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Agenda

May 24, 2016

State Capitol – Room 4203

Overview of the Budget Package

Subcommittee No. 2 on Resources, Environmental Protection, Energy and Transportation

Subcommittee No. 3 on Health and Human Services

Subcommittee No. 4 on State Administration and General Government

Subcommittee No. 5 on Corrections, Public Safety, Judiciary and Labor

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0000 MAJOR STATE TAX AND LOCAL PROPERTY TAX REVENUES

Issue 1: State Taxes—Personal Income, Sales and Use, and Corporation

Governor's Proposal. The Governor's plan includes May Revision revenues that are expected to be about $1.9 billion lower than the Governor's January expectations for the three year period (2014-15, 2015-16 and 2016-17). The overall reduction is due to several partially offsetting factors: a reduction in personal income tax receipts related largely to capital gains declines; a revenue reduction from realigned insurance tax and corporation taxes for managed care; and, an increase from corporation taxes due to accruals. After accounting for transfers, General Fund revenues are estimated to be down from January by $537 million in 2015-16 and $553 million in 2016-17. For the big three taxes, personal income taxes are higher by $90 million in 2014-15, and down by $1.4 billion in 2015-16 and $448 million in 2016-17. Corporation taxes are up by about $452 million over the three-year period, due largely to technical factors and accrual methodologies. Sales tax revenues are down modestly from the January forecast by $460 million over the three-year period.

Subcommittee Action. This issue was not heard in subcommittee.

Staff Comments. The Governor's revenues are reasonable and reflect the slight softening in personal income taxes with respect to capital gains realizations. Both the Administration and the Legislative Analysts' Office note that this is a particularly difficult revenue source to forecast and swings of the magnitude as reflected in the current budget are not unusual. Staff notes that withholding continues to be strong, indicating stable wage and salary growth. The recent economic news is positive for the state. The April 2016 jobs report indicates a gain of 59,600 added non-farm wage and salary jobs and an unemployment rate of 5.3 percent, the lowest since June 2007. California continues to outpace the nation in job growth; the past 12 months state job growth was 2.8 percent compared to 1.9 percent for the nation.

0000 MAJOR STATE TAX AND LOCAL PROPERTY TAX REVENUES

Issue 2: 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 5.9 percent in 2015-16 and 6.2 percent in 2016-17. 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 $17.1 billion in 2014-15, $19.4 billion in 2015-16 and $21.0 billion in 2016-17.

Subcommittee Action. This issue was 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's estimated property tax revenues are higher by $385 million over the three-year period (2014-15 and 2015-16 and 2016-17).

6100 DEPARTMENT OF EDUCATION
6870 CALIFORNIA COMMUNITY COLLEGES

Issue 3: Proposition 98 Package

Legislative Proposal. 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.

The subcommittee No. 1 took a variety of actions including providing investments in continued implementation of the Local Control Funding Formula (LCFF), one-time discretionary mandate funds; college readiness; teacher recruitment, preparation, and retention; community college student support services and career technical education; and child care programs.

In addition to actions taken in subcommittee, the Senate Proposition 98 package also includes the adoption of Legislative Analyst's Office local property tax estimates, which results in technical adjustments within the guarantee, as well as slight increases for LCFF implementation, community colleges' deferred maintenance, and one-time mandates funding.

Staff Comments. The Senate package recognizes the need to fund critical education priorities; including investing in the implementation of the LCFF and providing one-time discretionary funds for local educational agencies to reduce the mandate backlog and meet local needs. The Senate package also recognizes the teacher shortage many school districts are facing, as well as the need for investments in providing the opportunity and support for students to leave high school ready and able to enter postsecondary education. For community colleges, the Senate package recognizes the need to restore programs that provide student support services and strengthen Career Technical Education programs through collaborations with regional workforce partners.

6600-001-0001 HASTINGS COLLEGE OF LAW

Issue 4: Base Augmentation

Governor's Proposal. The 2016-17 budget proposes a $1 million General Fund ongoing unallocated increase to Hastings budget. Excluding general obligation bond debt service and deferred maintenance funds, this represents a ten percent increase to Hastings budget. The Governor proposes to allow Hastings to set its own enrollment, tuition levels and financial aid packages, and spending priorities.

Subcommittee Action. The Governor's proposal was heard on March 17, 2016 and held open.

Staff Comments.
In 2009-10, enrollment at Hastings reached a high point at 1,179 full-time equivalent (FTE) resident Juris Doctor students. Since then, enrollment has declined to 778 FTE resident JD students in 2015-16 and an estimated 749 FTE resident JD students in 2016-17. Hastings argues that it has reduced enrollment because of its concerns about the job market for its graduates, and its efforts to boost the qualifications of its student body by being more selective in its admissions.

Tuition at Hastings is $44,201 in 2015-16. Hastings expects to keep tuition flat in 2016-17, except it indicates its board will consider an increase in its health services fee. This is the fifth consecutive year that tuition has been frozen. Student fees are the primary source of funding for Hastings, accounting for nearly 75 percent of the revenues supporting the core operations (including revenue used for financial aid).

Hastings indicates it has used the increased funding per student primarily to cover increased retirement costs and lower its student-to-faculty ratio from 17.3 in fall of 2013 to 13.9 in fall 2015. UC's average student to faculty ratio was 10.35 in fall 2014.

