CALIFORNIA STATE SENATE

Committee on Budget and Fiscal Review

State Capitol – Room 5019
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Agenda

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State Capitol – Room 4203

Overview of the Senate Budget Package

6100-630-0001 DEPARTMENT OF EDUCATION

Issue 1: Career Technical Education Incentive Grant

Governor's Proposal. The Governor proposes a Career Technical Education (CTE) Incentive Grant program to provide one-time Proposition 98 funding in the amounts of $400 million, $300 million, and $200 million for the 2015-16, 2016-17, and 2017-18 fiscal years, respectively. These funds would be provided through competitive grants and would be available for local educational agencies that meet program requirements, including criteria for a high quality CTE program and accountability measures. Applicants must provide matching funds of 1:1 in 2015-16, 1.5:1 in 2016-17, and 2:1 in 2017-18. Career Pathways Trust Funds may not be used as a match. Applicants administering programs located in rural school districts or regions with high student dropout rates are prioritized.

Legislative Proposal. Provide one-time Proposition 98 funding in the amounts of $400 million, $300 million, and $200 million for the 2015-16, 2016-17, and 2017-18 fiscal years, respectively. Allocate funds on a per high school average daily attendance basis and require, as a condition of receiving these funds, recipients to: (1) develop a plan that includes a sequence of courses for high-quality CTE aligned to state standards, articulation of CTE courses with CCC or apprenticeship programs and a system for specified data collection to be reported to CDE; (2) certify plan development with industry-based advisory committee; (3) certify that each course within a CTE sequence is aligned with the CTE Model Curriculum Standards and, where applicable, the Common Core State Standards; (4) certify that CTE instructors have the appropriate authorization; and (5) collect and report data, as necessary. Specify that programs operated by joint powers agencies are eligible to receive funds with written consent of member local educational agencies.

Subcommittee Action. Subcommittees No. 1 heard this proposal and held open for full budget.

Staff Comments: Staff notes that the Administration's proposal, while addressing many of the concerns raised by the Legislature and stakeholders in amendments at the May Revision, creates a competitive grant program that would provide CTE funds to a limited pool of local educational agencies. Staff notes that the Legislative proposal would ensure access for all local educational agencies serving high school students to continue existing, or create, new high-quality CTE.

6100-001-0001 DEPARTMENT OF EDUCATION

Issue 2: State Operations - Career Technical Education Incentive Grant

Governor's Proposal. The May Revision requests that the Department of Education be provided $350,000 General Fund for three years (Until June 30, 2018) and 2.0 positions added to support the Career Technical Education Incentive Grant Program.

Legislative Proposal. Approve $175,000 General Fund and 1.0 position. Approve amended provisional budget bill language as follows:

Budget Bill Item 6100-001-0001:

"X. Of the funds appropriated in this item, ~~$350,000~~ $175,000 is provided until June 30, 2018 and ~~2.0~~ 1.0 position~~s are~~ is provided, to support the Career Technical Education Incentive Grant Program as established by Chapter 16.5 (commencing with Section 53070) of Part 28 of Division 4 of Title 2 of the Education Code."

Subcommittee Action. Subcommittee No. 1 heard this proposal and held open for full budget.

Staff Comments: Staff notes that this issue reflects workload related to Issue #1 and should conform to the action on that issue. Adoption of the Legislative proposal would reflect reduced workload related to proposed changes to the Career Technical Incentive Grant Program to provide funds per average daily attendance, rather than through a competitive grant program.

6100 DEPARTMENT OF EDUCATION
6870 CALIFORNIA COMMUNITY COLLEGES

Issue 3: Adult Education Block Grant

Governor's Proposal. The Governor's budget proposes to provide $500 million in Proposition 98 funding on an ongoing basis for a new Adult Education Block Grant. The Governor's May Revision maintains the proposed funding level but makes changes to the governance and operations and makes substantive changes to the adult education trailer bill that was released in January.

Specifically, the May Revision requires the Chancellor of the Community Colleges (chancellor) and the Superintendent of Public Instruction (SPI), with the concurrence of the executive director of the State Board of Education (SBE), to approve a locally determined governance structure for each consortia that meet specified criteria. Consortia may choose to receive funds directly to members according to a locally adopted schedule or through a designated fiscal agent. Consortia shall be provided estimated two-year state funding projections, and funds for consortia will not be reduced from the prior year unless specified criteria are met. The May Revision also included a three-year cycle for planning and reporting of outcomes. Finally, the May Revision also requires a plan, due January 2016, from the chancellor and SPI for the distribution of federal adult education funds through the consortium in future years.

