CALIFORNIA STATE SENATE

Committee on Budget and Fiscal Review

State Capitol – Room 5019
Sacramento, CA 95814
(916) 651-4103
Fax (916) 668-7004

Holly J. Mitchell, Chair

Agenda

May 23, 2017

10:00 a.m. - State Capitol – Room

4203

Budget Act of 2017
Overview of the Senate Budget Plan

ITEMS PROPOSED FOR VOTE-ONLY

Item	Department	Page
0984	**California Secure Choice Retirement Savings Investment Board**	
Issue 1	Program Implementation	4
2660	**California Department of Transportation**	
Issue 2	Capital Outlay Support and SB 1 Implementation	5
3100	**California Science Center**	
Issue 3	Trailer Bill Language – Exposition Park Clean Up	6
3900	**Air Resource Board**	
Issue 4	Implementation of Volkswagen Consent Decree	7
5180	**Department of Social Services**	
Issue 5	Foster Youth Pregnancy Prevention	8

8260	**California Arts Council**	
Issue 6	Armenian American Museum Funding	9
8880	**Financial Information System for California**	
Issue 7	Support for Equipment Purchases	10
8955	**Department of Veterans Affairs**	
Issue 8	Veterans Homes Greater Los Angeles and Ventura County Bed Conversion	11
	Budget Control Sections	
Issue 9	Control Section 8.88 Adjustments to FI$Cal Budget	12
Issue 10	Control Section 12.00 State Appropriations Limit	12
Issue 11	Control Section 15.14 Greenhouse Gas Reduction Fund Allocations	13
Issue 12	Control Section 35.50 General Fund Revenues	13

ITEMS PROPOSED FOR DISCUSSION AND VOTE

0000	**State Taxes and Revenues and Local Property Taxes**	
Issue 13	State Taxes and Revenues	14
Issue 14	Local Property Taxes	14
Various	**Multiple Departments**	
Issue 15	Cannabis Implementation	15

Subcommittee No. 1 on Education

6100	**Department of Education**	
6870	**California Community Colleges**	
Issue 16	Proposition 98 Package	19
Issue 17	Early Education and Child Care	20

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

3860	**Department of Water Resources**	
3940	**State Water Resources Control Board**	
Issue 18	Making Water Conservation a California Way of Life	23
3900	**Air Resources Board**	
Issue 19	Clean Freight Funding	25

Subcommittee No. 3 on Health and Human Services

4260	**Department of Health Care Services**	
Issue 20	Allocation of Proposition 56 Tobacco Tax Revenue	26
5180	**Department of Social Services**	
Issue 21	CalWORKs Administration and Services	28
Issue 22	In-Home Supportive Services: Coordinated Care Initiative Elimination	30
Issue 23	Immigration Proposals	32

Subcommittee No. 4 on State Administration and General Government

0000	**Budget Reserve and Debt Payments**	
Issue 24	Deposits to Budget Reserve and Payment of Debts	33
0650	**Office of Planning and Research**	
Issue 25	Precision Medicine	34
7730	**Franchise Tax Board**	
Issue 26	Earned Income Tax Credit Outreach	35
7760	**Department of General Services**	
Issue 27	R Street Parking Structure Acquisition	36

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

0250	**Judicial Branch**	
Issue 28	Legal Services Funding	37
Issue 29	Dependency Counsel Funding	38
5225	**Department of Corrections and Rehabilitation**	
8260	**California Arts Council**	
Issue 30	Arts for At-Risk Youth	39
5227	**Board of State and Community Corrections**	
0977	**Health Care Facilities Financing Authority**	
Issue 31	Mental Health Infrastructure	40

ITEMS PROPOSED FOR VOTE ONLY

0984 CALIFORNIA SECURE CHOICE RETIREMENT SAVINGS INVESTMENT BOARD

Issue 1: Program Implementation

Governor's Proposal. The California Secure Choice Retirement Savings Investment Board requests a General Fund loan to provide start-up resources for the board and the California Secure Choice Retire Savings Investment Program (CSCRSP), including for staffing, external consultants, operating and overhead costs, and agreements with third party administrators to provide record-keeping, investment management and other services to route, receive and invest contributions from program participants. The proposal includes budget bill language that would allow for the transfer of $15 million of the loan to the board in the budget year, with additional loan augmentations, for a total amount not to exceed $35 million. In addition, trailer bill language is proposed clarifying the implementation of the program with respect to federal requirements. The proposed budget bill language states:

