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California State Senate

COMMITTEE
ON
BUDGET AND FISCAL REVIEW

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Agenda
May 23, 2014
Room 4203
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0840 State Controller's Office

Governor's Proposal	Comments
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0840-525-Various State Controller's Office (SCO)

<p>21st Century Project: Legal Support</p> <p>The Governor's budget proposes 5.0 positions and \$6.529 million (\$3.59 million General Fund, \$1.265 million Reimbursement Authority, and \$1.674 million Special Fund) for fiscal year 2014-15 to support ongoing legal costs.</p> <p>The SCO has requested that budget bill language and Control Section language be added to the 2014 Budget Act that will allow for additional legal-cost related expenditures, if needed.</p> <p>This request also includes trailer bill language that would extend the sunset date of the 21st Century Project until June 30, 2017. The requested amendment would allow SCO to assess special funds within the state treasury for costs attributable to the replacement of the state payroll disbursement system.</p>	<p>Staff Recommendation:</p> <p>Approve requested funds, positions, and adopt proposed budget bill language and control section.</p> <p>Modify trailer bill language, approve requested authority to assess special funds within state treasury for costs attributable to the replacement of the state payroll disbursement system until June 30, 2015.</p>
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0845	California Department of Insurance (CDI)	
	Legislative Proposal	Comments

0845 California Department of Insurance

<p>Federal Mental Health Parity</p> <p>Concerns have been raised that CDI did not have a proposal to implement the Paul Wellstone and Pete Domenici Mental Health Parity and Addiction Equity Act of 2008 (MHPAEA).</p>	<p>Staff Recommendation: It is recommended to add 10 positions to ensure CDI has the resources necessary to enforce federally adopted regulations. Additionally, it is recommended to adopt placeholder TBL to (1) require CDI to begin the focused surveys of health plan’s compliance with federal mental health parity beginning January 1, 2016, these would be annual surveys for at least 5 years and(2) provide the Legislature an annual report on the survey findings including analysis of timely access to services, equity of co-pays and deductibles, and treatment limitations beginning August 1, 2015.</p>
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2665 High-Speed Rail Authority

Governor's Proposal

Comments

2665-001-0046 High-Speed Rail Authority (HSRA)

Proposals to Support the Development of High-Speed Rail

The Governor's budget includes six proposals related to the on-going development of high-speed rail as follows:

- \$29.3 million loan from the Public Transportation Account to fund high-speed rail's state operations budget which includes administration, program management, outreach and communications, and fiscal and other external contracts.
- \$3.1 million in reimbursement authority for Caltrans to continue eight positions to provide legal services on behalf of HSRA.
- Budget bill language to allow for a mid-year augmentation of up to \$5.3 million to fund 35 additional positions for project management.
- \$32 million in federal local assistance funds for infrastructure projects and improvements that will prepare the Southern California Passenger rail corridors for connectivity to high-speed rail.
- Reimbursement authority for four years for the Department of Conservation to establish conservation easements to offset the impact of the development of high-speed rail.
- \$1.9 million for three staff at the California Public Utilities Commission to perform the required system planning and permitting to support high-speed rail.

The Governor's budget requests for high-speed rail are largely related to funding state operations associated with the development of the system. Funding these requests is consistent with the Legislature's past actions of approving the appropriation of Proposition 1A bond funds and federal funds for the development of high-speed rail.

Staff Recommendation:

Approve as budgeted.

3900

California Air Resources Board

Governor's Proposal	Comments
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3900-001-3228 California Air Resources Board
2665-301-3228 High-Speed Rail Authority
2665-306-3228

Cap and Trade Expenditure Plan--Transportation

The Governor's budget proposes to spend \$850 million from cap-and-trade auction revenue in 2014-15. Of that amount, \$550 million is allocated to transportation-related activities. Proposed trailer bill language (TBL) requires 33 percent of future auction proceeds to be allocated to high-speed rail and proposed budget bill language (BBL) allows for the transfer of these funds between high-speed rail budget items.

The Governor's proposal includes the following transportation-related proposals:

- \$250 million for high-speed rail planning, land acquisition and construction.
- \$200 million for low-emission vehicle rebates and incentives for low-emission vehicles.
- \$100 million for transit-oriented development grants (sustainable communities).
- \$50 million for inter-city rail grants.

The Governor's proposal is a good starting point for the allocation of cap-and-trade auction proceeds.

The following proposals for the budget year would be subject to a long-term funding plan adopted in a trailer bill. No funds would be spent prior to the enactment of this bill:

- \$300 million for rail modernization that includes high speed rail, transit, and inter-city rail.
- \$100 million for sustainable communities.
- \$100 million for low-carbon transportation.
- \$150 million for transit.
- BBL to transfer high-speed rail funds.