Subcommittee Action. Heard on March 26th and held open.

Staff Comment. Staff notes that the Governor made significant revisions to the structure of the adult education block grant program in the May Revisions, however, there are some remaining concerns that the Legislature may wish to consider, including the timeline for certification and allocation of funds, the future role of the adult education consortiums in the allocation of Proposition 98 and other funds for adult education.

6100 DEPARTMENT OF EDUCATION

Issue 4: Child Care and Early Learning

Governor's Budget. The Administration includes $2.5 billion total funds ($938 million federal funds; $671 million Proposition 98 General Fund; and $977 million non-Proposition 98 General Fund) for child care and early education programs. The table below provides the allocation amounts by program.

Program	**May Revision** (dollars in millions)
CalWORKs Child Care	
Stage 1	$389
Stage 2	$395
Stage 3	$265
Subtotal	$1,050
Non-CalWORKs Programs	
General Child Care	$570
Alternative Payment	$189
Other	$30
State Preschool	$671
Totals	$2,586

In addition, the Governor's budget includes:

- 4,000 full-day State Preschool slots, and quality grants for State Preschool, pursuant to 2014 budget action.
- Trailer bill that establishes income eligibility limits for child care to be 70 percent of the 2007-08 state median income, adjusted for family size.
- Uncodified language that requires the Department of Education to convene two working groups to identify ways to reduce program administration workload, identify efficiencies in program implementation, and provide its recommendations to the Legislature, Department of Finance, and CDE, no later than April 1, 2016.

Legislative Proposal. Provide $332 million General Fund to:

- Remove deficit factor for RMR at 2009 survey.
- Increase the Standard Reimbursement Rate by 4.4 percent.
- Provide an additional 13,200 voucher slots and 4,300 General Child Care slots focused on infants and toddlers, for a total of 17,500 slots.

Subcommittee Action. Subcommittees No. 1 and 3 heard child care issues and left specified actions open for full budget.

Staff Comments. High-quality early learning and care provide proven positive impacts on a child's long-term health and wellbeing, as well as provide the necessary support for working families. In addition to the state earned income tax credit (on page 16 of this agenda), the Senate's plan recognizes these priorities and the criticality of rebuilding an early childhood education system. By building upon last year's commitment to a multi-year budget plan that prioritizes high-quality care for all children, particularly those of lower-income, the Senate's plan seeks to: (1) ensure that child care and early learning programs are equipped to provide high-quality learning experiences, and (2) improve working families' access to, and a parent's choice of, affordable child care.

6100 DEPARTMENT OF EDUCATION
6870 CALIFORNIA COMMUNITY COLLEGES

Issue 5: Proposition 98 Package

Legislative Proposal: The proposal includes funding for educational programs within the Proposition 98 (P98) guarantee, including adjustments to the Governor's proposals and additional funding pursuant to the Senate budget plan (see attached sheets).

Specific adjustments to the Proposition 98 Guarantee included in the Senate package are:

- Adoption of LAO revenue and property tax estimates

- Rebench the P98 guarantee to reflect the inclusion of childcare programs, including CalWORKs Stage 2 and Stage 3 and other investments and restorations. For additional child care information please see the Issue 4. on page 6 of the agenda.

- Other expenditure adjustments for LCFF, mandates, transportation, adult education, and state preschool wrap child care.

- Other subcommittee actions

Staff Comment. The Senate recognizes quality, affordable childcare as essential to the success of children, particularly those of lower-income, in school. As such, the Senate expands on last year's budget actions that emphasized full-time, quality care; and, aligns funding for the State Preschool Program by moving a critical part of General Child Care into P98. This child care often provides the funding to care for the child for the remainder of the day after he or she finishes preschool. This care is critical for working families as it is not practical for a parent to leave their job in the middle of the day to care for their child. In addition, the Senate plan includes additional child care investments, with an emphasis on the urgency of restoring lost infant and toddler slots and stagnant reimbursement rates for voucher-programs.

The Senate package also recognizes the need to fund other critical education priorities, including investing in the implementation of the Local Control Funding Formula, adult education, and high quality educators above the May Revision level.

