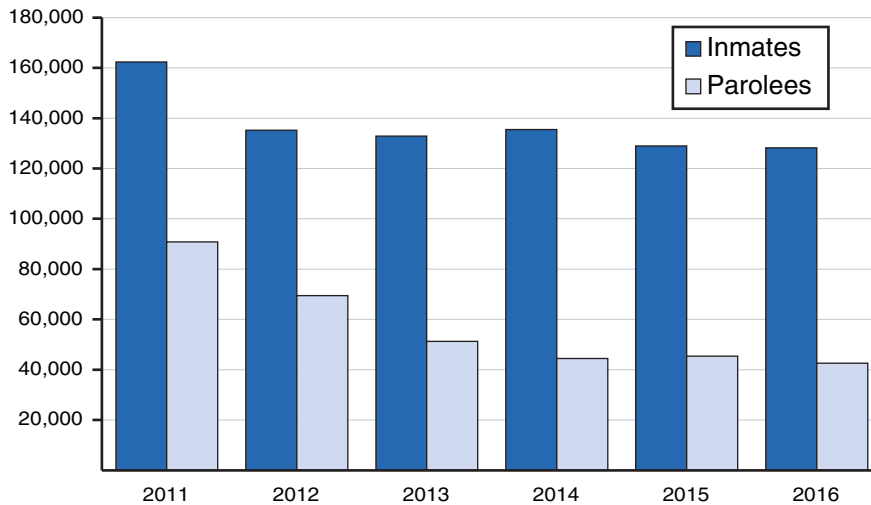
The budget act contains \$10 billion from the General Fund for support of the California Department of Corrections and Rehabilitation (CDCR). This is a net increase of \$54 million, or less than one percent, above the revised 2014-15 level of spending. This increase primarily reflects additional costs related to (1) employee compensation, (2) increased staffing for the California Health Care Facility (CHCF) in Stockton, (3) complying with a court order regarding the way the state handles inmates with mental illnesses, and (4) the activation of new infill bed facilities located at Mule Creek and R.J. Donovan prisons. These increases are largely offset by savings primarily related to a projected decrease in the prison population and the use of out-of-state contract beds for inmates.

***Adult Correctional Population.*** Figure 25 (see next page) shows the recent and projected changes in the inmate and parolee populations. As shown in the figure, the prison population is projected to decline from 129,000 inmates at the end of 2014-15 to about 128,000 inmates by the end of 2015-16. This decline is primarily due to the implementation of Proposition 47 (2014), which reduces penalties for certain offenders convicted of nonserious and nonviolent property and drug crimes and allows for the resentencing of certain offenders previously convicted of such crimes. The parole population is projected to decline to about 43,000 parolees by the end of 2015-16, primarily due to the effects of the 2011 realignment, which shifted from the state to the counties the responsibility for supervising certain offenders following their release from prison.

***Infill Facility Activation.*** The budget includes \$36 million from the General Fund to activate three new infill bed facilities that are currently under construction—two new facilities at Mule Creek prison in Ione and one new facility at R.J. Donovan

**Figure 25**  
**Inmate and Parolee Populations Projected to Decrease**

*As of June 30 Each Year*



prison in San Diego. These facilities will add almost 2,400 beds to the design capacity of CDCR’s 34 prisons and are scheduled to be activated in February 2016.

***Inmate Mental Health Care—Court***

**Compliance.** The budget also includes \$42 million from the General Fund to comply with an order by the federal court in the *Coleman v. Brown* case pertaining to inmate mental health care. In August 2014, the court ordered CDCR to adopt new policies regarding how the department handles inmates with mental illnesses. For example, the department was ordered to end the practice of housing certain inmates with mental illnesses together with general population inmates when they are placed in segregated housing units. In response to the court order, the department will designate a special segregated housing unit for such mentally ill inmates where they will have access to increased out of cell time and therapy. In addition, CDCR was ordered to increase its monitoring of inmates in segregated housing units by hiring additional staff to periodically conduct cell inspections.

***Recidivism Reduction***

**Funding.** The budget package allocates \$18.9 million from the Recidivism Reduction Fund (RRF) for various initiatives intended to reduce recidivism. (The RRF is supported by savings resulting from the underutilization of funding provided in 2013-14 for contract beds.) As

shown in Figure 26, these funds are provided to CDCR and other state agencies, such as the Board of State and Community Corrections (BSCC). For example, the budget allocates \$6.9 million from the RRF to CDCR to expand in-prison substance use treatment programs.