1. *The Department of Finance may transfer up to $15,000,000 as a loan from the General Fund to support the start-up and administrative costs of the Secure Choice Retirement Savings Program. This loan shall be repaid by June 30, 2023, with interest calculated at the rate earned by the Pooled Money Investment Account at the time of the transfer.*
2. *Notwithstanding any other provision of law, the Department of Finance may augment the loan, for a total loan amount of <u>$35,000,000</u>, if it is determined that additional funds are necessary for the start-up and administrative costs of the Secure Choice Retirement Savings Program. <u>The augmentation may be approved not sooner than 30 days after notification is provided in writing to the chairpersons of the fiscal committees in each house and the Chairperson of the Joint Legislative Budget Committee.</u> The loan shall be repaid by June 30, 2023, with interest calculated at the rate earned by the Pooled Money Investment Account at the time of the transfer.*

Subcommittee Action. This issue was heard in Subcommittee No. 4 on May 18th and held open.

Staff Comments. The California Secure Choice Retirement Savings Investment Board and the CSCRSP were established pursuant to SB 1234 (de León), Chapter 734, Statutes of 2012. The loan will allow the board to administer the CSCRSP under conservative baseline assumptions relating to participation and contributions during the initial years. As the CSCRSP begins the process of implementation, the necessity of startup funding to make this possible is apparent. The proposal would allow for a loan in the budget year in the amount of $15 million, with budget bill language that allows this to be supplemented for a total amount of up to $35 million.

Staff Recommendation. Approve General Fund loan for the budget year, along with budget bill language and trailer bill language.

2660 CALIFORNIA DEPARTMENT OF TRANSPORTATION

Issue 2: Capital Outlay Support and SB 1 Implementation

Governor's Proposal. The Governor's May Revision request includes $477.8 million with 243 permanent positions to support the Department's initial tasks for implementation of the Road Repair and Accountability Act of 2017, enacted through SB 1 (Beall), Chapter 5, Statutes of 2017, and a net decrease from the non-SB 1 Capital Outlay Support (COS) budget proposed in January of $29.3 million and 283 full time equivalents (FTE) (includes 243 staff positions, the FTE of 26 positions for Architectural and Engineering Contracts, and the FTE of 14 positions for personal services/cash overtime).

The Governor's May Revision proposes that provisional language be added to Item 2660-001-0042 to allow for budget adjustments based on the progress of project delivery.

Subcommittee Action. Budget Subcommittee No. 2 heard these proposals at its May 16th hearings, and took no action.

Staff Comments. SB 1 will create significant new workload for Caltrans. This is balanced by declines in other legacy programs. Caltrans is proposing to meet the demands of SB 1 by redirecting positions which would otherwise be eliminated due to reduced funding for programs such as the STIP and the Seismic Retrofit Bond fund. Doing so seems generally reasonable. However, given the magnitude of additional funding provided by SB 1 in 2017-18, it is very likely that Caltrans will need significantly more staff in the budget year, including possibly hundreds more additional COS staff.

Caltrans proposes to meet this additional required workload by exercising proposed provisional language allowing the department to augment its COS budget to meet SB 1 project workload. However, the staffing proposal considered here would give the COS program 435 currently authorized or administratively-creatable vacant positions that can be filled to meet future SB 1 workload without exercising the requested provisional language

Staff Recommendation. Approve the SB 1 and Capital Outlay Support staffing proposals as budgeted. Amend the proposed provisional language to allow Caltrans to augment current Capital Outlay Support staffing for SB 1 projects only after they have filled existing vacancies, and upon approval of the CTC and Finance and 30-day notification of the Joint Legislative Budget Committee.

3100 CALIFORNIA SCIENCE CENTER

Issue 3: Trailer Bill Language – Exposition Park Clean Up

Governor's Proposal. The May Revision proposes trailer bill language intended to change the name of the Sixth Agricultural District, currently known as the California Science Center, to Exposition Park; and clarify roles and responsibilities of the entities within the park.