6600-001-0001 HASTINGS COLLEGE OF THE LAW

Issue 6: Base Augmentation

Governor's Proposal. The Governor's budget proposes increasing General Fund support for Hastings College of the Law by $1 million as part of the multi-year funding plan for total of $10.6 million in General Fund support.

In 2009-10, enrollment at Hastings reached a high of 1,336 FTE students. Since then, enrollment has declined to an estimated 970 FTE students in 2015-16—a drop of 38 percent. Hastings indicates the decline was a strategic move intended to address decreased workforce demand for attorneys. Hastings is not budgeted on a per-student basis, and as a result the law school's state budget appropriation has not been adjusted to reflect the decrease in enrollment. Hastings indicates it has used the increased funding to cover increased retirement costs and lower its student-to-faculty ratio from 20:1 to 14:1, which is more comparable to other law schools.

As a part of the Governor's multi-year funding plan, the Governor has provided General Fund increases to Hastings over the last two years. In the 2014-15 budget, the Legislature approved $1.3 million augmentation for Hastings to support the Administration's four year investment plan. The Governor also expects "this funding will mitigate the need for Hastings to increase student tuition and fees and can be used by the law school to meet its most pressing needs."

Subcommittee Action. Held Open

Staff Comment. Hastings faces some of the same cost pressures as the UC, including rising retirement and health care costs, however Hastings receives no funding from the UC, and is a separate line item. While Hastings contracts with UC for payroll, investment and reprographic services, Hastings pays on a fee-for-service basis. In addition, decreased student enrollment has lowered revenue from tuition, making General Fund more critical to maintaining operations. (Total tuition and fees for students in 2015-16 will be $44,186).

6600-301-0660 HASTINGS COLLEGE OF THE LAW

Issue 7: Capital Outlay

Governor's Proposal. The Governor's budget proposes to develop a new 57,000 square foot academic facility, costing $36.8 million in lease-revenue bonds, at 333 Golden Gate Avenue in San Francisco, property owned by the university. The facility would replace Hastings' primary academic building, which was constructed in 1953 and has several outdated systems, including heating, ventilation, and air conditioning (HVAC) system, hot water system and elevators that are non-compliant with the Americans with Disabilities Act. The academic building replacement project will result in debt service of approximately $2.7 million in General Fund annually, beginning in FY 2018-19 (approximately). In January, the Governor released a proposal that provided $853,000 for preliminary plans; $2.8 million for working drawings; and $33.2 million for construction.

In May, the Governor released a spring letter and revised the proposal by adding provisional language to (1) shift the procurement method to design-build to expedite project completion, (2) allow Hastings to accept private donations and institutional funds for building enhancements, (3) provide the Legislature with a project update and 30-day review period prior to the commencement of construction activities, and (4) establish appropriation availability until June 30, 2018. The May Revision provides the same amount in lease-revenue bonds ($36.8 million) as the January proposal. The updated cost summary for May Revision are $29.7 million for the design-build contract; $2.9 million for architectural and engineer services; and other project costs such as contract construction management of $4 million. The debt service for the project will still be $2.7 million.

Subcommittee Action. Held Open

6440 UNIVERSITY OF CALIFORNIA

Issue 8: Capital Outlay Trailer Bill

Governor's Proposal. The Governor's May Revision trailer bill to address capital outlay issues. A portion of this proposal would allow the University of California to use project savings from the UC Merced Classroom and Academic Office Building project, which was authorized in 2012, for the construction phase of the project, and extend the encumbrance period until June 30, 2016.

Background. SB 1028 (Budget and Fiscal Review Committee), Chapter 575, Statutes of 2012, a trailer bill enacted with the 2012 Budget Act, includes the appropriation of $4.7 million for preliminary plans and working drawings for the UC Merced Classroom and Academic Office Building. The Governor's trailer bill language allows UC to use project savings from the preliminary and working drawings phase for the construction phase of the project. The Administration notes that project savings are approximately $1.4 million.

Staff Comment. The Assembly Budget Subcommittee No. 2 on Education Finance took action to approve the portion of the plan relating to project savings as described above.

2600-002-0042 CALIFORNIA TRANSPORTATION COMMISSION
2660-001-0042 CALIFORNIA DEPARTMENT OF TRANSPORTATION

Issue 9: Road Usage Charge

Governor's Proposal. The Governor's budget proposes $9.6 million from the State Highway Account (SHA)—related to the implementation of SB 1077 (DeSaulnier), Chapter 835, Statutes of 2014, for a road usage charge (RUC) pilot program. This would fund:

- $8.8 million for Caltrans to contract with consultants to both provide technical assistance and to conduct the RUC pilot program, and provisional language to provide Caltrans the flexibility to encumber these funds through June 2018.