**Correctional Health Care.** The budget package provides a total of \$295 million for the operation of CHCF in Stockton. This includes a \$76 million General Fund augmentation to provide 715 additional positions to help address various deficiencies in care (such as inadequate clinical staffing) that have been identified since the facility was opened in fall 2013. The budget package provides an additional \$61 million from the General Fund to pay for new drugs used to treat inmates with Hepatitis C. The budget also includes \$1.9 million from the General Fund for the federal court-appointed Receiver to begin the process of transitioning inmate medical care back to state control, as outlined by the federal court in



**Figure 26**

**2015-16 Spending to Reduce Recidivism**

(In Millions)

	Department	Amount
In-prison substance abuse treatment expansion	CDCR	\$6.9
Grants to CBOs to expand community based programs	BSCC	4.0
Grants to CBOs to expand in-prison programs	CDCR	3.0
Mentally Ill Offender Crime Reduction Grant program	BSCC	1.7
Workforce investment boards	EDD	1.5
Competitive grants for collaborative courts	Judicial Council	1.3
Evaluation of CDCR’s career technical education programs	CDCR	0.5
<b>Total</b>		<b>\$18.9</b>

CDCR = California Department of Corrections and Rehabilitation; CBO = community-based organization; BSCC = Board of State and Community Corrections; and EDD = Employment Development Department.

March 2015. Specifically, the funding will support various transition-related responsibilities, including revising state regulations and assessing whether the responsibility for care at individual prisons can be returned to the state.

**Community Corrections Grant Program.**

As part of the 2015-16 budget package, the Legislature adopted statutory changes to the community corrections grant program authorized by Chapter 608, Statutes of 2009 (SB 678, Leno), which is intended to improve outcomes for certain individuals supervised by probation departments by giving counties a fiscal incentive to reduce the number of such offenders who are incarcerated for violating the terms of their supervision or committing new crimes. For example, the Legislature approved the Governor’s proposal to (1) remove the number of offenders diverted from county jail as a factor in determining county payments and (2) incorporate the recidivism rate for certain populations of offenders supervised by county probation departments as part of the 2011 realignment as a factor in determining county payments. In total, counties are expected to receive about \$125 million in SB 678 grant funds in 2015-16.

**Department of Justice (DOJ)**

The budget provides \$794 million for support of DOJ in 2015-16, which is roughly the same as the revised 2014-15 level of spending. This amount includes \$201 million from the General Fund. The budget includes 51 positions and nearly \$10 million (\$720,000 from the General Fund and \$9 million from other funds) for DOJ to implement legislation enacted in prior years. This includes additional legal responsibilities from increased workload or enforcement activities of other state departments (\$6 million), increased enforcement of the charitable organizations in California (\$2 million), ongoing maintenance and operations for the Controlled Substance Utilization Review and Evaluation System (\$1 million), and increased workload from new requirements related to the state’s initiative process (\$720,000). Additionally, the budget includes 12 positions and about \$4 million in funding over three years from the Gambling Control Fund to address the current cardroom licensing backlog.

**Other Criminal Justice Programs**

**Traffic Amnesty Program.** In adopting the 2015-16 budget package, the Legislature authorized an 18-month traffic amnesty program—beginning

October 1, 2015—for delinquent debt. Under the program, the \$300 civil assessment imposed by collection programs for a failure to pay or a failure to appear without good cause will be waived. Individuals will then receive a 50 percent reduction in the total amount of remaining court-ordered debt owed for traffic infractions and certain traffic misdemeanors (upon agreement of the court and the county) as long as the debt was assessed prior to January 1, 2013 and other specified criteria are met. Individuals who certify that they receive certain public benefits (such as Medi-Cal) or that their monthly income is up to 125 percent of the federal poverty level will receive an 80 percent reduction. Amnesty participants could either pay in full or set up a monthly payment plan. Individuals who subsequently fail to comply with their payment plan will have 30 days to resume payment or request a change in their payment plan. If individuals do not resume payments or request a change to their payment plan, the collection program could refer the debt to the Franchise Tax Board for collection. Finally, participants of the amnesty program, as well as individuals who are currently making payments to collection programs for the same violations included in the amnesty program, will be able to have their drivers' licenses reinstated if their licenses were previously suspended due to a failure to pay court-ordered debt or appear in court. After such reinstatement, collection programs will not be able to suspend the drivers' licenses of amnesty participants who subsequently fail to comply with their payment plan.