In addition to the Governor's proposal, the Science Center Foundation has submitted a proposal for trailer bill language that would allow for funding, $2.4 million, that is currently in the Science Center's budget for lease payments to remain in their budget past 2022 in order to be used for lease payments associated with their Phase III construction project, which will house the space shuttle Endeavour.

The California Science Center Master Plan was developed at the direction of the Legislature and adopted in 1993. The plan provided for building the new Science Center in three phases. Phase I was completed in 1998 and the state is currently contributing $2.4 million as an annual lease payment until the bond is paid off in 2022. This proposal would allow the Science Center to retain this funding in their budget past 2022 to provide a lease payment for Phase III. $121 million in private and non-state funds has already been raised for the project.

Subcommittee Action. This issue was heard in subcommittee 2 on May 17.

Staff Comments. Stakeholders have raised concern that the Administration's trailer bill language is not strictly technical in nature and makes substantive changes that should be vetted more thoroughly prior to approval by the Legislature.

Staff Recommendation. 1) Adopt the Administration's trailer bill language with amendments consistent with the concerns raised by stakeholders to ensure that the changes are technical and clarifying in nature, and 2) adopt the trailer bill language related to maintaining funding past 2022 to pay for the next phase of their construction program.

3900 AIR RESOURCES BOARD

Issue 4: Implementation of Volkswagen Consent Decree

Governor's Proposal. The Governor's budget proposed $2.3 million (including contract funding of $125,000, annually, for five years) and 14 positions to administer and implement the provisions of the Volkswagen Consent Decree entered by the court on October 25, 2016. Of the $2.3 million, $1.8 million and 11 positions will be funded from the Air Pollution Control Fund, to be repaid by state penalty fees from Volkswagen, and $490,000 and three positions will be funded by reimbursements from Volkswagen's Environmental Mitigation Trust Fund pursuant to Appendix D of the consent decree.

This proposal is meant to allow the Air Resources Board (ARB) to fulfill its obligations under the consent decree. Appendix B of the consent decree requires implementation of vehicle recalls requiring evaluation and testing of reengineered engine and emission controls as well as ongoing monitoring of recall implementation. Appendix C of the consent decree requires ARB review and approval of VW's ZEV Investment Plans, as well as coordination and review of investments throughout implementation. Appendix D of the consent decree requires the Lead Agency, acting on behalf of the state, to develop and administer projects funded by the Environmental Mitigation Trust that deploy zero- and near zero emission heavy-duty vehicles and equipment to reduce Nitrogen Oxide (NOx) emissions. ARB expects that the Governor will identify them as California's Lead Agency to implement Appendix D.

Subcommittee Action. This issue was heard in subcommittee 2 on April 27.

Staff Comments. Although the ARB will require resources to fulfill its responsibilities related to the consent decree, there have been concerns raised related to VW's ZEV Investment Plan related to the appropriate role of the Legislature and investments in disadvantaged communities.

Staff Recommendation. Reject the proposal to ensure further deliberation in Conference Committee.

5180 DEPARTMENT OF SOCIAL SERVICES

Issue 5: Foster Youth Pregnancy Prevention

Legislative Proposal. The John Burton Advocates for Youth and others request $2.88 million General Fund in 2017-18, and $2.58 million General Fund ongoing, and accompanying trailer bill language, to prevent unintended pregnancies among foster youth by ensuring foster youth participate in state-mandated comprehensive sexual health education in California public schools; requiring social workers to document that they have informed foster youth of their reproductive rights; and requiring that training for social workers, caregivers, and judges include how to address reproductive health with foster youth.

Subcommittee Action. The subcommittee heard and discussed this item during its May 4, 2017 hearing and took no action.

Staff Comments. More than half of California foster youth have been pregnant at least once by age 19, which is approximately 2.5 times higher than that of youth not in foster care. In early 2016, DSS convened a group of experts to develop a statewide plan to address unplanned pregnancy in foster care. In October of 2016, DSS issued a document entitled "California's Plan for the Prevention of Unintended Pregnancy for Youth and Non-Minor Dependents."

Staff Recommendation. Approve funding for proposal and trailer bill as placeholder.