- $618,000 annually for three years to support five limited–term positions at Caltrans to (1) assist the Technical Advisory Committee (TAC), and (2) manage the contract for the implementation of the pilot program.

- $162,000 annually, for three years, for the California Transportation Commission (CTC) to support one limited–term position to provide day–to–day support and coordination for the TAC, such as helping to organize and manage meetings to gather public comment on issues and concerns related to the pilot program.

The Governor's May Revision requests that the multi-year expenditure plan for the RUC be increased by $1.3 million (SHA) to enable the state to complete the pilot project a year earlier, by June 2017. The increased costs are for consultants to implement the pilot project and result from overtime costs and other factors caused by accelerating the pilot timeline.

Subcommittee Action. Subcommittee No. 2 heard the Governor's January proposal on April 12, 2015, and held the item open. The May Revision proposal has not been heard.

Staff Comments. The RUC pilot program will help to inform the Legislature about what it may want to do in the future regarding the development of a road usage charge, or vehicles miles traveled fee, to provide a new source of funding for transportation projects. It is important to consider, sooner than later, alternatives to generating transportation revenues given the billions in deferred maintenance costs for the state's highway system and on local streets and roads, and the declining revenue from existing state and federal funding sources. It is important to note that SB 1077 allows only for a pilot project. A road charge program cannot be implemented in California without legislative authorization.

3900-001-3228 CALIFORNIA AIR RESOURCES BOARD

Issue 10: Cap-and-Trade Expenditure Plan

Governor's Proposal. The Governor's budget proposes to spend $2.2 billion from cap-and-trade auction revenue in 2015-16. Of that amount, $1.6 billion, or 72 percent, is for sustainable communities and clean transportation. Existing programs under the discretionary expenditure formula were increase by 10-50 percent (see LAO handout).

Major new proposals introduced at May Revision include: (1) an additional $65 million for transit and intercity rail capital projects above the amount continuously appropriated; (2) $60 million for energy efficiency at UC and CSU campuses; (3) $30 million water/energy research and development grant programs; (4) $30 million for water efficient appliance rebates; (5) $15 million for dairy digester research and development; and, (6) $20 million for a new agricultural soil management initiative.

Proposed trailer bill language includes amendments to continuously appropriate funds to the Strategic Growth Council for certain sustainable community and affordable housing programs with authorization to administer these funds through other state agencies, to authorize CalRecycle to fund organic waste programs, and for the Department of Forestry and Fire Protection's director to allow greenhouse gas emission reduction funds to be used for forest health projects. The Governor's specific proposal is show in the attached handout.

Legislative Proposal. The Senate has developed an alternative funding, as shown in the separate detailed plan.

Subcommittee Action. This item was heard on March 26, 2015 in Budget Subcommittee No.2, and held open.

Staff Comments. The Governor's revenue estimates are in line with the low-to-moderate estimates provided by the LAO in its February review of the program, which ranged from $2 to $4.9 billion. The committee should consider whether the proposal offered by the Governor meets the Senate's priorities for funding.

1110 - VARIOUS FUNDS DEPARTMENT OF CONSUMER AFFAIRS
1111 - VARIOUS FUNDS

Issue 11: BreEZE

Governor's Proposal. The Department of Consumer Affairs (DCA) has submitted a spring finance letter requesting $23.248 million (Special Funds) in fiscal year 2015-16, and $24.433 million (Special Funds) in fiscal year 2016-17, to support the continued implementation of the BreEZe information technology project. DCA has also requested an increase of 29.8 personnel years (PY's) for fiscal year 2015-16, and 34 PY's for fiscal year 2016-17, and ongoing. Additionally, the Administration has proposed for an augmentation of $1.95 million (special funds) to be provided to the Department of Consumer Affairs (DCA) Office of Information Services in order to fund the increased contract costs which were due to a two-month schedule delivery extension.

Background: DCA is comprised of 37 regulatory boards, bureaus, committees, commissions, and programs, all of which regulate more than 100 businesses and 200 industries and professions.