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.

6600-301-0660 HASTINGS COLLEGE OF LAW

Issue 5: Academic Building Replacement Project

Governor's Proposal. The Governor submitted a spring finance letter requesting an additional $18.75 million in lease-revenue bond financing for the design-build phase of the academic building replacement project. This brings the total project cost to $55.6 million lease-revenue bond financing. Starting in 2018-19, overall debt service will increase by $1 million annually, for a total of $3.7 million General Fund annually. The Department of Finance (DOF) notes that the additional funds are needed to incorporate necessary design elements identified during initial programming, additional site work not previously identified, and to reflect the increase in current market rate conditions. The facility would replace Hastings' primary academic building, which was constructed in 1953 and has several outdated systems. The new facility will be a 57,000 square foot building on a vacant lot owned by Hastings.

Subcommittee Action. The Governor's proposal was heard on May 5, 2016 and held open.

Staff Comments.
The 2015-16 budget approved the academic building replacement project at a total project cost of $36.8 million lease-revenue bond financing ($2 million for the performance criteria phase, $34.8 million for the design-build phase). The project, as approved in 2015-16, estimated debt service cost of $2.7 million annually, beginning 2018-19. In 2014, Hastings conducted a preliminary pre-design study and initial cost analysis for the Academic Building Replacement project. The initial estimate was based upon high level space program data and market conditions in place in San Francisco.

In December 2015, the Department of General Services completed a final analysis of program documents and market research, which revealed that the initial estimate of $36.8 million was insufficient to deliver the required program. The review revealed that in order to construct the building to meet programmatic requirements for tiered classrooms, as well as align the structure to two distinct and varying grades, the building needs to include subterranean levels. DOF notes that additional costs related to excavation, shoring, foundation, and underpinning totaled $2.75 million. Additionally, the program data further defined other specific facility requirements, such as the need for increased ceiling heights in large classrooms, required infrastructure for building operational systems/ technical support, the need for more robust communication systems and a clear span structural system. Moreover, Hastings indicates that the market increased by 12 percent to 15 percent in 2014, and nine percent to 10 percent in 2015. Hasting notes that construction costs are also projected to escalate by an additional five to six percent in 2016. Additionally, hard construction costs for the project have increased by over $200 per square foot. Lastly, the tenants improvements related to communications infrastructure, ceiling heights, building glazing, and heating, ventilating, and air conditioning (HVAC) have increased by approximately $50 per square foot, resulting increased construction costs of over $15 million. As a result of the increased costs noted above, there are corresponding increases of about $1 million in design, testing, and construction management costs.

3900-001-3228 CALIFORNIA AIR RESOURCES BOARD

Issue 6: Cap-and-Trade Expenditure Plan

Governor's Proposal. The Governor's budget proposes to spend $3.1 billion from cap-and-trade auction revenue in 2016-17. Of that amount, approximately 60 percent of annual auction revenues, or $1.2 billion of the 2016-17 projected auction proceeds, are continuously appropriated to support public transit, sustainable communities, and high-speed rail.

Major proposals include: (1) $1 million for transportation-related programs and projects, beyond those programs benefiting from a continuous appropriation; (2) $100 million to the Strategic Growth Council to establish a new program, with more local control, intended to complement other local-focused programs; (3) $215 million for short-lived climate pollutants including black carbon woodsmoke, refrigerants, waste diversion and agricultural investments; (4) $120 million for water and energy efficiency and wetlands and watershed restoration; (5) $200 million for carbon sequestration through urban greening, urban forestry and forest management; and, (6) $200 million for energy efficiency and renewable energy.

Proposed trailer bill language includes amendments to increase eligible recipients within the proposed forest health program; provide opportunities for Native American communities to participate in, and benefit from, the overall cap-and-trade program; expand the projects eligible for financial assistance within the recycling proposals; and provide guidance for green infrastructure programs.

Subcommittee Action. This item was heard on February 18, 2016 in the full Senate Budget and Fiscal Review Committee, and various proposals were heard in Subcommittee No. 2 throughout the budget process, and held open. The subcommittee adopted language to guide the healthy forest funding, including requiring the Wildlife Conservation Board to participate in working forest conservation easements, and to improve greenhouse gas emission benefit outcomes for landscape-level projects.

Staff Comments. The Governor's revenue estimates are in line with estimates provided by the LAO in its February review of the program. The committee should consider whether the proposal offered by the Governor meets the Senate's priorities for funding.

5180-111-0001 DEPARTMENT OF SOCIAL SERVICES

Issue 7: Restoration of the In-Home Supportive Services (IHSS) Seven-Percent Across-the-Board Reduction (Issues 411-MR and 412-MR) and Corresponding Trailer Bill Language

Governor's Proposal. The Governor's May Revision proposes a General Fund increase of $265,835,000, a decrease of $236,210,000 proceeds of the Managed Care Organization (MCO) tax, and reimbursements be increased by $34,826,000, to reflect a shift in funding for the restoration of the seven-percent across-the-board IHSS service hours reduction. The restoration is proposed to remain in effect until the MCO tax expires pursuant to current law. The Administration has also proposed Trailer Bill Language to reflect this shift.