Collection programs would be permitted to charge a \$50 amnesty program fee in addition to recovering most of their operational costs for administering the program. Revenues collected in the amnesty program will be distributed to various state and local funds in accordance with

state law—except for the revenue deposited into the State Penalty Fund (SPF). The Judicial Council will receive the first \$250,000 deposited into the SPF in order to reimburse DMV for costs incurred in advertising the amnesty program, such as by providing information about the program with each motor vehicle registration notice. The remaining SPF amnesty revenue will be deposited into only two of the nine funds supported by the SPF—82.2 percent to the Peace Officer's Training Fund (POTF) and 17.8 percent to the Corrections Training Fund (CTF)—in order to address their immediate insolvency. The budget assumes that the SPF will receive \$12 million in amnesty revenue with \$10 million going to the POTF and \$2 million going to the CTF.

**BSCC.** The budget includes \$180 million (\$68 million from the General Fund and \$112 million from other funds) for BSCC, which is responsible for administering various public safety grants, overseeing local correctional standards, providing technical assistance to local criminal justice agencies, and collecting data. The budget includes General Fund increases for the following local law enforcement grant programs:

- ***Post Release Community Supervision (PRCS) Funding.*** The 2011 realignment requires county probation departments to supervise nonviolent, nonserious offenders released to PRCS following their prison terms. Due to the early release of certain prison inmates as part of the state's plan to comply with the federal court order to reduce prison overcrowding, there will be a temporary increase in the PRCS population. The budget includes limited-term funding of \$18.6 million in 2015-16 and \$15.5 million in 2016-17 to assist counties with this increased workload.

- Local Law Enforcement Grants.** The budget includes \$31 million on a one-time basis for local law enforcement grants, including (1) \$20 million for agencies that provide data on their use of force to

the state, (2) \$6 million to strengthen the relationship between communities and law enforcement, and (3) \$5 million for police station infrastructure in Kings County.

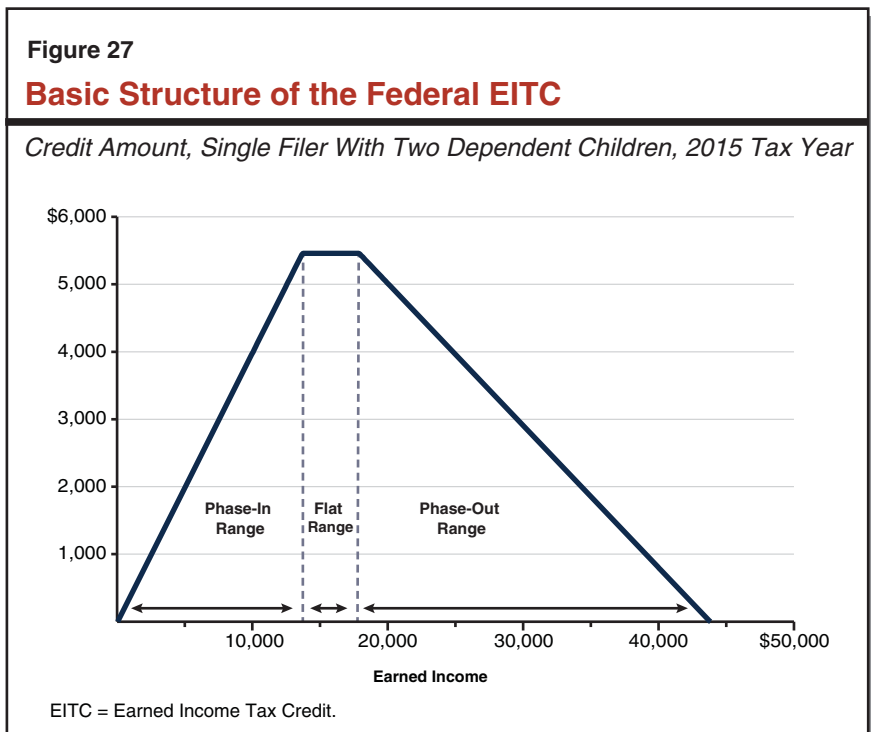
## OTHER MAJOR PROVISIONS

### California Earned Income Tax Credit (EITC)

The 2015-16 spending plan includes the adoption of the California EITC, a personal income tax (PIT) credit that is intended to reduce poverty among California’s poorest working families by increasing their after-tax income. For those tax filers who qualify, the credit will reduce income tax liability and, in the common case where the amount of the credit exceeds the filer’s liability, the difference will be paid to the filer as a tax refund. For tax year 2015, the first year that the California EITC will be available, an estimated 2 million individuals will qualify (825,000 tax returns) with an average credit amount of \$460 per return.