8260 CALIFORNIA ARTS COUNCIL

Issue 6: Armenian American Museum Funding

Legislative Proposal. The proposal includes a $1 million (General Fund) augmentation for the next three fiscal years to fund the development of the Armenian American Museum. The funding for the museum would flow through the California Arts Council.

Subcommittee Action. The proposal was heard on May 18, 2017 and held open.

Staff Comment. The Armenian American Museum is a developing project in Glendale, California. The museum will serve as a cultural campus that enriches the community, educates the public on the Armenian American story, and empowers individuals to embrace cultural diversity. The museum will feature a permanent exhibit that explores the Armenian and Armenian American experience, and will also host changing exhibits on a range of topics related to California's immigrant populations.

Staff Recommendation. Approve as proposed.

8880 FINANCIAL INFORMATION SYSTEM FOR CALIFORNIA

Issue 7: Support for Equipment Purchases

Governor's Proposal. The Governor has proposed budget bill language that would allow for an increase in Department of Financial Information System for California (FI$Cal) for unanticipated customer service costs and equipment purchases. The augmentation would occur upon approval of the Department of Finance (DOF) and notification of the Joint Legislative Budget Committee. The revised language is:

> *The Director of Finance may augment this item by an amount not to exceed $3 million for unanticipated customer service costs and equipment purchases. Any increase due to an unanticipated customer service cost or equipment purchase shall not exceed the total estimated cost of the request, as provided in writing to, and approved by, the Department of Finance. Any augmentation of this item shall be reported in writing to the chairpersons of the fiscal committees in each house and the Chairperson of the Joint Legislative Budget Committee within 30 days of the date the augmentation is approved.*

Subcommittee Action. This item was heard in Subcommittee No. 4 on May 18th and held open.

Staff Comment. Staff was concerned about the open-ended nature of the language and did not recommend approving as proposed. FI$Cal and the DOF reworked the provisional language to place additional parameters around the magnitude of any augmentation. The change would require DOF to approve and notify the Joint Legislative Budget Committee for any additional amount, not to exceed $3 million.

Staff Recommendation. Adopt revised budget bill language

8955 DEPARTMENT OF VETERANS AFFAIRS (CALVET)

Issue 8: Veterans Homes Greater Los Angeles and Ventura County Bed Conversion

Governor's Proposal. The May Revision includes an augmentation of 12.1 positions in 2017-18, and 20.5 positions and $868,000 (General Fund) annually thereafter, for the Veterans Home of California - Greater Los Angeles and Ventura County to convert 84 transitional housing program beds back to the skilled nursing facility level of care. This proposal also includes the redirection of 46.5 existing positions and $4.7 million (General Fund) in the CalVet budget for the Adult Day Health Care programs, also known as Community Based Adult Services (CBAS), in Lancaster and Ventura.

Subcommittee Action. The proposal was heard on May 18, 2017 and held open.

Staff Comment. Approval of this proposal will help to shorten the significant waitlist for skilled nursing facility beds across the Veterans Homes, and will return the transitional housing beds back to their intended purpose. Staff has no concerns with the proposal.

Staff Recommendation. Approve as proposed.

0000 BUDGET CONTROL SECTIONS

Issue 9: Control Section - 8.88 Adjustments To FI$Cal Budget

Governor's Proposal. The Governor requests to revise the amount cited in C.S. 8.88, corresponding with FI$Cal's budget, and specifying allowable assessments to special funds and non-governmental cost funds to fund the project. As part of the May Revision, the special funds and non-governmental cost funds were augmented for employee compensation and staff benefits (related to the May Revision 9800 letter) resulting in an increase of $32,000 ($21,304,000 from $21,272,000). The revised language reads:

> *Notwithstanding any other provision of law, a sum of $~~21,272,000~~ 21,304,000 is appropriated from various special and nongovernmental cost funds to the Financial Information System for California (FI$Cal) Project. The Director of Finance is authorized to adjust these appropriations to conform with approved adjustments to Item 8880-001-9737 via other authority. These appropriated funds shall be transferred to the FI$Cal Internal Services Fund for payment of costs to replace the systems that support the state's business operations. Upon order of the Director of Finance, in terms of timing and amounts, the Controller shall transfer from these funds sufficient amounts to pay for the authorized FI$Cal Project costs that are attributable to such funds. These transfers shall be treated as expenditure transfers and shall not exceed the total authorized for the FI$Cal Project that is attributable to those funds.*

Subcommittee Action. This item was not heard in subcommittee.