Subcommittee Action. The subcommittee heard and discussed this item during its April 28, 2016 hearing. The subcommittee held the item open.

Staff Comment. The 2016-17 Governor's budget proposed to use a portion of the revenues from a restructuring of the existing MCO tax to restore the seven percent across-the-board reduction, beginning July 1, 2016. However, the MCO tax, as passed on February 29, 2016, did not include the seven percent restoration on an ongoing basis.

5180-111-0001 DEPARTMENT OF SOCIAL SERVICES

Issue 8: Implementation of the Fair Labor Standards Act

Legislative Proposal. The IHSS Coalition has proposed the following policy changes to support the implementation of the Fair Labor Standards Act (FLSA), as outlined in their letter dated May 18, 2016 and included in proposed trailer bill language:

- Extend the grace period for not issuing violations to providers who work more than maximum workweeks to September 1, 2016 and implement the necessary automation changes in CMIPS II to support county operations.

- Require DSS to mail an informational notice and exemption request form to a limited and relatively small number of providers who meet the exemption criteria.

- Require DSS to establish a written state-level appeals process for providers who are not granted exemptions from the maximum workweeks by the county or the department.

- Extend the current five-day county review process before violations are issued, to no less than 10 business days.

- Timesheet Errors: Authorize counties to rescind violations based on timesheet errors.

- Specify that all providers may work no more than 70.75 hours (70 hours, 45 minutes) per week.

Subcommittee Action. The subcommittee heard and discussed this item during its April 28, 2016 hearing. The subcommittee held the item open.

Staff Comment. The new FLSA overtime regulations require states to pay overtime compensation, and to compensate for activities such as travel time between multiple recipients, wait time associated with medical accompaniment, and time spent in mandatory provider training. SB 855 (Committee on Budget and Fiscal Review) Chapters 29, Statutes of 2014, established a limit of 66 hours per week for IHSS providers. DSS or counties may terminate a provider in the event of persistent violations of overtime. The final rule was implemented in California, effective February 1, 2016. There was a three month grace period until May 1, 2016, for IHSS providers as overtime changes take effect. During this period, providers did not accrue penalties if they exceeded the overtime and travel time limits.

5180-101-0001 DEPARTMENT OF SOCIAL SERVICES

Issue 9: CalWORKs MAP Increase and Repeal of MFG Policy

Governor's Proposal/Legislative Proposal. The May Revision proposed a 1.43 percent increase to the CalWORKs Maximum Aid Payment (MAP), effective October 1, 2016. Advocates have also requested the repeal of the Maximum Family Grant (MFG), using funds from the estimated growth revenues to the Child Poverty and Family Supplemental Support Subaccount.

Subcommittee Action. The subcommittee heard and discussed the repeal of the MFG during its March 10, 2016 hearing. The subcommittee held the item open.

Staff Comment. Estimated growth revenues to the Child Poverty and Family Supplemental Support Subaccount are used to fund CalWORKs MAP increases. This subaccount also provided funding for the two five percent CalWORKs MAP increases that occurred on March 1, 2014 and April 1, 2015. Growth in the Child Poverty and Family Supplemental Support Subaccount is projected to provide funding of $326.1 million in 2015-16 and $350.2 million in 2016-17.

AB 473 (Brulte), Chapter 196, Statutes of 1994, prohibits an increase in CalWORKs aid based on an increase in the number of needy persons in a family due to the birth of an additional child, if the family has received aid continuously for the ten months prior to the birth of the child, as specified, or for longer than the gestational period of the new baby. If the family is not receiving aid for two or more months during the ten-month period preceding the birth of the child, the new child becomes eligible for aid in the CalWORKs benefit calculation. Additionally, the MFG rule does not apply if a family returns to CalWORKs after a break of two or more years during which the family did not receive any aid, provided aided children are still younger than 18 years old.

The total cost for both the 1.43 percent grant increase and the repeal of the MFG, using the Child Poverty and Family Supplemental Support Subaccount, is estimated at $142 million in 2016-17.

5180-151-0001 DEPARTMENT OF SOCIAL SERVICES

Issue 10: Unaccompanied Undocumented Minors TBL

Legislative Proposal. The Senate requests trailer bill language to clarify the intent of SB 873 (Committee on Budget and Fiscal Review) Chapter 685, Statutes of 2014 and AB 900 (Levine) Chapter 694, Statutes of 2015.

Subcommittee Action. The subcommittee heard and discussed this item during its April 28, 2016 hearing and took no action.

Staff Comment. The Legislature enacted California Code of Civil Procedure Section 155 through Senate Bill 873 in 2014, to strengthen protections for immigrant children by making it clear that California courts, including probate courts, family courts, and juvenile dependency courts have jurisdiction to make Special Immigrant Juvenile Status ("SIJS") findings. Under federal law, a child or youth under the age of 21 must present a State Court order with the SIJS findings in order to apply for SIJS immigration relief with the Federal Government. The Legislature's intent in enacting SB 873 was to ensure these children have access to the courts and SIJS findings so they can petition the federal government for SIJS immigration relief.