The November 2009, Feasibility Study Report (FSR) proposed not just to transition the healing arts boards, but all 37 boards and bureaus, to the BreEZe platform. According to the FSR, the 37 boards and bureaus were scheduled for transition to BreEZe over five phases, which would be completed by fiscal year 2014-15. The 2009 FSR projected that the BreEZe project would cost approximately $27.5 million. After consulting with the (then) Technology Agency and the Department of General Services (DGS), DCA chose a slightly different procurement approach than what was proposed in the FSR. The modified approach eliminated the first stage of the bid process, and instead relied on "working sessions" to inform the selected vendor or vendor candidates on the business requirements of the DCA entities. Through this process, DCA selected Accenture as the vendor for BreEZe implementation, and submitted a Special Project Report (SPR) that reflected the costs associated with the selected bid. According to SPR 1, which was submitted June 22, 2011, costs for the BreEZe project had grown to $45.8 million, an $18 million increase. Additionally, according to SPR 1, DCA chose to accept the vendor's proposed timeline, which reduced the schedule to three releases, rather than the five that had been a part of the November 2009 FSR.

In July 2013, DCA submitted SPR 2, which increased the overall project cost to $77.9 million. The need for an amended project report was due to the system testing taking much longer than originally anticipated. According to SPR 1, system testing was anticipated to take approximately 30 business days, but instead took 138 business days initially. SPR 2 realigned the schedule to allow for a greater level of testing, which in turn increased the project's timeline by approximately two years, and increased cost by $50.4 million from the November 2009 FSR.

DCA was required to further adjust the cost and scope of the BreEZe project, first proposing SPR 3, which increased the cost by $118 million, and further revised the approach under SPR 3.1, which increased the project cost by $96.1 million. According to SPR 3.1, the project was not moving in the timeframe that had been originally forecast, nor was it achieving the results that had been originally assumed. In SPR 3.1, project staff proposed re-scoping the project due to significant cost increases and staffing needs.

Subcommittee Action. This item has been heard by Senate Budget Subcommittee No. 4 on March 12th, April 23rd, and May 20th, and no action has been taken.

Staff Comments. This request includes a significant increase in permanent positions, totaling 34.0 by fiscal year 2016-17. DCA has noted that the requested positions will support the ongoing maintenance and operations associated with the regulatory entities included in Release One and Release Two, work that is currently being performed by 10.0 vendor staff. Staff does not concur with DCA that the entire workload associated with this request, will be ongoing. Furthermore, costs associated with the requested 34.0 positions will be distributed to every entity housed under DCA, including the nineteen regulatory entities that were intended to be included in Release Three and are now excluded from inclusion in the BreEZe project. To that end, staff would recommend slightly modifying LAO's recommendation to allow for the funding associated with the positions to be available for a limited-term rather than providing two-year limited-term positions. However, due to administrative limitations, DCA does not have the authority to create the positions, unless the authority is specified in statute or budget bill language.

7760-004 DEPARTMENT OF GENERAL SERVICES

Issue 12: High-Speed Rail Project

Legislative/Governor's Proposal. The Governor's budget includes a request to provide the Department of General Services (DGS), Real Estate Services Division with 5.0 permanent positions and $841,000 (Service Revolving Fund) to address workload associated with the High-Speed Rail Authority (HSRA).

Background: On July 6, 2012 the Legislature approved construction financing for the initial stage of the California High-Speed Rail project. The Real Estate Services Division within the DGS has been tasked with assisting the California High-Speed Rail Authority with the transaction review, appraisal review, setting of just compensation, property acquisition review, relocation assistance plan review, state-owned leasing services, staff support for the State Public Works Board approval process, escrow closing process, resolution of title process, transfers of jurisdiction, easement, acquisition and granting, facilitating utility relocations, project consultation/coordination, Statewide Property Inventory reporting, disposition of excess property and legal consultation support from the DGS Office of Legal Services. Previously, the Legislature approved a $684,000 augmentation from the service revolving fund and 5.0 two-year limited-term positions for support of the HSRA's workload associated with property acquisition.

Subcommittee Action. This item was heard by Subcommittee No. 4 on March 19th and held open.

Staff Comments. Staff continues to view this workload as temporary. The funding to support the requested positions should be provided on a limited-term basis, however, the requested positional authority may be provided on a permanent basis. This will afford DGS the opportunity to hire staff that are capable of providing the appropriate level of skill to support Real Estate Property Services Section within DGS.