Because the California EITC will reduce taxpayers’ income tax liabilities and provide refunds, the spending plan assumes that the credit will reduce PIT revenues available to the General Fund by an estimated \$380 million in 2015-16. The spending plan also includes \$22 million (General Fund) for the Franchise Tax Board to implement and administer the credit in 2015-16. The major features of the California EITC are described in greater detail below.

**Builds on Federal EITC.** The California EITC builds on the federal EITC, a similar provision in the federal income tax code. As shown in Figure 27, the federal EITC is structured such that the amount of credit a tax filer may claim increases with earnings over a phase-in range, meaning that greater earnings result in a larger credit. (Individuals without earnings may not claim the credit.) For higher levels of earnings, the amount of the federal EITC peaks and then gradually phases out. The amount of federal EITC that may be claimed also varies by the number of qualifying dependents, with significantly greater credit amounts available for filers with dependents than



for filers without dependents. As of 2014, 25 states and the District of Columbia had EITC provisions in their own income tax laws that build on the federal credit, usually by matching a specified percentage of a filer’s federal EITC amount. Like other states, the California EITC matches a percentage of the federal EITC—up to 85 percent. Unlike most other states, the California EITC

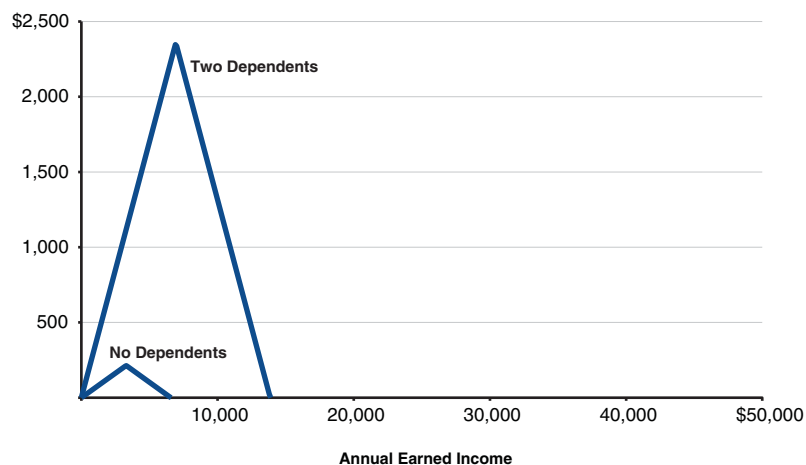
matches the federal EITC only for earnings levels that correspond to the phase-in range of the federal credit. Filers with annual earnings above this amount (\$13,870 for a filer with two qualifying dependents in 2015) may not claim the California EITC.

***Focuses on Working Families With the Lowest Incomes.*** As shown in Figure 28, the California EITC matches 85 percent of filers’ federal EITC up to a maximum amount and then immediately starts to phase out for higher earnings levels. The maximum benefit provided by the credit can be significant, but the credit is available over a relatively narrow range of earnings, focusing on filers with the very lowest incomes. Figure 29 displays, for various household sizes, the maximum credit amount, the earnings level at which this maximum credit can be claimed, and the earnings level at which the filer will no longer be eligible to claim the

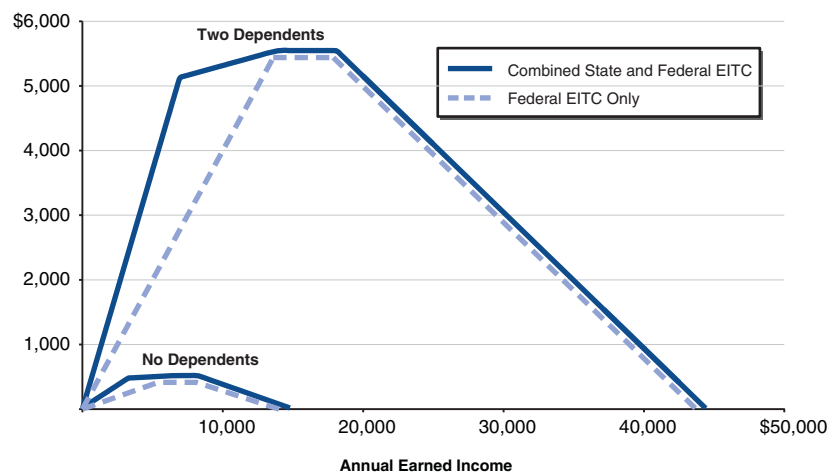
credit. For a filer with two dependents, earnings of \$6,935 (roughly equivalent to working 15 hours per week for a full year at the current minimum wage) would qualify for the maximum credit of \$2,358. As noted previously, the annual earnings level at which the same filer will no longer qualify is \$13,870 (roughly equivalent to working 30 hours per week for a full year at minimum wage). Filers that work

**Figure 28**  
**Basic Structure of the California EITC**

*State Credit Amount for Single Filers, 2015 Tax Year*



*Combined State and Federal Credit Amount, 2015 Tax Year*



EITC = Earned Income Tax Credit.

full time throughout the year at minimum wage will not qualify for the California EITC.