AB 900 built on SB 873 to allow immigrant youth ages 18 to 20 to obtain guardianship orders under the California Probate Code and to then seek SIJS factual findings pursuant to Section 155 of the California Code of Civil Procedure. With AB 900, the Legislature ensured that immigrant youth ages 18 to 20 can receive the same protections available to youth who are under the age of 18.

Some courts have interpreted Code of Civil Procedure Section 155 in ways that are inconsistent with the intent of the Legislature in enacting SB 873 and AB 900. For example, SIJS findings have included a purported motivation of the juvenile in seeking a probate guardianship that undermines the juvenile's ability to seek SIJS immigration relief with the federal government.

0000 BUDGET RESERVE FUNDS

Issue 11: Budget Reserve Contributions

Governor's Proposal. The 2016-17 budget includes a constitutionally-required deposit to the Budget Stabilization Account (BSA) of $1.3 billion. In addition, the Governor proposes increasing the BSA reserve through an optional deposit of $2 billion. Under this proposal, the Special Fund for Economic Uncertainties (SFEU) balance would be $1.8 billion, and the BSA balance would grow to $6.7 billion. By the end of 2016-17, the total for both reserves would be $8.5 billion, assuming current fiscal projections. The Governor also proposes that the Legislature use the $2 billion optional BSA deposit to meet reserve requirements for 2015-16 and 2016-17 that exceed current estimates. If future revisions and required 'true ups' are less than $2 billion, the Administration proposes that the outstanding funds remain in the BSA.

Senate Proposal. The Senate plan devotes the same amount of resources to budgetary reserves, but instead of depositing the discretionary $2 billion into the BSA, it would retain the $2 billion in the state's SFEU. The Senate's plan would result in the same amount of total reserves of $8.5 billion, but permit for the use of additional resources in situations that fall short of a fiscal emergency, but are still unexpected based on cause or magnitude. This would address unexpected legal judgements, department cost overruns, or similar unexpected events.

Subcommittee Action. The issue was heard in Subcommittee No. 4 on March 30 and held open.

Staff Comments. The SFEU is a discretionary reserve from which the Legislature may appropriate funds at any time and for any purpose. The BSA is a restricted account, with specific rules governing how and when the state must make deposits into, or may make withdrawals from, the fund. The additional $2 billion discretionary deposit to the BSA would restrict the use of these funds to those purposes stipulated by the Constitution under Proposition 2. Absent this deposit, the Legislature could retain much more discretion over the use of these revenues, including retiring long-term liabilities, providing additional program funding, or providing advance-funding of General Obligation bond debt service. The later policy would free-up an equivalent amount of cash in the future. In addition, there is uncertainty as to whether discretionary deposits qualify as 'pre-funding' of potential future required deposits to the BSA, as this designation may not be allowable under the Constitution.

0000 PROPOSITION 2 DEBT PAYMENTS

Issue 12: Repayment of Budgetary Borrowing

Governor's Proposal. Under the Administration's May calculations, Proposition 2 captures a total of $2.6 billion in the budget year. Proposition 2 requires that this amount be split evenly between paying down existing state debt and funding the Budget Stabilization Account (BSA). The Governor proposes to spend the required $1.3 billion on paying down $692 million in special fund loans, $218 million in prior-year Proposition 98 costs known as "settle-up" and $173 million in transportation loans. In addition, the Governor's multi-year budget plan proposes to fully repay special fund loans and transportation loans by the end of 2019-20. Due to the dynamic nature of budgeting and changing fiscal circumstances, the pay-off schedule always changes somewhat from year to year.

Senate Proposal. The Senate proposes to shift the $240 million payment for state retiree health care from the General Fund under the Proposition 2 umbrella. This would reduce the amount of special fund loans repaid in 2016-17 by a similar amount. These loans would be repaid instead in 2017-18, 2018-19 and 2019-20, maintaining the full payment of all special fund loans by that final year.

Subcommittee Action. This issue was heard in Subcommittee No. 4 on March 30 and held open.

Staff Comments. When the Legislature approved the language regarding the constitutional amendment that revised the BSA, it included provisions requiring that for the initial 15 years, one-half of the funds set aside under the measure would be used to retire state debt obligations, with the other half deposited to the BSA. While the Proposition 2 funds were not specified as the exclusive resource for such debt repayments, the intent was to allow the Proposition 2 resources to relieve the General Fund of the bulk of the repayment burden during the first 15 years of operation of the provision. The Senate plan is consistent with this intent.

0000 INFRASTRUCTURE CAPITAL FUND

Issue 13: Funding Infrastructure and State Buildings

Governor's Proposal. The Governor's budget proposes to transfer to the State Office Infrastructure Fund (SOIF) $1.5 billion from the General Fund to be used for improvement or replacement of three state office buildings in the capital. The resources would be transferred to a separate fund, with moneys subject to continuous appropriation. The $1.5 billion is intended to provide pay-as-you-go funding to replace the Natural Resources Building, Food and Agriculture Annex, and State Capitol Annex. Of the total, about $10.1 million is required for 2016-17 to begin study and design activities for the proposed projects. The projects are as follows:

- **Natural Resources Building.** The proposal calls for the state to contract for a privately-constructed lease-to-purchase facility at a cost of $530 million and completed by 2020.
- **O Street Office Building.** The proposal calls for the demolition of the currently vacant Department of Food and Agriculture Annex and constructing a new $226 million facility.
- **Capitol Annex.** The proposal calls for either the renovation of the existing 1950s era building, or its demolition and the construction of new office space at unknown cost.