Staff Comment. Staff has no concerns with this proposal.

Staff Recommendation. Adopt revised budget bill language

Issue 10: Control Section - 12.00 State Appropriations Limit

Governor's Proposal. The budget bill will be amended to reflect the updated change in the State Appropriations Limit (SAL) by applying the growth factor of 4.22 percent. Conforming action regarding the Administration's estimated appropriations limit will be taken in Conference Committee.

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

Staff Comment: Staff has no concerns with this technical change.

Staff Recommendation: Approve the revised State Appropriations Limit control section.

Issue 11: Control Section - 15.14 Greenhouse Gas Reduction Fund Allocations

Governor's Proposal. This control section of the budget provides the Director of Finance the authority to allocate up to $1.2 billion from the Greenhouse Gas Reduction Fund for programs and projects that reduce greenhouse gas emissions, as specified, if urgency legislation is enacted that confirms the Air Resource Boards authority to administer cap and trade auctions beyond 2020.

Subcommittee Action. Not heard in subcommittee

Staff Comment: It is premature to include such authority in the budget as the determination of how Greenhouse Gas Reduction Fund appropriations are made should be consider upon agreement of a structure for a post-2020 cap and trade program.

Staff Recommendation: Reject this control section.

Issue 12: Control Section - 35.50 General Fund Revenues

Governor's Proposal. This control section of the budget provides conforms the total resources available to the General Fund for a fiscal year before any transfer to the Budget Stabilization Account. The amounts in this control section will conform to the adopted Senate budget.

Subcommittee Action. Not heard in subcommittee

Staff Comment: Staff has no concerns with this technical change.

Staff Recommendation: Approve the General Fund revenues control section.

ITEMS PROPOSED FOR DISCUSSION AND VOTE

0000 STATE TAXES AND REVENUES AND LOCAL PROPERTY TAXES

Issue 13: State Taxes and Revenues

Legislative Proposal. The Senate's plan includes revenues estimated by the Legislative Analyst's Office (LAO) that are expected to be about $975 million higher than the Administration's May Revision in the current year and about $81 lower in the budget year, for a two-year difference of about $900 million. The difference between the LAO and the Administration are largely based on assumptions regarding the personal income tax. The LAO forecasts healthy growth in taxable wages over the next few years, largely due to increased wages as a result of tightening labor markets. In addition, the LAO forecast includes a short-term boost in capital gains realizations and associated taxes. LAO's personal income tax forecast is $1.2 billion higher than the Administration's over the two years, corporation taxes about $671 million lower, and sales and use taxes $344 million higher.

Subcommittee Action. This issue was not heard in subcommittee.

Staff Comments. The LAO forecasted revenue reflects reasonable assumptions regarding the underlying economy and expected growth trends over the next several years.

Staff Recommendation. Adopt the Legislative Analyst's Office's General Fund revenues in the 2017-18 budget, and incorporate these revenues for the purposes of calculating amounts for Proposition 2 debt payoff and reserve deposits.

Issue 14: Local Property Taxes

Legislative Proposal. The Senate budget plan includes estimates by the LAO of property tax revenues that offset Proposition 98 General Fund spending. The LAO forecasts property tax revenues that will offset General Fund education spending will grow 6.1 percent in 2016-17 and 5.0 percent in 2017-18. This reflects the LAO'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 $19.7 billion in 2015-16, $20.9 billion in 2016-17 and $21.9 billion in 2017-18.

Subcommittee Action. This issue was not heard in subcommittee.

Staff Comment. The LAO assumes assessed value growth rates of 6.0 percent in 2015-16, 5.5 percent in 2016-17 and 5.6 percent in 2017-18. The revenues derived from these assumptions that benefit the General Fund by offsetting the state's obligation to satisfy the Proposition 98 vary somewhat from the Administration's. LAO's estimated offsetting property tax revenues are higher by about $100 million in 2016-17, $170 million in 2018-19 and $244 million in 2019-20.