**Excludes**

**Self-Employment**

**Income.** The federal EITC has historically had a high level of improper payments to individuals who claimed a larger credit than for which they were eligible. One common source of improper payments in the federal EITC is the misreporting of self-employment income. In order to limit improper payments resulting from misreported self-employment income, the California EITC defines earnings more narrowly than the federal EITC to only include wages subject to withholding, excluding self-employment income.

**Amount of Credit to Be Set Through Annual Budget Act.** As noted above, for tax year 2015 the California EITC matches up to 85 percent of the federal EITC, over the federal EITC’s phase-in range. Budget legislation enacting the California EITC provides that this matching percentage is to be determined as part of the annual budget act. In this way, the amount of the California EITC may be adjusted in future years. In the event that the budget act does not specify a matching percentage, the matching percentage is set to zero.

**State Employee Compensation**

**Pay Increases for Most Employees.** The budget assumes that most state employees will receive pay increases in 2015-16, totaling about \$200 million in added General Fund costs. These pay increases are pursuant to current law established in existing labor agreements—referred to as memoranda of understanding (MOUs)—and other laws. Most state

**Figure 29**  
**Maximum California EITC Amounts**

2015 Tax Year			
	Maximum Credit	Annual Wages to Receive Maximum Credit	Annual Wages to No Longer Qualify for Credit
No qualifying dependents	\$214	\$3,290	\$6,580
One qualifying dependent	1,428	4,940	9,880
Two qualifying dependents	2,358	6,935	13,870
Three or more qualifying dependents	2,653	6,935	13,870

EITC = Earned Income Tax Credit.

employees are scheduled to receive a 2.5 percent pay increase in 2015-16.

**Pension Costs Reflect Higher Rates.** The California Public Employees’ Retirement System (CalPERS) determines what percentage of payroll the state must contribute to the system to fund employee pension benefits. Based on the higher contribution rates adopted by the CalPERS board, the budget assumes that the state’s General Fund costs to pay these benefits in 2015-16 will increase by about \$200 million. Most of this increase reflects recently adopted actuarial assumptions and methodologies being phased in by CalPERS.

**Higher Health Costs for Active and Retired Employees.** The state provides health benefits to eligible active and retired state employees. These benefits are administered by CalPERS. In mid-June, the CalPERS board approved 2016 health premiums that are—on average—7.4 percent higher than 2015 health premiums. This premium growth is expected to increase state General Fund costs in 2015-16 to provide health benefits to active employees by about \$30 million (\$43 million from other funds). State costs for retired employee health benefits are expected to increase by about \$120 million due to 2016 health premiums and a growing number of retirees.

**Prefunding Retiree Health Benefits.** Pursuant to existing labor contracts and administrative actions, money is set aside to prefund retiree health and dental benefits for rank-and-file and managerial employees affiliated with three of the state’s 21 bargaining units. Specifically, contributions are made annually to this trust fund by (1) the state to prefund these benefits for highway patrol officers (Bargaining Unit 5) and (2) employees to prefund these benefits for maintenance workers (Bargaining Unit 12) and doctors (Bargaining Unit 16). In September 2015, the Legislature ratified proposed MOUs with professional engineers (Bargaining Unit 9) and scientists (Bargaining Unit 10) that require both the state and employees to make contributions to prefund these benefits beginning in 2017-18. In order for each new prefunding plan to go into effect, the MOU must also be ratified by members of the respective bargaining units. Prior to the date of this publication, the scientists’ unit rejected their proposed MOU.

The budget plan contains no state dollars to prefund retiree health benefits for state employees other than highway patrol officers in 2015-16. However, Control Section 3.61 allows the Governor to begin prefunding these benefits for executive branch employees excluded from the collective bargaining process. In the case of rank-and-file employees subject to collective bargaining, the Governor may not order prefunding of these benefits except upon legislative approval of future labor agreements or other legislation. The administration proposes implementing prefunding arrangements with all rank-and-file state employees through the collective bargaining process. Labor agreements with most state employees expire at the end of 2015-16.