3900

California Air Resources Board

Governor's Proposal

Comments

3900-001-3228 California Air Resources Board

Cap and Trade Expenditure Plan—Non-Transportation

The Governor's budget proposes to spend \$850 million from cap-and-trade auction revenue in 2014-15. Of that amount, \$250 million is allocated to non-transportation-related activities. The Governor has also submitted trailer bill language related to the proposals.

- \$80 million for weatherization programs and local energy-efficiency.
- \$50 million for fire prevention and urban forestry.
- \$30 million for wetlands restoration.
- \$30 million for waste diversion.
- \$20 million for energy-efficiency upgrades at state buildings.
- \$20 million for agricultural waste-energy projects.
- \$20 million for water efficiency (this item was adopted in previous drought-related legislation).

The Governor's budget-year proposal is good starting point for allocation of cap-and-trade auction proceeds. The following changes will refine and improve the proposal.

Approve (one-time):

- \$17 million for urban forestry projects
- \$80 million for weatherization

Modify:

These proposals shall be subject to TBL that no funds would be spent prior to the enactment of a trailer bill. All funds to be allocated to the Wildlife Conservation Board on a one-time basis, three-year encumbrance.

- \$23 million for forestry
- \$30 million for wetland restoration
- \$30 million for agriculture emission reduction and water efficiency

Reject:

- \$20 million for state buildings
- \$30 million for waste diversion

4150	Department of Managed Health Care (DMHC)	
	Governor's Proposal	Comments

4150 Department of Managed Health Care

<p>Federal Mental Health Parity</p> <p>The May Revision requests a one-time augmentation of \$369,000 (Managed Care Fund) for 2014-15 for clinical consulting services to conduct initial front-end compliance reviews to ensure oversight of California's implementation of the federal Paul Wellstone and Pete Domenici Mental Health Parity and Addiction Equity Act of 2008 (MHPAEA). In addition, DMHC requests trailer bill language to provide DMHC state authority to enforce these requirements and conform to federal rules to impose these requirements on large group products.</p> <p>Concerns have been raised that DMHC's proposal underestimates the resources necessary to meet federal rules on a timely basis.</p>	<p>Staff Recommendation: Adopt MR proposal and add 10 positions to ensure DMHC has the resources necessary to enforce this rule. Additionally, it is recommended to adopt placeholder TBL to (1) require DMHC to begin the focused surveys of health plan's compliance with federal mental health parity beginning January 1, 2016, these would be annual surveys for at least 5 years, (2) provide the Legislature an annual report on the survey findings including analysis of timely access to services, equity of co-pays and deductibles and treatment limitations beginning August 1, 2015.</p>
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4260

Department of Health Care Services

Governor's Proposal

Comments

4260-101-0001 and 4260-113-0001

Medi-Cal Local Assistance

Medi-Cal Mandatory Expansion Estimate

The May Revision reflects a \$513 million General Fund increase, as compared to the Governor's January budget, to reflect updated caseload projections and updated costs related to individuals who received Medi-Cal as a result of the federal Affordable Care Act's (ACA) mandatory Medi-Cal expansion. The mandatory expansion simplified eligibility and enrollment rules, and increased program awareness for individuals who were previously eligible to receive Medi-Cal benefits, but not enrolled in the program.

The May Revision, as compared to the Governor's January budget, projects a 60 percent increase in this caseload and a 122 percent increase in the costs for this caseload.

LAO Findings and Recommendation: The LAO finds that the Administration's mandatory expansion costs are too high. The LAO finds that there is no basis for the Administration's change in methodology to use a higher fee-for-service per enrollee cost for this population as this population is generally healthy.

The LAO recommends to reduce the Medi-Cal budget by \$300 million (over the current year and budget year) to reflect lower costs.

Staff Recommendation: Reduce Medi-Cal budget by \$300 million General Fund. Staff concurs with the LAO recommendation.

4260 Department of Health Care Services (DHCS)
4265 Department of Public Health (DPH)

Governor’s Proposal	Comments
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4260 and 4265 Health-Related Augmentations and Restorations