Staff Recommendation. Adopt the LAO estimates for property tax revenues and allocations.

0000 MULTIPLE DEPARTMENTS

Issue 15: Cannabis Implementation

Governor's Proposal. The May Revision proposed $43.2 million and 201 positions in 2017-18 ($94.6 million total including Governor's budget proposals), primarily from the Cannabis Control Fund, across seven departments: 1) Fish and Wildlife, 2) State Water Resources Control Board, 3) Public Health (DPH), 4) Food and Agriculture, 5) Pesticide Regulation, 6) Cannabis Control Appeals Panel, and 7) Department of Consumer Affairs. The May Revision also proposes budget bill language allowing DPH to increase their resources by $2.3 million and 20 positions upon providing notice to the Joint Legislative Budget Committee. The following chart from the LAO displays the costs by department over the next three fiscal years.

Governor's 2017-18 May Revision Budget Proposals for Cannabis
(In Millions)

Department	2017-18	2018-19	2019-20	2020-21 and ongoing
Fish and Wildlife	$17.2	$13.3	$13.3	$10.3
State Water Resources Control Board	9.8	13.5	13.5	12.8
Public Health	9.3	8.3	8.7	8.0
Food and Agriculture	3.9	1.3	1.3	0.0
Pesticide Regulation	1.3	2.3	2.3	0.0
Cannabis Control Appeals Panel	1.0	1.1	1.1	1.1
Consumer Affairs	0.7	0.7	0.7	0.0
Totals	**$43.2**	**$40.5**	**$40.9**	**$32.2**

In addition, based on a recalibration of vacancies and personnel, the Administration revised its 2017-18 request for the Board of Equalization (BOE) from $5.4 million and 22 positions, to $2.7 million and 3.9 positions and the redirection of $2.5 million and 16.1 vacant positions. The revised five year request for the BOE is for $851,000 in 2018-19, $744,000 in 2019-20, $766,000 in 2020-21 and $766,000 in 2021-22.

The Administration has also proposed trailer bill language (TBL) to blend the various components of the regulatory structures for medicinal and adult use cannabis to avoid duplicative costs and provide clarity for licensees, regulatory agencies, and the public. The proposed TBL seeks to clarify and enhance the Medical Cannabis Regulation and Safety Act, the Compassionate Use Act (Proposition 215), and the Adult Use of Marijuana Act (Proposition 64), by providing a clear regulatory structure and eliminating ambiguity.

The Governor's budget included a total of $51.4 million and 190 positions for cannabis implementation across four departments in the 2017-18 fiscal year, as displayed by the following chart from the LAO.

Figure 3

Summary of Governor's 2017-18 Budget Proposals for Cannabis Implementation

(Dollars in Millions)

Department	2017-18	2018-19	2019-20	2020-21 and After
Consumer Affairs	$22.5	$30.9	$30.4	$30.2
Food and Agriculture	22.4	16.1	16.1	0.0
Board of Equalization[a]	5.4	2.7	2.1	2.0
Public Health	1.0	0.1	-0.2	-0.2
Totals	**$51.4**	**$49.8**	**$48.4**	**$32.1**
	Positions			
Department	**2017-18**	**2018-19**	**2019-20**	**2020-21 and After**
Consumer Affairs	120.0	188.0	205.0	205.0
Food and Agriculture	50.8	60.0	60.0	0.0
Board of Equalization[a]	22.0	21.3	17.4	16.9
Public Health	-3.0	-3.0	-3.0	-3.0
Totals	**189.8**	**266.3**	**279.4**	**218.9**

[a] Budget proposal also identified $1.1 million and 1.9 positions for the Board of Equalization in 2016-17.

The budget also included a General Fund loan to the Cannabis Control Fund of $62.7 million. The May Revision increases this loan by $13.9 million, for a total of $76.6 million.