Senate Proposal. The Senate plan establishes the Infrastructure Capital Fund (ICF) and authorizes the transfer of $1.0 billion to that fund exclusively for the purposes of planning, design construction, renovation, or rehabilitation, of state government buildings and offices. Moneys deposited in the ICF would be subject to annual appropriation by the Legislature for eligible projects. Resources deposited in the fund would be used for state buildings and offices, pursuant to trailer bill language governing the use of the fund. The Senate proposal includes an appropriation of $10.1 million to DGS for planning and design work. The additional $500 million that was proposed for state buildings would be retained in the SFEU, bring total reserves to $9 billion.

Subcommittee Action. The issue was heard in Subcommittee No. 4 on March 30 and held open.

Staff Comments. The Senate plan eliminates the continuous appropriation language. There is no convincing need for continuous appropriation at this time. Should the timing for the project pose a constraint relative to the timing of the annual state budget, there would be an opportunity to develop approval structures that would allow for project continuity while retaining the Legislature's ability to exercise its constitutional appropriation authority. The granting of continuous appropriation bears close scrutiny under any circumstances; to consider it for a proposal still in the process of formulation is particularly problematic. The committee should consider an appropriation for the preliminary initial studies for the project for the budget year – an amount of approximately $10 million. A change in the uses of the fund resources will make the fund more flexible and allow for alternative uses.

0509 GOVERNOR'S OFFICE OF BUSINESS AND ECONOMIC DEVELOPMENT

Issue 14: Clarification of California Competes Authority

Governor's Proposal. The Administration proposes trailer bill language (TBL) would provide clean-up and clarifying language regarding considerations that may be taken into account in the award of California Competes Tax Credit (CCTC). The language would clarify the ability of Governor's Office of Business and Economic Development (GO-Biz) to negotiate tax credit agreements by explicitly stating that it may consider the following factors when deciding whether to enter into a tax credit agreement with a business: a) financial solvency and ability to finance its proposed expansion; b) current and prior compliance with federal and state laws; c) current and prior litigation involving the business; d) reasonableness of any fee arrangement with any third party providing services related to the CCTC; e) other factors GO-Biz deems necessary to ensure the administration of the CCTC furthers accountability and transparency, and maximizes the effective use of the limited tax credits.

Subcommittee Action. This issue was heard in Subcommittee No. 4 on May 19 and held open.

Staff Comments. The CCTC program is one component of the Governor's Economic Development Initiative of 2013. The CCTC program authorizes GO-Biz to provide tax credits to businesses in exchange for California job creation and capital investments. Unlike other tax incentive programs in which a business is automatically entitled to the incentive if it meets the statutory requirements, the CCTC enabling statutes provide GO-Biz the ability to negotiate tax credit agreements on behalf of the state with businesses committing to expand or locate in California. The total amount of CCTC that can be awarded in any fiscal year is statutorily capped at $200 million, plus any unallocated or recaptured previously awarded credits. In 2014 GO-Biz promulgated regulations that, among other requirements, require applicants for the CCTC to disclose information related to their financial condition, federal and state law violations, pending and resolved litigation, and the compensation and nature of agreements with third parties preparing applications for the CCTC. GO-Biz requires this information to ensure the efficacy of the CCTC program and to maximize benefits of the credits awarded. Despite the legislative intent and authority vested in GO-Biz to administer the CCTC program, GO-Biz's ability to request and evaluate the above information required by its regulations has been called into question. GO-Biz indicates that the clean-up language would clarify and make explicit GO-Biz's authority in this regard. At the subcommittee hearing, questions were raised regarding the impact on outstanding litigation.

0650-001-0001 OFFICE OF PLANNING AND RESEARCH

Issue 15: Precision Medicine

Governor's Proposal. The Governor's budget proposes $10 million General Fund for a grant program for public and/or nonprofit entities, such as the University of California (UC), for precision medicine research. The budget also proposes trailer bill language (TBL) to establish the program in statute.

Precision medicine is an emerging approach for disease treatment and prevention that takes into account individual variability in genes, environment, and lifestyle of each person.

In the 2014-15 budget, the Legislature approved $3 million General Fund for two precision medicine demonstration projects ($1.2 million each) and $600,000 for other activities. One project focused on improving outcomes for children with cancer and the other project focused on infectious diseases.

The $10 million requested for 2016-17 is proposed to fund the following.

- Six additional demonstration projects funded at $1.2 million each.
- $700,000 to compile an asset inventory of data sets (according to the Administration, if the funds are not used for this purpose, they will be repurposed—but it is unclear for what).
- $1.2 million in "follow-on" funding for the two previously funded projects.
- $900,000 for administrative costs.

Subcommittee Action. The Governor's proposal was heard on April 28th and May 18th and approved as budgeted, including TBL.

Staff Comments. The Legislative Analysts' Office (LAO) recommends rejection of the proposal. The LAO finds it difficult to justify funding this type of research over other types of research. In general, the LAO finds this proposal raises concerns about the state's role in funding research and notes that most of the state's research institutions, including the UCs, receive the majority of their funding from federal, private, and other non-state sources. In addition, the state lacks a framework for prioritizing what research it funds.