8885 COMMISSION ON STATE MANDATES

Issue 13: Suspension of Selected Mandates

Governor's Proposal. The Governor's budget proposes to suspend various mandates, including the Crime Victim's Domestic Violence Incident Reports II (CVDV) and the Domestic Violence Background Checks (DVBC). The CVDV mandate budget year cost to the state is $2.0 million and the DVBC cost in the budget year is $20.6 million. The CVDV mandate requires that local governments produce a written incident report for each domestic violence related call for assistance, and collect and report domestic violence information and statistics. The DVBC mandate requires local governments to review specified criminal justice databases for other actions against a defendant, present relevant information to the court at hearings, and send information regarding a new convictions or restraining order to other California criminal courts.

Subcommittee Action. Subcommittee No. 4 approved funding of the two mandates noted above, at a cost of $22.6 million in the budget year.

Staff Comments. The Governor proposed repealing the CVDV mandate in 2012. The recommendation of the Legislative Analyst's Office (LAO) was to make the CVDV mandate optional for local governments, constituting requirements for those local governments to produce a written incident report for each domestic violence related call for assistance, and collect and report domestic violence information and statistics. The Governor recommended, and the Legislature agreed, to suspend the DVBC mandate beginning in 2013-14. The LAO indicated in 2013, that the mandate is unnecessary because prosecutors routinely review and provide criminal history information to the court as part of their normal duties in criminal cases. In addition, judges are often required by law to consider similar information when making decisions, and often rely on prosecutors for such information. Finally, the California Constitution, as well as statutes not included in this mandate, already requires judges to consider criminal histories of all defendants when setting bail. LAO recommended eliminating the mandate as they are unnecessary to achieve the Legislature' objective of ensuring that judges have available pertinent information regarding defendants' criminal histories.

0000 EARNED INCOME TAX CREDIT

Issue 14: Earned Income Tax Credit

Governor's Proposal. The May Revision proposes the creation of a state Earned Income Tax Credit (EITC). This proposal, which adopts an option developed by the Legislative Analyst's Office (LAO), will provide a refundable tax credit for wage income and would focus on households with incomes less than $6,580 if there are no dependents and up to $13,870 if there are three or more dependents. The proposed state program dovetails with the existing federal EITC and would match 85 percent of the federal credits, up to half of the federal phase-in range, and then begin to taper off relative to these maximum wage amounts. The credit would be available beginning with tax returns filed for wages earned in 2015, and is expected to reduce revenues by $380 million annually beginning in 2015-16. It will benefit an estimated 825,000 families and 2 million individuals. The estimated average household benefit is $460 per year, with a maximum credit for a household with three or more dependents of over $2,600. The proposed state EITC is structured to complement the federal EITC, with a targeted approach designed allow a greater benefit per household, given the amount of available resources. Individuals earning more than the state credit maximums would continue to receive a federal EITC through the phase out range. The Franchise Tax Board (FTB) would be responsible for administering the proposed EITC program. It requests $22.0 million (General Fund) and 98 position equivalents in 2015-16, and General Fund of $11.6 million and $10.1 million in 2016-17 and 2017-18 respectively to implement the credit.

Subcommittee Action. Subcommittee No. 4 heard the Governor's EITC proposal, and additional implementation and administration funding, and held the issues open.

Staff Comments. The EITC and reinvestment in child care, would constitute important investment for lower income working families.

0000 MAJOR STATE TAX AND LOCAL PROPERTY TAX REVENUES

Issue 15: Local Property Taxes—Assessed Value

Governor's Proposal. The Governor's May Revision includes property tax revenues that offset Proposition 98 General Fund spending. The Administration forecasts property assessed value will grow 6.24 percent in 2014-15 and 5.52 percent in 2015-16. This reflects the Administration's economic forecast, which indicates that home prices will continue to increase along with housing permits. Local property K-14 tax revenue is forecast to be $15.9 billion in 2013-14, $16.7 billion in 2014-15 and $19.0 billion in 2015-16.

Subcommittee Action. Not heard in subcommittee.

Staff Comment. 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 $242 million over the three-year period (2013-14, 2014-15 and 2015-16) resulting from excess taxes, RDA dissolution-related revenue, and differences in base revenue.