**Deferred Maintenance**

As shown in Figure 30, the budget includes \$120 million from the General Fund on a one-time basis to address backlogs of deferred maintenance at various state entities. The budget also provides the California Community Colleges (CCC) with \$148 million in Proposition 98 funds, which can be used for deferred maintenance projects, instructional equipment, or drought resistance projects. The CCC funding is described in more detail in the “Higher Education” section of this report.

**Debt Service**

The budget provides \$7.6 billion from the General Fund and other funds for debt-service payments in 2015-16. This represents an increase of 4 percent from 2014-15, and reflects additional debt-service costs related to transportation, resources, housing, corrections, and other projects. This includes \$6.6 billion for general obligation

**Figure 30  
General Fund Deferred Maintenance  
Funding in 2015-16 Budget<sup>a</sup>**

(In Millions)

State Entity	Amount
California State University	\$25
University of California	25
Parks and Recreation	20
Corrections and Rehabilitation	15
Developmental Services	7
State Hospitals	7
California Fairs	7
General Services	5
Emergency Services	3
Military	2
Veterans Affairs	2
Food and Agriculture	2
<b>Total</b>	<b>\$120</b>

<sup>a</sup> Does not include \$2 million in one-time General Fund for Department of Forestry and Fire Protection deferred maintenance projects that was included in Chapter 1, Statutes of 2015 (AB 91, Committee on Budget).

bonds (\$4.8 billion from the General Fund). The budget also includes \$986 million for lease revenue bonds (\$591 million from the General Fund). Debt-service payments for the University of California and California State University are made directly from their main state support appropriations and are reflected in the above total.

## Redevelopment

*Trailer Bill Makes Many Changes to Dissolution of Redevelopment Agencies (RDAs).* Chapter 325, Statutes of 2015 (SB 107, Committee on Budget), makes several changes to the RDA dissolution process and allocation of revenue among local governments. Chapter 325 consolidates the biannual review of RDA debt payments by the Department of Finance into an annual process and establishes a process for successor agencies to obtain “last and final” approval of debt payment schedules. In addition, the trailer bill makes a number of other changes, including modifying successor agency administrative cost limits and allowable expenditures, permitting the expenditure of certain proceeds of RDA bonds issued January through June of 2011, and ensuring property tax levies intended to fund local agency pension costs are used for those purposes.

The trailer bill also addresses disputes that had arisen out of RDA-related litigation. First, the bill restricts the definition of a loan agreement between a former RDA and the city or county that founded the RDA to loans of money, real property, and infrastructure development payments. Second, the bill requires any remaining interest on these loans to be recalculated at 3 percent (or 4 percent under certain circumstances) simple interest. Finally, the bill specifies that total repayments by a former RDA to a city or county cannot exceed \$5 million.

Chapter 325 also includes several changes intended to address some long-standing local government finance issues. Most notably, the

trailer bill appropriates \$23.8 million to offset fire protection costs for four newly incorporated cities in Riverside County.

## State Mandates (Noneducation)

The budget plan provides \$44.4 million from the General Fund for 19 mandates on local governments primarily related to criminal justice, health, and tax administration. The budget package suspends 56 noneducation mandates, including ones related to elections, animal shelters, and interagency child abuse reporting. When a mandate is suspended, local government compliance with the mandate’s provisions is optional during the budget year. Similar to state budget actions in recent years, the budget deferred payment for, but did not suspend, two labor relations mandates: Peace Officer Procedural Bill of Rights and Local Government Employment Relations.

## Unclaimed Property

*Provides Resources to the State Controller’s Office (SCO) to Increase Property Reunited With Owners.* The budget package includes \$581,000 in 2015-16 and \$857,000 annually beginning in 2016-17 to increase the amount of unclaimed property reunited with owners. The proposal implements some of the options detailed in our February 2015 report, *Unclaimed Property: Rethinking the State’s Lost & Found Program*. Specifically, the SCO will (1) make more properties eligible for SCO’s streamlined online claims process by increasing the eligibility ceiling from \$1,000 to \$3,000 and (2) perform a manual review of online claims that meet eligibility requirements but were not initially approved through SCO’s automatic process. In addition, SCO indicates that three actions will be implemented administratively without the need for additional resources. Specifically, SCO will (1) reduce documentation requirements for paper claims, (2) improve

the online database of unclaimed properties by allowing users to search more fields, and (3) enhance outreach efforts by collaborating with legislators. SCO intends to review more options for reuniting unclaimed property with owners and request additional resources in a future budget proposal.