The state's role in funding this type of research is questionable. Privately-funded research in this area is currently underway and most of the gains from research are likely to result in gains to for-profit companies. Moreover, the federal government has made available $215 million in 2016 for precision medicine research. There are also concerns about the selection committee and the lack of transparency in the process used to award grant funds. Staff notes the project also has relatively high administrative costs and, in the past, administrative costs included catering, transportation, and hotel accommodations.

0690-VARIOUS OFFICE OF EMERGENCY SERVICES

Issue 16: Emergency Operations and Critical Support

Governor's Proposal. The Governor's budget proposes 77 permanent positions and $35.2 million General Fund in the budget year, including $20 million in one-time spending on fire equipment. The proposal also includes $14.8 million General Fund in state operations authority in 2017-18 and ongoing, and a permanent decrease of $3.9 million federal fund authority. The chart below describes the proposal's 16 components, which relate to fire response, disaster coordination, facilities, technology, and other activities for the department.

Governor's Proposal, LAO Recommendations, and SBFR Staff Recommendations for 2016-17

	Governor's Proposal		LAO Recommendations		SBFR Staff Recommendations	
Program	Positions	General Fund	Positions	General Fund	Positions	General Fund
Fire Response						
Fire Apparatus Fleet Replacement and Augmentation	—	$20,000,000	—	—	—	$10,000,000
Fire and Rescue Branch Staffing	12	2,528,000	—	—	7	1,712,000
Automated Vehicle Location	—	342,000	—	$193,000	—	227,000
Fire Apparatus Operating Costs and Maintenance	—	102,000	—	—	—	102,000
Disaster Coordination						
Statewide Disaster Programs	2	4,987,000	—	188,000	—	188,000
Regional Response and Readiness	13	1,951,000	—	—	6	879,000
Law Enforcement Branch Staffing	6	1,661,000	—	—	4	1,107,000
Disaster Logistics Program	3	421,000	3	421,000	3	421,000
Facilities						
Regional Coordination Center	—	700,000	—	700,000	—	700,000
Fire Maintenance Shop Lease	—	94,000	—	94,000	—	94,000
Technology						
Information Technology	—	1,030,000	—	1,030,000	—	1,030,000
Cal EOC Support	3	495,000	3	495,000	3	495,000
Other						
Federal Emergency Management Program	—	700,000	—	—	—	—
Emergency Operations Incident Support Training	—	169,000	—	—	—	—
Public Safety Communications	28	—	28	—	28	—
Administrative Support	10	—	1.5	—	3.5	—
Totals	**77**	**$35,180,000**	**35.5**	**$3,121,000**	**54.5**	**$16,955,000**

SBFR = Senate Budget and Fiscal Review.

Subcommittee Action. Subcommittee No. 4 considered this proposal and held the item open.

0860 BOARD OF EQUALIZATION

Issue 17: Centralized Revenue Opportunity System

Governor's Proposal. The Board of Equalization (BOE) requests $17.5 million and 43.1 positions (22.5 positions and 20.6 temporary help) in 2016-17, to ensure that the Centralized Revenue Opportunity System (CROS) project has the resources required to begin the implementation phase. The contractor will be paid from revenue generated by the solution. BOE also requests budget bill language (BBL) to allow up to $5 million to be made available for possible contractor payments in 2016-17. The project is expected to re-align the contractor payments in next year's 2017-18 budget.

Senate Proposal. The Senate version would provide one year of funding for the requested $17.5 million ($9.4 million General Fund) for 2016-17 for 22.5 positions and 20.6 temporary help resources. In addition, BBL is included which would allow Department of Finance to supplement this funding by up to $3 million, after providing not less 30 days' notice to the Joint Legislative Budget Committee. In addition, supplemental reporting language directs the department to report the Legislature the status of the project in October 2016, along with the award of the contract to the selected vendor, specifically:

> *No later than October 15, 2016, the Board of Equalization shall provide a report to the appropriate budget subcommittees of the Senate and the Assembly regarding the CROS Project. The report shall include, but not be limited to: (1) details regarding the vendor awarded the CROS Project contract, including the terms of the contract and updated cost, schedule, and scope information for the project, (2) identification of any issues or risks the project is tracking that may jeopardize the project's completion or result in delays and a description of efforts to resolve the issues, (3) a report of progress on and projected completion dates for any significant upcoming project milestones, and (4) discussion of challenges with recruiting and retaining qualified staff and a description of efforts to resolve the issues.*

Subcommittee Action. The issue was heard in Subcommittee No. 4 on May 19 and held open.

Staff Comments. The CROS project is a necessary undertaking for the state, given the age and status of the agency's legacy mainframe-based revenue and collection information systems. The specific budget proposal for continued funding of the CROS project is reasonable with respect to anticipated workload during the implementation phase. In addition, the benefits-based funding for the project is appropriate for the tax agency; a similar approach has been used successfully by the Franchise Tax Board. Nevertheless, staff has significant misgivings regarding the ability of the agency to successfully undertake a project of this importance and magnitude. Several unrelated issues discussed at the subcommittee's April 28 hearing highlight potential concerns regarding the governance of large and complex undertakings, like the CROS project, given the organizational structure and administrative capability of the agency. Given this, staff recommends limiting project funding, reducing the amount of funds DOF can augment, and adding specific reporting language.