<p>Health-Related Augmentations and Restorations</p> <ul style="list-style-type: none"> • Medi-Cal: Provider Payments (\$120 million General Fund) – Restore cuts to Medi-Cal fee-for-service payments on a prospective-basis for all providers except pharmacy. DHCS has formally established a process for pharmacy providers to seek exemption from the provider payment reductions. Provide \$12 million to be used by DHCS if it finds other exemptions to payment reductions are needed. • Medi-Cal: Applied Behavioral Analysis (ABA) (\$50 million General Fund) – Add ABA therapy to Medi-Cal for children and convene a stakeholder workgroup to implement this new benefit and to develop utilization controls to limit expenditures related to this new benefit. • Medi-Cal: Optional Benefits (\$13 million General Fund) – Restore the following optional benefits: acupuncture, audiology, chiropractic, incontinence cream & washes, optician/optical lab, podiatry, speech therapy. • Medi-Cal: State-Match for Electronic Health Records (EHR) Technical Assistance (\$3.75 million General Fund) – Provide a state match to draw down \$37.5 million in federal funds for activities related EHR adoption and support. • Public Health: Black Infant Health Program (\$3.9 million) – Restore the Black Infant Health Program. • Public Health: HIV Prevention Pilot Projects (\$5 million) – Provide funding to establish HIV prevention pilots to allow for innovative, evidenced-based approaches to outreach, screening, and linkage to, and retention in, care for persons living with or at risk for HIV. 	<p>Staff Recommendation: Approve these General Fund augmentations and adopt placeholder trailer bill language necessary to implement these actions.</p>
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4800	Health Benefit Exchange	
Governor's Proposal		Comments

4800 Health Benefit Exchange (Exchange)

Covered California Emergency Regulation Authority: Temporary Extension

The Administration proposes trailer bill language to provide the Exchange (Covered California) Board with a temporary extension, for an additional two years until 2018, to issue emergency regulations.

Current law provides the Exchange Board authority to adopt emergency regulations until 2016. These emergency regulations go into effect immediately and are subject to a 180-day time limitation with a maximum of two additional 90-day extensions before they expire. Because permanent regulations go into effect after a lengthy process, the Exchange will have a gap in regulatory authority between the time the emergency regulations expire and the time permanent regulations go into effect.

According to the Administration, given that Covered California has been operational for less than a year and changes to federal regulations and policies are anticipated, this emergency regulation authority allows Covered California to act quickly and mitigate fiscal and programmatic risks.

Staff Recommendation: Adopt placeholder trailer bill language to extend Covered California's emergency regulation authority.

5180

Department of Social Services

Governor's Proposal

Comments

5180-101-0001 Department of Social Services

CalFresh: State Utility Assistance Subsidy (SUAS) Benefit
(Issue 302)

The Governor's May Revision proposes a state-funded energy assistance program, known as the State Utility Assistance Subsidy (SUAS) program, to comply with the mandates of the federal Farm Bill. Previously, all CalFresh recipients were provided a \$0.10 federal Low-Income Home Energy Assistance Program (LIHEAP) benefit, which entitled the household to the Standard Utility Allowance, for purposes of determining monthly food stamp benefit amount. Under the federal Farm Bill of 2014, states choosing to participate in the program must provide an annual subsidy greater than \$20 to trigger SUA eligibility.

The May Revision provides \$20.01 of a SUAS payment to only those households that would experience an increase in CalFresh benefit from receiving the SUA calculation.

The proposal includes \$11.8 million total costs (\$10.9 General Fund). Of the \$11.8 million, the budget provides \$9.5 million in SUAS benefits to select households, \$0.4 million in one-time reprogramming for the Statewide Automated Welfare System, and \$1.7 million for county administrative activities.

The Administration proposes trailer bill language to implement this proposal.

349,000 households are projected to receive increased CalFresh benefits under this proposal (average increase of \$62 in benefits per household).

Costs of the proposal are anticipated to be offset by sales tax revenues generated by additional food benefits to California, estimated to be a net \$3.6 million GF cost.

Staff Recommendation:
Approve as budgeted.

5180 Department of Social Services

Governor's Proposal	Comments
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5180-101-0001 Department of Social Services

<p>Recidivism Reduction Proposal</p> <p>This action conforms to item 5225-001-0001.</p>	<p>Staff Recommendation: Conform to action that will be taken in the Department of Corrections and Rehabilitation.</p> <p>Increases funding for the CalWORKs and CalFresh items by a total of \$9 million for 2014-15 to reflect the elimination of the drug felony exclusion. The funding will grow to \$36 million in 2015-16.</p>
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5180

Department of Social Services

Governor's Proposal

Comments

5180-101-0001 Department of Social Services

Drought Food Assistance Program (DFAP)

(Issue 700)

The Administration's May Revision proposes budget bill language to authorize up to \$20 million General Fund, upon approval by the Department of Finance, for the Drought Food Assistance Program to provide emergency food relief to drought impacted communities. These funds are proposed to be available for encumbrance through December 31, 2015, for commodity purchases and administrative costs incurred on or before June 30, 2015.