### **Budgetary Processes**

Control Section 4.11 of the budget act authorizes the Department of Finance to change state budgetary processes for tracking personnel and operating costs in every executive branch department. The administration indicates that any changes to the state's budgetary processes will be for display purposes only and will not affect state spending or staffing levels. Departmental personnel and operating expenses are expected to be displayed differently in the 2016-17 budget. A budget trailer bill, in a related change, repealed the existing state law that required elimination of some state positions that are vacant for six consecutive months.

### **Department of Consumer Affairs (DCA)**

The budget provides DCA with \$612 million from various special funds that are supported mainly by licensing and other fees. This is a net increase of \$4 million, or 1 percent, compared to the estimated spending level for 2014-15.

**BreEZe Project.** The budget provides \$25 million in 2015-16 from various special funds for the continuation of the BreEZe information technology (IT) project. While the BreEZe project was originally proposed to replace various IT systems at 37 boards and bureaus within DCA, cost overruns and project delays led the administration to propose terminating the development contract with the vendor early. The funding in the budget will allow DCA to complete the roll out of BreEZe to about half the boards and bureaus,

which is scheduled to occur by mid-2016. The administration has indicated that it anticipates developing a plan—including cost-benefit analyses—for the remaining boards and bureaus in 2016.

**Bureau of Private Postsecondary Education (BPPE).** The budget provides BPPE with an additional \$3.9 million in special funds to fund 25 additional staff in 2015-16. This represents an increase of 29 percent over BPPE's 2014-15 budget. The additional resources are intended to improve protections for students by increasing BPPE's oversight capacity over most of the state's private postsecondary schools, including nationally accredited schools, unaccredited schools, and various specialized schools.

### **Office of Emergency Services (OES)**

**Response to Hazardous Materials Rail Accidents.** The budget provides a \$10 million loan in 2015-16 from the High-Cost Fund-B Administrative Committee Fund to the Regional Railroad Accident Prevention and Immediate Response Fund. This loan, which is in addition to a similar \$10 million authorized for 2014-15, will allow OES to purchase hazardous material response vehicles and training for six local hazardous material response teams. These teams will be required to respond to rail hazardous material accidents at the direction of OES. The budget package also includes trailer bill legislation that (1) specifies how the state responds to accidents involving hazardous materials travelling by rail and (2) establishes a fee on the top 25 most hazardous materials travelling by rail in California (as defined by OES). The fee will be administratively set by OES with input from an industry advisory committee and will be collected by the railroads from the owner of the hazardous materials, which could be the seller of the hazardous material, the receiver, or a third party. The legislation also requires OES



to periodically reassess rail hazardous response needs across the state, the appropriateness of the fee amount, and the effectiveness and efficiency of the state's new activities.

### **California Military Department (CMD)**

**Consolidated Headquarters Complex.** The budget provides \$8.8 million from the General Fund to purchase 30 acres of land at Mather Field in Sacramento County to build a new 285,600 square foot consolidated headquarters complex for the CMD. (Currently, CMD headquarters staff are divided between several leased buildings in the Sacramento area.) The estimated cost of the entire project is expected to be \$113 million, which would be fully paid for by the state with lease revenue bonds (reimbursed by the General Fund).

### **California Department of Technology (CalTech)**

CalTech is the state's central IT organization. It has lead responsibility for approval and oversight of state IT projects, providing data center and telecommunications services, managing IT procurement, and establishing and enforcing IT policies and standards.

**Project Management Office (PMO).** The 2014-15 Budget Act provided funding for CalTech to plan for the establishment of a statewide PMO, which would create a centralized team of skilled project management professionals who would manage state IT projects throughout the state. As required by the Legislature, the administration submitted a plan for the establishment of the statewide PMO within CalTech as part of the Governor's January budget proposal. The 2015-16 spending plan provides \$1.5 million—about \$1 million in the form of a loan from the General Fund to the Technology Services Revolving Fund—and 11 permanent positions to begin implementing the administration's plan.

Specifically, the funding in 2015-16 will be used to develop a new project management framework and manage three IT projects on a pilot basis. A report is due to the Legislature within six months of completing the pilots that identifies (1) challenges that the PMO encountered relative to the services provided to the pilot projects, (2) lessons learned from the pilots, (3) how the project management framework will be revised based on the lessons learned from the pilots, and (4) next steps for the PMO. In the interim, CalTech is required to update the Legislature regarding efforts to develop the PMO within the department. It is anticipated that additional resources will be needed in the future in order to expand CalTech's capacity to manage additional state IT projects.