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2240 DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT
5180 DEPARTMENT OF SOCIAL SERVICES

Issue 18: No Place Like Home Initiative

Legislative Proposal. The Senate proposes the No Place Like Home (NPLH) initiative to help address homelessness. The initiative provides funding for a grant program to develop supportive housing for individuals with mental illness who are chronically homeless in addition to funding other programs to help address homelessness in California. (See the handout for details of the NPLH initiative.)

The Administration, in its May Revision, endorsed the Senate's concept of a $2 billion bond from a portion of future Proposition 63 mental health revenues. The Administration also proposes 10.4 positions in 2016-17 (32 positions on an ongoing basis) to implement a competitive, multiyear program. In addition to providing funding for capital projects, some of the $267 million annually in bond proceeds would be used for tenant-based rental assistance and direct technical assistance to localities.

Subcommittee Action. No action.

Staff Comments. California has the nation's largest homeless population that is disproportionally comprised of women with children, veterans, and the chronically homeless. Mental illness is the third largest cause of homelessness for single adults. Housing is the key factor for stabilization and recovery to occur and results in the most successful outcomes for those living with a mental illness. Investing Proposition 63 bond funds in permanent supportive housing can help the state leverage a significant amount of additional dollars through tax credits, Medi-Cal funding, and other housing development funds. In addition, the other funding augmentations included in the Senate's plan will help to address the state's overall homeless problem.

5225-008-0001 DEPARTMENT OF CORRECTIONS AND REHABILITATION
8260-002-0001 CALIFORNIA ARTS COUNCIL

Issue 19: Comprehensive Arts Package

Governor's Proposal. The Governor's May Revision requests two permanent positions and $4 million General Fund in 2016-17 and $6 million General Fund in 2017-18 and ongoing to expand the Arts in Corrections program to all state prisons. The funding would be included in the California Department of Corrections and Rehabilitation (CDCR) budget and would be provided to the California Arts Council (CAC) through an interagency agreement.

Legislative Proposal. Augment the May Revision proposal as follows:

1) Add 35 permanent institution artist/facilitator positions to CDCR and $3.2 million General Fund in 2016-17, and $3.1 million General fund in 2017-18 and on-going to provide artist/facilitators at each state prison. In addition, expand the duties of the artist/facilitators to include the facilitation of programs funded through innovative programming grants or restorative justice long-term offender program funding.

2) Provide $6 million on-going General Fund and two permanent positions to CAC to increase art programs in underserved communities.

3) Provide $800,000 on-going General Fund to CAC to establish a reentry/bridging grant program to facilitate and expand arts programs designed to help inmates transition from prison back into their community.

Subcommittee Action. The Governor's proposal was heard on May 18, 2016, and held open.

Staff Comments. ***Artist/Facilitators:*** Artist/facilitators teach classes for the inmates and serve as the liaisons between the outside providers and the institutions. In recent years, the Senate has invested funding in the CDCR budget for innovative programming, including the Arts in Corrections program. The Governor's proposal increases that investment significantly. However, unless the people and organizations that provide the programming are properly supported in the institutions, it can become very difficult for those programs to operate effectively.

CAC Community Art Grants: CAC has several grant programs designed to increase access to the arts and generally, grant applications far outweigh the available funding. Among the programs that could be expanded using this funding are Local Impact, Artists Activating Communities and Arts in Schools.

7501-001-0001 DEPARTMENT OF HUMAN RESOURCES
7501-001-9740

Issue 20: Civil Service Improvements

Governor's Proposal. The Governor's budget requests the following resources over the next three years to implement civil service improvement reforms:

- 16 positions and $1.92 million ($606,000 General Fund, $848,000 Reimbursement, $462,000 Central Service Cost Recovery Fund) in fiscal year 2016-17;

- 17 positions and $1.85 million ($558,000 General Fund, $864,000 Reimbursement, $426,000 Central Service Cost Recovery Fund) in fiscal year 2017-18, and

- $1.84 million ($558,000 General Fund, $855,000 Reimbursement, $426,000 Central Service Cost Recovery Fund) in fiscal year 2018-19 to implement Civil Service Improvement reforms and identify new areas for improvement.

Subcommittee Action. The Governor's proposal was heard on April 21, 2016 and held open.

Staff Comments. In 2016-17, the Department of Human Resources (CalHR) intends to continue to implement reforms that have already begun, identify new areas for improvement, and continue to state's comprehensive analysis of civil service to identify future modernizations and efficiencies. These include simplifying the state's outdated job classification system, working with each department to create a workforce development plan, and improving the state's outreach and recruitment efforts. A more comprehensive list of CSI initiatives is provided in Attachment C. CalHR's requested positions will support statewide Human Resources efforts, rather than a department-level approach, which the Administration notes is costly and less effective at resolving statewide civil service barriers.

Attachment A

Issue 18 – No Place Like Home Initiative – Page 21

The No Place Like Home (NPLH) initiative includes the following.