Of the \$20 million, \$15 million reflects a shift of funding authorized in SB 103 (Budget Committee), Chapter 2, Statutes of 2013, to 2014-15. Currently, \$25.3 million is available for encumbrance through December 31, 2014, for commodity purchases and administrative costs incurred on or before June 30, 2014.

The proposed budget bill language also authorizes spending in excess of \$20 million, no sooner than 10 days after written notification to the Joint Legislative Budget Committee (JLBC).

As of May 16, DSS estimates that 31,240 food boxes have been requested for delivery, and delivery schedules are being developed. By May 23, DSS will have requested to expend \$10 million of the original \$25.3 million allocation under SB 103.

Staff Recommendation:

Approve as amended.

Authorize shift of \$15 million GF for the budget year.

Eliminate budget bill language that authorizes DOF to increase expenditure authority above \$20 million.

5180 Department of Social Services

Governor's Proposal	Comments
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5180-101-0001 Department of Social Services

State Emergency Food Assistance Program (SEFAP)

The State Emergency Food Assistance Program provides emergency food and funding to food banks, and may only be used to purchase, store, and transport food grown or produced in California. SEFAP seeks to fulfill the unmet need by the federal Emergency Food Assistance Program. In addition, SEFAP provides a tax credit to California growers for the cost of fresh fruit or vegetables donated to California food banks.

Funding for SEFAP is contingent upon appropriation by the Legislature. In 2013-14, the State Assembly provided a one-time \$1 million allocation among designated food distributors across the state and must be spent by the end of June 2014. Distributors have until the end of July 2014 to claim costs to the state to receive reimbursement.

Staff Recommendation:

Approve \$5 million GF to the State Emergency Food Assistance Program.

5225

California Department of Corrections and Rehabilitation

Governor's Proposal	Comments
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5225-001-3259 California Department of Corrections and Rehabilitation

<p>Recidivism Reduction Proposal – Recidivism Reduction Fund</p> <p>The Governor's budget proposes to spend \$91 million from the Recidivism Reduction Fund in 2014-15.</p> <p>Specifically, the Governor's proposal includes the following recidivism reduction proposals:</p> <ul style="list-style-type: none">• \$49 million for community reentry programs.• \$11.8 million for substance abuse treatment in non-reentry hubs.• \$11.3 million for the Integrated Services for Mentally Ill Parolees (ISMIP) program.• \$8.3 million for the design of the Northern California Reentry Facility.• \$9.7 million for cognitive behavioral therapy at contract institutions.• \$867,000 for planning for the California Leadership Academy.	<p>Reject the Governor's Recidivism Reduction Proposals and adopt the following package:</p> <ul style="list-style-type: none">• \$20 million to the Administrative Office of the Courts (AOC) for a collaborative courts grant.• \$1.5 million for an evaluation of all rehabilitation programming.• \$25 million for a community reentry program.• \$30 million to reestablish Mentally Ill Offender Crime Reduction (MIOCR).• \$867,000 for the California Leadership Academy.• \$5 million for an Innovative Programming Grant.• \$11.8 million to expand the ISMIP program.
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5225

California Department of Corrections and Rehabilitation

Governor's Proposal	Comments
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5225-001-0001 California Department of Corrections and Rehabilitation

<p>Recidivism Reduction Proposal – General Fund</p> <p>The Governor did not include any additional General Fund expenditures for recidivism reduction.</p>	<p>Staff Recommendation: In addition to Recidivism Reduction Fund expenditures on the previous page, adopt the following:</p> <ul style="list-style-type: none">• \$20 million for the (MIOCR) program.• \$3 million for community colleges for an inmate education grant.• \$11.8 million to provide substance abuse treatment at non-reentry hubs.• \$9 million to repeal the lifetime ban for drug felons in CalWORKs and CalFresh. [Conforming action in the DSS budget].
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5225

California Department of Corrections and Rehabilitation

Governor's Proposal	Comments
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5225-001-3259 California Department of Corrections and Rehabilitation

Recidivism Reduction Proposal – Related Trailer Bill Language

The Governor proposed the following trailer bill language related to recidivism reduction proposals:

- Deleting the authority for Community Care Facility reentry.
- Extending 60 day jail reentry to one year.
- Establishing the Northern California Reentry Facility.

Staff Recommendation:

Reject the proposed trailer bill language. Adopt placeholder trailer bill language for the following:

- Repeal the lifetime ban for drug felons in the CalWORKs and CalFresh programs beginning April 1, 2015. [Funding impact is in DSS as a conforming action.]
- Services for all people released under Prop 36.
- Peer counseling for substance abuse treatment.
- Converting the current parole outpatient clinics to case management offices.
- Using the inmate welfare fund for innovative programming.
- Reestablishing MIOCR.
- Community college educational grants.
- Collaborative courts grants.