### **Labor Programs**

**Interest Payment for Federal Unemployment Insurance (UI) Loan.** California's UI fund has been insolvent since 2009, which has required the state to borrow from the federal government to continue payment of UI benefits. California's outstanding federal loan is estimated to be \$7 billion at the end of 2015 and \$5 billion at the end of 2016. The state is required to make annual interest payments on this federal loan. The 2015-16 spending plan includes \$175 million (General Fund) to make the interest payment due in the fall of 2015.

**UI Administrative Funding and Customer Service Issues.** The Employment Development Department (EDD) has had significant challenges with UI program administration in recent years. Claims activity rose during the most recent recession and EDD struggled to process benefit claims in a timely manner and respond to claimant inquiries. At the same time, the federal grant that has traditionally supported UI program administration has been identified as insufficient to adequately administer the program. The 2014-15 budget package included several measures to

address administrative challenges, including (1) additional state funding to support program administration (including \$47 million from the General Fund), and (2) a commitment from EDD to identify potential administrative efficiencies and meet specific goals related to customer service. The customer service goals include:

- Answer 50,000 customer calls weekly.
- Schedule 95 percent of eligibility interviews on a timely basis.
- Process 100 percent of initial UI claims within three days of receipt.
- Process 100 percent of online inquiries within five days of receipt.

As of March 2015, EDD reports that it is meeting these customer service goals. Based on EDD estimates of the resources needed to maintain improved customer service levels, the 2015-16 spending plan does not include any General Fund support for UI program administration. This year-over-year reduction in General Fund support is possible primarily because of (1) an estimated reduction in claims workload relative to the prior year, which reduces total administrative costs, and (2) unanticipated collections of certain UI benefit overpayments from federal income tax refunds through the federal Treasury Offset Program that can be used to support UI administration in place of General Fund resources.

***Increased Funding and Positions for Cal/OSHA Enforcement.*** The spending plan includes an increase of \$4.6 million (special funds) in 2015-16 (\$7.1 million ongoing) to support 44 new positions, phased in over two years, in the Division of Occupational Safety and Health (also known as Cal/OSHA) within the Department of Industrial Relations. These resources are intended to address several concerns raised with current Cal/OSHA

enforcement, including failure to comply with certain state law requirements and expectations of federal agencies responsible for Cal/OSHA oversight. Additionally, budget legislation clarifies that Cal/OSHA is to prioritize serious accidents and complaints over nonserious complaints when conducting on-site investigations. Among other things, the approved positions are intended to achieve the following results:

- Increase total annual Cal/OSHA enforcement inspections by roughly 1,400 (on top of the roughly 8,700 inspections that would have been conducted otherwise).
- Increase annual planned enforcement inspections of worksites in high-hazard industries—those with a relatively high rate of serious injury and illness—by 630 (on top of the roughly 400 that would have been conducted otherwise).
- Increase inspections of worksites with a permit to engage in specified high-risk activities.
- Increase the number of follow-up inspections at worksites with an unresolved serious violation.
- Reduce the time to initiate inspections following formal complaints.
- Reduce the time to conclude open inspections.

### **California State Library**

***\$31 Million (General Fund) for State and Local Libraries.*** Of this amount, \$17 million is for direct operations and facilities of the State Library and \$14 million is for assistance to local libraries. The budget includes \$8 million in new

spending—\$840,000 for state operations and debt service and \$7.2 million for local library assistance. This spending increase is offset by \$5 million in expiring prior-year one-time funds.

***Assistance to Local Libraries.*** Of the \$7.2 million increase, \$2.2 million is ongoing and \$5 million is for one-time purposes. Specifically, the budget includes:

- \$2 million (ongoing) for local libraries to expand basic literacy training services to adults. The State Library has discretion in allocating funding and may expand services at existing programs or develop new literacy programs at libraries that currently are not participating.
- \$225,000 (ongoing) for the State library to contract with a local library network to work on behalf of local libraries to obtain certain Internet services from the Corporation for Educational Network Initiatives in California.
- \$4 million (one time) for the State Library to administer grants to local libraries for Internet equipment purchases (such as routers). The State Library has discretion in determining how these grants will be allocated, and, in the past, has required some local libraries to provide matching funds.
- \$1 million (one time) for several libraries to administer a pilot program intended to enable 1,000 adult students to take online high school courses. Students who complete the coursework of this program can earn an accredited high school diploma.









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