Trailer bill language to establish the NPLH grant program which would authorize the Department of Housing and Community Development (HCD) to issue revenue bonds, funded by the Mental Health Services Fund, in the amount of $2 billion. This fund receives revenues from a one percent tax on that portion of a taxpayer's taxable income that exceeds $1 million, as required by the Mental Health Services Act enacted by the voters as Proposition 63 in November 2004. This program would include the following.

- $1.8 billion awarded by HCD to counties through a competitive grant program to finance the acquisition, design, construction, or reconstruction of permanent supportive housing for individuals with mental illness who are chronically homeless. Funds would be divided into categories based on county size and would be distributed in at least four separate grant rounds over several years.

- California Housing Finance Agency would allocate $200 million to all counties in an amount that is proportionate to the number of homeless persons in each county.

- A committee comprised of Administration officials, county officials, behavioral health directors and housing and mental health advocates, would sign off on HCD's guidelines and advise the department throughout the process.

- $6.2 million from the Mental Health Services Fund (state administration) to counties for technical assistance.

The other key elements of the Senate plan are as follows.

- $43 million General Fund to provide a total $10 monthly increase, when combined with the Governor's budget proposal, in Supplemental Security Income/State Supplementary Payment (SSI/SSP) program grants to low-income persons who are aged, blind, or have a disability.

- $50 million General Fund annually (for two years) for SSI outreach to increase participation among homeless persons with disabilities who may be eligible for disability benefits programs.

- $50 million General Fund annually (for four years) for temporary housing for homeless persons.

- $15 million General Fund ongoing for the CalWORKs Housing Support Program which provides housing and supportive services for CalWORKs families in danger of homelessness.

- $10 million General Fund ongoing for the Bringing Families Home program, a county matching grant program to reduce homelessness among families that are part of the child welfare system.

Attachment B

Issue 6 - Cap-and-Trade Expenditure Plan – Page 9

The Senate's $2.7 billion cap-and-trade expenditure plan approves much of the Administration's expenditure plan, with modifications to better ensure the reduction of greenhouse gas emissions.

Approves the Governor's proposals for the following programs with minimal or no changes:

- $500 million for High-Speed Rail.
- $400 million for the Affordable Housing and Sustainable Communities Program.
- $200 million for the Transit and Intercity Rail Capital Program.
- $100 million for the Low Carbon Transit Operations Program.
- $500 million for low carbon transportation, with the addition of alternative fuels, such as biofuels, biomethane, and others, as an eligible use of these funds.
- $20 million is directed to biofuel facility investments
- $75 million for energy efficiency upgrades and weatherization and broadens the use to low-income individuals and communities.
- $60 million for renewal energy and efficiency projects at UC and CSU.
- $50 million for drought actions, appliance rebates and water conservation and efficiency.
- $30 million for energy efficiency for public buildings.
- $30 million for urban forestry and $25 million for forest health.
- $20 million for healthy soils programs.
- $15 million for the Conservation Corps Energy Corps with a focus on local conservation corps.
- $60 million for wetlands and watershed restoration.

Makes substantive improvements to the following programs:

- $400 million for transformational climate communities, focusing on geographical diversity and disadvantaged communities.
- $50 million for waste diversion at CalRecycle.
- $50 million for a Green Bank to provide initial financing for energy efficiency projects.
- $100 million for urban greening and $3 million for community outreach to disadvantaged communities.
- Eliminates funding for CalTrans transit and intercity rail, low carbon road program, black carbon woodsmoke, refrigerants, and dairy digesters.

ATTACHMENT C

Issue 20 – Civil Service Improvements – Page 23

The resources included in this budget proposal will directly address several Civil Service Improvement initiatives, specifically:

Exams

- Increase multi-departmental exams (e.g., consortium exams).
- Create a repository of job analyses and exams for departmental use to alleviate exam costs.

Recruiting

- Create an Online-Career Center to assist in determining eligibility for jobs/classifications.
- Align departmental and statewide recruitment efforts.
- Innovate statewide recruitment by using social media. Establish a statewide recruitment program that promotes broad-based recruitment.
- Develop or make use of apprenticeship/internship/fellowship programs as a recruitment tool.
- Create and implement an employer-of-choice campaign for the State of California. Collaborate with state employee organizations to emphasize the importance of government work and job satisfaction

Workforce Planning

- Support departments' efforts to complete strategic and workforce plans (e.g., succession and future needs planning).
- Ensure all departmental workforce plans are submitted to CalHR to create a statewide workforce plan.

Classification Consolidation

- Consolidate and reduce the number of job classifications.
- Simplify job classification titles.
- Clarify job classifications descriptions.
- Automatically abolish classes that are vacant for more than two years.
- Establish clear and sensible allocation criteria that allow departments to allocate classes in a manner that addresses their programmatic needs.
- Create human resource/labor relations credentialing program to professionalize classes.

Training

- Develop multi-level training for supervisors, managers and executives aligned with the state's leadership competency models and the Administration's leadership philosophy.
- Provide employees broader training opportunities.
- Partner with unions to develop employee training that is consistent and comprehensive.
- Create a management development track. Develop high-performing Career Executive Assignments for leadership roles.
- Partner with higher education to provide career advancement courses for state employees, including tuition, fee subsidies, and release time from work to attend courses.
- Train managers in performance measurement and management.
- Train supervisors and managers to deal with poor performance by using progressive discipline.