6110 California Department of Education

Governor's Proposal	Comments
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6110-001-0001 Department of Education

<p>Common Core Support</p> <p>In August 2010, the State Board of Education revised the state's existing academic standards in English language arts and mathematics to align with the Common Core State Standards developed by the National Governor's Association and Council of Chief State School Officers. In response, the Legislature appropriated \$1.25 billion (about \$209 per student) in one-time Proposition 98 funding for school districts, charter schools, and county offices of education, for the purpose of implementing these State Board adopted "Common Core" academic content standards in 2013-14, to be available over a two year period. The one-time, investment allows local educational agencies to make significant one-time investments in professional development, instructional materials, and technology necessary to implement Common Core standards. Given the magnitude of the shift in educational orientation and coverage, the Senate proposal is \$550 million in additional funding to provide adequate support for a successful implementation, which would include \$26.7 million for the Governor's High Speed Network to enhance comprehensive network connectivity.</p>	<p>Additional one-time funding would be helpful to local educational agencies in implementing common core standards and preparing for related changes in assessments.</p> <p>Staff Recommendation: Approve \$550 million in support for local educational agencies for continued implementation of the Common Core, inclusive of \$26.7 million for the Governor's High Speed Network proposal.</p>
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6110 California Department of Education

Governor’s Proposal

Comments

6110-001-0001 Department of Education

Career Pathways Trust

The Senate seeks to build stronger connections between our schools and businesses to better prepare students for the changing job market by placing a greater emphasis on career-based learning as a central mission of public education in California. Last year, the Legislature appropriated \$250 million in one-time state assistance to local educational agencies through competitive grants, with priority given to proposals that attract capital and in-kind contributions from businesses and serve distressed communities with high dropout rates. Given the high demand on the initial year funding, the Senate proposes to appropriate an additional \$300 million in the 2014-15 budget to capitalize the California Career Pathways Trust. The goal of the program continues to be to leverage the fund by a factor of two or three, which would vastly expand the resources available for career pathways programs. The program is designed to complement linked-learning programs operating through the Regional Occupational Centers and Career Partnership Academies by attracting business support. The program is designed to integrate career-based learning into the mainstream high school curriculum, joining government and business. The additional one-time \$300 million appropriation will provide the resources to allow local educational agencies to enter into multiyear agreements with businesses, in a way that would not be possible if the Legislature were to enact small, incremental changes to the existing categorical programs in the CDE budget.

The proposal will provide additional monies for the Career Pathways Trust, the grants of which have been over-subscribed by a factor of almost three.

Staff Recommendation:
Approve \$300 million in one-time Proposition 98 funding for a second round of funding for the Career Pathways Trust for 2014-15 and adopt related placeholder trailer bill language.

6110 California Department of Education

Governor's Proposal

Comments

6110-001-0001 Department of Education

Local Control Funding Formula

The Governor's May Revise keeps in place the January proposal to increase funding for the implementation of the Local Control Funding Formula (LCFF). The proposal provides for an additional \$4.5 billion in funding; enough to eliminate 28 percent of the remaining funding gap.

The Senate proposes to set aside an additional \$330 million in Proposition 98 resources to accelerate the full implementation of the LCFF. These unrestricted resources will provide for additional support for local educational agencies program needs in a variety of areas. In addition, within this amount are designations for Home to School Transportation and Career Technical Educations, specifically:

- **Home to School Transportation.** Equalization funding of \$29 million allocated pursuant to legislation.
- **Career Technical Education.** Funding of \$150 million allocated to accelerate local educational agencies receipt of their total high school add-on target amount pursuant to Education Code section 42238.02.

Staff Recommendation:

Approve a total of \$4.8 billion in new base and categorical funding for K-12 schools in 2014-15. This will provide an additional \$330 million beyond the \$4.5 billion for LCFF proposed by the Governor.

6110
6870

California Department of Education
California Community Colleges

Governor's Proposal	Comments
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K-14 Payment Deferral Buydowns

Inter-Year Payment Deferrals – K-14 Education: The Governor's May Revision continues to appropriate \$6.2 billion to eliminate all outstanding deferrals, but changes the year in which the payments are counted. Because of changes in the minimum guarantee, the May Revision reduces the amount of the deferral payments counted as 2012-13 and 2014-15 appropriations by \$574 million and \$820 million respectively, and increases the amount counted as 2013-14 payments by \$1.4 billion, as shown below:

Changes to Governor's Deferral Paydown Plan			
<i>(In Millions)</i>			
	January	May	Difference
2012-13			
K-12	1,813	1,295	-518
CCC	194	139	-55
Subtotal	2,007	1,433	-574
2013-14			
K-12	1,520	2,781	1,260
CCC	163	296	134
Subtotal	1,683	3,077	1,394
2014-15			
K-12	2,238	1,496	-742
CCC	236	158	-78
Subtotal	2,474	1,653	-820
Deferral Paydown	6,164	6,164	0

Eliminating the deferrals will allow for more accurate budgeting by school districts and potentially reduce borrowing costs.