0000 MAJOR STATE TAX AND LOCAL PROPERTY TAX REVENUES

Issue 16: State Taxes—Personal Income, Sales and Use, and Corporation

Governor's Proposal. The Governor's May Revision incorporates revenue forecasts for state taxes based on updated economic data. The Administration's economic forecast, on which the state's revenues are based, is improved since January. Overall, based on updated economic information, as well as revenues received by the state in recent months, the Governor assumes revenues to be about $6.8 billion higher than in January over the three-year period (prior year, current year and budget year). Of this amount, personal income taxes are higher by $6.1 billion, sales and use taxes higher by $320 million, and corporation taxes higher by $390 million. After accounting for deposits to the Budget Stabilization Account (BSA), revenues are $5.6 billion higher for the three-year period. Compared to the January forecast, this translates into increases of $700 million in the prior year, $3.3 billion in the current year, and $1.7 billion in the budget year. For personal income taxes, withholding has increased based on strong wage growth. Quarterly payments are also substantially higher, suggesting continuing robust capital gains performance. Corporation taxes are higher due to strong cash trends. Sales and use taxes are only slightly higher than in January, attributable, in part, to low utilization of the manufacturing sales tax exemption.

Subcommittee Action. Not heard in subcommittee.

Staff Comments. The Legislative Analyst's Office (LAO) has forecast revenues that are $3.2 billion higher than the Administration's January forecast for the period 2013-14 through 2015-16. Compared to the Governor's May Revision, LAO's forecast is $126 million higher in the prior year, $54 million higher in the current year, and $3.1 billion higher in the budget year, due largely to stock market performance. Both DOF and LAO forecast capital gains growth—and increases as a percent of state personal income—through 2015, before declines in the subsequent years. The LAO revenue estimate will result in changes to the required deposit to the BSA and amounts used for debt reduction.

0530-001-0001 HEALTH AND HUMAN SERVICES AGENCY (HHS)

Issue 17: State Hospital and Developmental Center Oversight

Governor's Proposal. The Administration requests $1,965,000 General Fund, $600,000 one-time reimbursement authority, and 15.0 permanent positions to establish a Professional Standards Section and a Vertical Advocate Unit within the Office of Law Enforcement Support (OLES), and reimbursable services contracts for subject matter expertise.

Subcommittee Action. The issue was heard in both the public safety and health and human services subcommittees and held open.

Legislative Analyst's Office Recommendation. Modify Governor's April request for $2.6 million to increase OLES oversight of Department of State Hospitals and Department of Developmental Services law enforcement by (1) approving funding for the proposed attorney positions and (2) redirecting a portion of the remaining funding to Office of the Inspector General (OIG). The attorneys will help ensure more successful employee misconduct investigations, while the OIG will provide greater independent oversight than OLES.

Staff Comments. One of the concerns raised by the Legislature last year was that the structure of the proposal put forward by the Administration during the May Revise process was very similar to the structure in place at the California Department of Corrections and Rehabilitation (CDCR), which ultimately led to the Madrid v. Gomez case in 1995. Essentially, the initial plan outlined in the proposal created only an internal agency process for training of staff, development of uniform policies and procedures, and the investigation of complaints concerning employee misconduct, essentially the same structure as CDCR's process pre-Madrid, which lead to the expansion of the Inspector General's duties. The revised plan presented by HHS remains unchanged in that regard and HHS remains firmly opposed to any type of outside, independent oversight. This staunch opposition continues to raise significant concern at the staff level.

4440-011-0001 DEPARTMENT OF STATE HOSPITALS

Issue 18: Enhanced Treatment Program

Governor's Proposal. The governor's budget requested $11.5 million in General Fund for the Department of State Hospitals (DSH) to retrofit 44 rooms at the state hospitals to create enhanced treatment program (ETP).

Subcommittee Action. The public safety subcommittee discussed this item during their May 7th hearing. The item was held open.

Staff Comment. As discussed in the item concerning independent oversight, the Legislature remains concerned with the lack of oversight over the state hospital system. The department lacks consistent policies and procedures and treatment varies significantly from hospital to hospital. In addition, last year the *Coleman v. Brown* special master released a report on the quality of treatment provided to Coleman class inmates being treated in DSH's psychiatric treatment programs and state hospitals. The investigation found significant lapses in the treatment being provided to inmate-patients.

The special master noted that individual therapy was rarely offered, even to those patients who were not ready for group therapy or for who group therapy was contraindicated. At Coalinga State Hospital (one of the two state hospitals that houses CDCR inmate-patients), patients reported that their only individual contact with clinicians occurred on the hallways of the unit. Further, even when individual clinical interventions were indicated for a patient in a treatment team meeting, they were not included in the patient's treatment plan. In addition, inmate-patients reported that the DSH psychiatric programs were considerably more restrictive than the prisons from which they were referred, stating that it was like being in a maximum security environment, spending 21 to 22 hours per day in their rooms.