Staff Recommendation: Adopt the Governor's May Revision proposal to eliminate the K-14 deferrals.

6110
6870

California Department of Education
California Community Colleges

Governor's Proposal	Comments
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Quality Education Investment Act (QEIA)

Quality Education Investment Act (QEIA) Final Payment: This section provides the final payment of \$409.6 million non-Proposition 98 General Fund to fulfill the *California Teachers Association v. Schwarzenegger* settlement agreement. Appropriated as follows: K-12 QEIA program (\$267 million), Community Colleges QEIA Career Technical Education program (\$48 million), and the Emergency Repair Program (ERP) (\$94.6 million) pursuant to the *Williams* settlement agreement. (Amends Education Code Section 52055.770)

Current statute identifies that the balance owed shall be appropriated in 2014-15. By providing this payment, this section fulfills the terms of the *California Teachers Association v. Schwarzenegger* settlement agreement and fully funds the K-12 and California Community Colleges QEIA programs. This payment includes one-time funding for deferred maintenance through the ERP, which also satisfies an obligation under the *Williams* settlement agreement.

Staff Recommendation: Adopt the Governor's proposed QEIA payment, consistent with the Proposition 98 package.

6110 California Department of Education
6870 California Community Colleges

Governor's Proposal	Comments
<p>Unpaid Mandate Claims</p> <p>The state must reimburse school districts and community colleges for performing certain state-mandated activities. The state deferred payments seven consecutive years (2003-04 through 2009-10) on these mandate claims. Since 2012-13, the state has provided ongoing funding for mandates through the Mandates Block Grant. The state provided \$300 million in 2010-11 and \$90 million in 2011-12. The amount outstanding in unpaid mandate claims is \$4.5 billion. The Governor has not proposed any payment on mandates for the budget year. For school districts and community colleges, any payment on owed mandate claims would represent a one-time infusion of funds.</p>	<p>Staff Recommendation: Provide a down-payment of \$457 million on mandate claims owed to school districts and community colleges, consistent with the Proposition 98 package.</p>

6110 California Department of Education
6870 California Community Colleges

Governor's Proposal	Comments
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Proposition 98 Package

<p>Proposition 98 Package. The proposal includes funding for educational programs within the Proposition 98 guarantee, including adjustments to the Governor's proposals and additional funding pursuant to the Senate budget plan (see attached sheets).</p>	<p>Staff Recommendation: Adopt the Senate Proposition 98 package.</p>
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Proposition 98 Changes - Ongoing Funds

(In Millions)

	Governor	Senate
2012-13 Spending @ 2013-14 Budget Act	\$56,465.35	\$56,465.35
Technical Adjustments		
Revenue limit adjustments	-180.338	-180.338
Other technical adjustments	76.425	76.425
Policy		
Pay down additional K-12 deferrals	1,294.720	1,294.720
Pay down additional CCC deferrals	138.602	138.602
Final 2012-13 Spending	57,794.759	57,794.759
2013-14 Budget Act	55,280.904	55,280.904
Technical Adjustments		
LCFF adjustments	-113.562	-113.562
Other K-12 adjustments	83.101	83.101
Other CCC adjustments	8.815	8.815
Other agency adjustments	1.103	1.103
Remove vetoed funding	-35.000	-35.000
Policy		
Pay down additional K-12 deferrals	2,780.526	2,780.526
Pay down additional CCC deferrals	296.354	296.354
Pay K-12 mandate backlog		278.544
Pay CCC mandate backlog		34.148
Revised 2013-14 Spending	58,302.241	58,614.933
Technical Adjustments		
Remove prior-year deferral payments	-3,349.143	-3,349.143
Remove other one-time funds	-468.241	-468.241
Fund QEIA outside of Proposition 98	-361.000	-361.000
Proposition 39 adjustments	-111.500	-111.500
Other technical adjustments	-8.625	-8.625
LCFF growth adjustments	24.952	24.952
Remove other one-time funding		-312.692

Proposition 98 Changes - Ongoing Funds

(In Millions)

	Governor	Senate
K-12 Education		
LCFF implementation for districts	4,471.970	4,801.970
LCFF implementation for COEs	25.944	25.944
Pay down K-12 deferrals	1,495.854	1,495.854
Common Core implementation funding (one-time)		550.000
CTE Pathways (one-time)		300.000
K-12 pupil testing	54.144	54.144
Categorical COLA	32.917	32.917
Pay K-12 mandate backlog		17.598
Fund Adults in Correctional Facilities with ongoing funds		15.096
Undo SpEd fund swap		12.890
Fund CSIS with ongoing funds		6.373
Growth for Special Education and Child Nutrition	-4.840	-4.840
Fiscal Crisis and Management Team	0.500	0.500
Child Care and Preschool		
Shift Child Care into Proposition 98		753.609
Increase preschool and child care rates and slots		600.000
One-time professional development		84.569
Growth for Preschool	2.485	2.485
California Community Colleges		
Student Success and Support	200.000	200.000
Pay down CCC deferrals	157.500	157.500
Enrollment growth	140.385	140.385
Deferred maintenance (one-time)	148.000	199.300
Other categorical increases		112.400
CTE funding (one-time)	50.000	60.000
Apportionment COLA	47.321	94.642
Full-time faculty		25.000
Internet equipment (one-time) and connectivity	6.000	6.000
Community college technical assistance teams	2.500	2.500
Pay CCC mandate backlog		81.330
2014-15 Proposition 98 Spending Level	\$60,859.36	\$63,856.85

One-time Proposition 98 Funds

(In Millions)

Available Proposition 98 One-time Funds	Governor	Senate
Reversion Account balance	\$ 11.308	\$ 11.308
January unspent funds - K-12	94.833	94.833
January unspent funds - preschool	8.831	8.831
May unspent funds - K-12	32.979	32.979
May unspent funds - preschool	6.6	6.6
Total Proposition 98 One-time Funds	\$ 154.551	\$ 154.551

Use of Proposition 98 One-time Funds	Governor	Senate
Williams	\$ 93.503	\$ 93.503
Special Education Fund Swap	12.890	
California School Information Services	6.373	
Adults in Correctional Facilities	15.096	
K-12 High Speed Network grants	26.689	
Use unspent preschool funds for child care and preschool professional development		15.431
Pay K-12 mandate backlog		45.617
Total Proposition 98 one-time funds used	\$ 154.551	\$ 154.551

7870

Victim's Compensation and Government Claims Board

Legislative Proposal	Comments
<p>Compensation for Exonerated Individuals</p> <p>SB 618 (Leno), Chapter 800, Statutes of 2013, streamlined the process for compensating persons who have been exonerated after serving time incarcerated. A misinterpretation of the language has led some to believe SB 618 is only applicable to individuals prosecuted in a state court. Some technical cleanup may be necessary to ensure disbursements are made to individuals convicted in federal and state courts, which was the Legislature's original intent.</p>	<p>Staff Recommendation: Adopt placeholder trailer bill clarifying statute that the Legislature's intent was to compensate individuals wrongfully convicted in either a state or federal court.</p>

7920

California State Teachers' Retirement System

Governor's Proposal

Comments

7920-011-0001 California State Teachers' Retirement System (CalSTRS)

CalSTRS Unfunded Liability

The Governor's May Revision provides \$73.2 million General Fund (since revised to \$59.1 million) for the state's share of the Administration's proposed funding plan to eliminate the CalSTRS unfunded liability over 32 years. Under the plan, over the next three years, the state's contribution would increase from 3 percent to 6.3 percent and contributions for teachers would increase either from 8 percent to 10.25 percent for pre-Public Employees' Pension Reform Act of 2013 (PEPRA) teachers or 8 percent to 9.21 percent for PEPRA teachers. In addition, employer contributions (schools) would increase from 8.25 percent to 19.1 percent over seven years, with a total additional contribution in 2014-15 of \$347 million.

The CalSTRS current unfunded liability is approximately \$74 billion. In general, the Governor has proposed a reasonable approach. However, school districts are concerned about the lack of sufficient time to plan for such a substantial increase in their 2014-15 contribution.

Staff Recommendation: Reduce the state's budget year contribution by \$14.1 million to accurately reflect the Governor's proposal. In addition, adopt the recommendations (as reflected in the attachment) of the Senate Committee on Public Employment and Retirement. The Legislature's amendments to the Governor's plan would pay down the CalSTRS unfunded liability over the same timeframe that the Governor has proposed, however, it would require lower contributions from schools in the first three years, allowing for more time to absorb the significant increases.