Another prevalent theme throughout the report was the lack of uniform policies and procedures throughout all aspects of the program. The report notes that all six of the inpatient programs used their own distinct systems of orientation, cuffing, and restrictions for newly admitted patients, steps/stages through which patients had to progress in order to fully access treatment, and the imposition of restrictions on patients following behavioral problems or disciplinary infractions. In addition, the six program varied widely in terms of the amount and severity of restrictions on patients' movements, contact with others, and eligibility to receive treatment.

While the ETPs are not intended for Coleman class inmate-patients, the concerns raised by the Special Master may be applicable to the entire state hospital system. However, given the lack of transparency, the Legislature has no way of knowing what level of treatment is being provided to other patients in state hospitals, if any. Therefore, while it is important for the hospitals to create a safe, therapeutic environment, the ability to lock patients in their rooms, perhaps for long periods of time, should only be allowed in conjunction with appropriate monitoring and oversight, when all written policies and procedures are in place, and all staff have been properly trained.

4440-301-0001 & 4440-011-0001 DEPARTMENT OF STATE HOSPITALS

Issue 19: Incompetent to Stand Trial Patients

Governor's Proposal. The Governor's budget proposes $3.6 million General Fund to develop preliminary plans and working drawings to increase secure treatment capacity at DSH–Metropolitan, located in Norwalk, by 505 beds. This expansion includes (1) 232 new beds and (2) 273 existing beds currently activated, but not considered secure capacity because they are not enclosed by secure fencing. The beds would be prioritized for Incompetent to Stand Trial (IST) patients. The project is estimated to cost $35.5 million in total and would be completed in 2019. The staffing costs for the 232 new beds are estimated to be $48 million annually.

In addition, the Governor's budget proposes $10.1 million General Fund to expand the restoration of competency (ROC) program by up to 108 beds to increase the state's ability to treat in jails and the community people with mental illnesses who have been deemed by the courts to be incompetent to stand trial (IST) by reason of insanity. The Governor also requests provisional language to provide up the $4 million for additional contracts and trailer bill language eliminating the sunset date for the ROC program.

Subcommittee Action. The budget contains three separate proposals for reducing the IST waiting list: 1) An expansion of 105 IST beds in state hospitals, 2) the retrofitting of DSH-Metropolitan, and 3) the expansion of the ROC program. The subcommittee rejected the Governor's request for 105 additional IST beds at Atascadero and Coalinga due to a lack of adequate data to determine the need for the additional funding to activate more state hospital beds and a failure to expand the Restoration of Competency (ROC) program, which allows people who are mentally ill to be returned to competency either in their communities or in their local county jails. The subcommittee held open the DSH-Metropolitan proposal and encouraged the Administration to put together a comprehensive plan for the expansion of the restoration of competency programs in the jails.

Legislative Analyst's Office Recommendation. Given the size of the IST waitlist (approximately 300 individuals), the LAO concur with the Administration that additional capacity to serve IST patients is necessary. However, because the assumed increase in the IST referral rate may not materialize, the LAO recommends only approving a portion of the additional beds proposed. In addition, given its relative cost, they also recommend only providing the necessary capacity through the ROC program. Specifically, they recommend that the Legislature (1) reject the $17 million proposed for activating 105 existing beds at DSH facilities, (2) approve up to $16.4 million for additional ROC beds, including $6.1 million for 26 beds in the San Bernardino ROC program and up to $10.3 million for 82 beds in other counties. They also recommend approving provisional language that would only allow the expenditure of the $10.3 million if DSH is able to successfully enter into a contract with additional counties to provide ROC services to IST patients.

Staff Comments. The LAO's recommendation is in keeping with the Legislature's direction over the last several years. Rather than investing in expensive state hospital beds to restore people to competency, DSH should establish a system of care that allows people, who can be restored relatively easily, to be restored in their communities, either in a jail or community treatment setting. State hospital beds should only be used for individuals who need more intensive treatment to be restored. After extensive discussions with the Administration, counties, and service providers, it appears that there are statutory changes that can be made to streamline the ROC program and improve DSH's ability to replicate and expand the existing program.