7920-011-0001 California State Teachers' Retirement System (CalSTRS)

Recommendation to the Senate Budget and Fiscal Review Committee from the Senate Committee on Public Employment and Retirement:

- 1) Begin with smaller employer contribution increases in the first three years with contributions in years four and following being actuarially comparable to contributions required in the Governor's plan. Specifically, employer contributions should be altered in the first three years, as follows:

CalSTRS Unfunded Liability Plan, Employer Contribution Comparison		
Fiscal Year	Governor's May Revise	Proposed Amendment
2014	\$347 million (1.25%)	\$175 million (.63%)
2015	\$821 million (2.85 %)	\$449 million (1.56%)
2016	\$1.3 billion (4.45%)	\$1.1 billion (3.56%)

- 2) Trailer bill language requiring CalSTRS report to the Legislature at periodic intervals regarding whether or not the funding plan needs amendment in order to meet its objectives.
- 3) Based on CalSTRS statements that their systems are currently unable to increase member contributions differently for 2% at age 60 members and 2% at age 62 members, we recommend that the increase for both groups be 0.15% in 2014-15 with the intention that CalSTRS shall increase contributions for the 2% at age 62 members proportionally to the Governor's plan in following years when they have the ability to assess the two groups differently.

In all other aspects of the Governor's plan the Senate Committee on Public Employment and Retirement is in concurrence, and recommends approval.

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9800-001-0001 Augmentation for Employee Compensation

Governor's Proposal	Comments
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9800-001-0001 Augmentation for Employee Compensation
9800-001-0494
9800-001-0988

<p>Bargaining Unit 10 Agreement</p> <p>The Administration recently reached an agreement with Bargaining Unit (BU) 10 (California Association of Professional Scientists) and is requesting an increase of \$1.1 million General Fund, \$3.0 million special funds, and \$1.5 million non-governmental cost funds for Item 9800 (9800-001-0001; 9800-001-0494; and 9800-001-0988) and amended provisional language to ratify this contract through the Legislature.</p>	<p>This agreement was reached on May 21st, the proposed language is consistent with budget bill language ratifying agreements for BUs 1, 19, 13, and 6.</p> <p>Staff Recommendation: Approve the Administration's proposal.</p>
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Major State and Local Revenues

Governor's Proposal	Comments
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Major State and Local Revenues

State Revenue Assumptions—Personal Income Taxes, Sales and Use Taxes, and Corporation Taxes

The Governor's May Revision incorporates revenue forecasts for the state taxes based on updated economic data. The Administration's economic forecast on which the state's revenues are based is largely unchanged from January. Overall, based on updated economic information, as well as revenues received by the state in recent months, compared to the January forecast, the Governor assumes revenues to be about \$2.4 billion higher over the three year period, 2012-13, 2013-14 and 2014-15. Compared to the January forecast, this translates into \$513 million lower in the prior year (2012-13), \$2.0 billion higher in the current year (2013-14) and \$843 million higher in the budget year (2014-15). While current year revenues are up due to a boost in Spring revenues, the Administration forecasted amounts assume that much of this represents one-time revenue. For personal income tax (PIT), withholding has increased, which is assumed to be largely related to bonuses and other one-time income, given the low rate of wage growth. Corporation taxes (CT) are up, but largely due to the timing of tax refunds, which are down currently, but expected to rise by the end of the year. Sales taxes (SUT) are slightly lower than in January.

The Legislative Analyst's Office (LAO) has forecast revenues that are \$2.5 billion higher than the Administration's January forecast for the period 2011-12 through 2014-15. Compared to the Governor's May Revision, LAO's forecast is slightly lower in 2012-13, higher by \$542 million higher in the current year, and \$2.2 billion higher in the budget year, due largely to stock market performance. For 2014-15, the LAO assumes higher capital gains realizations and greater growth in wage and salaries.

Staff Recommendation: Adopt LAO General Fund major revenues in the 2014-15 budget.

Major State and Local Revenues

Governor's Proposal	Comments
<p>Local Property Tax Revenues</p> <p>The Governor's May Revision includes property tax revenues that offset Proposition 98 General Fund spending. The Administration forecasts property assessed value will grow 4.2 percent in 2013-14 and 7 percent in 2014-15. This reflects the Administration's economic forecast, which indicates that home prices will continue to increase, although housing permits will grow more slowly. Overall, the Administration's property tax revenues are down slightly from January. Local property K-14 tax revenue is forecast to be reduced during the period 2012-13 through 2014-15 by \$417 million.</p>	<p>The LAO assumes assessed value growth rates which are very similar to those of the Administration. However, the revenues derived from these assumptions that benefit the General Fund by offsetting the state's obligation to satisfy the Proposition 98 vary significantly from the Administration's. LAO property tax revenues that offset state spending are higher by \$658 million resulting from excess taxes, RDA revenue, and differences in base revenue.</p> <p>Staff Recommendation: Assume LAO forecast for property tax revenues and allocations.</p>