The significant May Revision adjustments for cannabis are:

Department of Fish and Wildlife - $17.2 million from multiple fund sources and 63 positions to support the development and implementation of the regulatory programs by the California Department of Food and Agriculture (CDFA) and the State Water Resources Control Board (Water Board). The Department will consult on fish and wildlife considerations related to the development of regulations and guidelines by CDFA and the Water Board, provide law enforcement to support regulatory compliance efforts, and issue Lake and Streambed Alteration Permits, or notifications that a permit is not needed, for each proposed cannabis cultivation site. Beginning in 2018‑19, the Department's General Fund appropriation level will be adjusted upward consistent with the requirements of Proposition 64.

Water Board - $9.8 million from multiple fund sources and 65 positions (increasing by $3.7 million and 20 positions in 2018-19) to develop a statewide water quality permit and expanded water rights registration process for cannabis cultivation. These resources will allow the Water Board to expand its water quality permitting program statewide, develop interim and long‑term instream flow policies, process water right registrations, and enforce cannabis‑related water rights.

Department of Pesticide Regulation - $1.3 million Cannabis Control Fund to develop and update guidelines for pesticide use on cannabis, prepare training programs and outreach materials to inform cultivators and protect workers during the cultivation and harvesting processes, and evaluate requests for Special Local Needs pesticide registrations. In 2018-19 and 2019-20, the allocation increases by $1 million annually for County Agricultural Commissioners to provide training, outreach, and education to industry regarding the proper and safe use, handling, and disposal of pesticides at cultivation sites.

Cannabis Control Appeals Panel - $1 million Cannabis Control Fund and eight positions to provide the necessary resources for the operations of the Appeals Panel to effectively review all appeals related to cannabis licensing decisions.

Bureau of Cannabis Control - $664,000 Cannabis Control Fund and five positions for environmental impact review activities as required under the California Environmental Quality Act.

Department of Public Health - $9.3 million Cannabis Control Fund to implement cannabis manufacturer regulations, licensing, enforcement, training, and information technology activities by the January 1, 2018 statutory deadline. Provisional language is also proposed to provide DPH flexibility to increase resources if the licensing workload is higher than estimated.

Department of Food and Agriculture - $3.9 million Cannabis Control Fund and 10 positions for required environmental impact review activities. The funding also will support information technology projects and cooperative agreements with County Agricultural Commissioners for cannabis cultivation licensing, inspection, and enforcement.

Subcommittee Action. This item was discussed in the Joint Hearing of Subcommittees No. 2, 3 and 4 on May 4th and held open.

Staff Comment. There are many dynamics and moving pieces at play in trying to determine the appropriate level of resources that will be required for state entities to perform the oversight, regulatory, and enforcement responsibilities related to the development and implementation of a regulatory framework for medicinal and adult recreational use of cannabis. These include, among many others: 1) a limited timeline (January 1, 2018), 2) the need to resolve issues in order to adopt legislation that sets the ultimate framework that they will be working within, 3) uncertainty on the impact of federal policy decisions, 4) uncertainty of market size and growth, and 5) the need to implement licensing and a track and trace information technology systems. At the same time, the state must be prepared to perform its responsibilities as this new industry takes shapes to ensure that consumers and the public are adequately protected. Because of this, a reasonable approach could be to provide the Administration with the resources that are being requested, however, only for a limited-term to ensure that the Legislature is provided with an opportunity to review the overall resource needs once the medical and adult recreational cannabis use regulatory structure has been in place for an amount of time sufficient to make well-informed decisions moving forward.

Staff Recommendation. 1) Reject Governor's January proposal for the Board of Equalization and approve the revised request and funding for BOE on a three-year limited-term basis.

2) Approve all other Governor's budget and May Revision cannabis proposals on a three-year limited term basis.

3) Similar to what is provided for the Department of Public Health, adopt budget bill language for the Bureau of Cannabis Control to allow them to augment their resources by up to 10 positions upon notification of the Joint Legislative Budget Committee.

4) Adopt budget bill language to require the departments implementing new cannabis-related IT projects - DCA, CDFA, and DPH - to provide legislative staff with quarterly briefings on the status of these projects.

5) Adopt place holder trailer bill language.

6100 DEPARTMENT OF EDUCATION
6870 CALIFORNIA COMMUNITY COLLEGES

Issue 16: Proposition 98 Package

Legislative Proposal.

The Senate Budget Plan assumes the Legislative Analyst's Office (LAO) revenue and local property tax estimates. As a result, the Senate Proposition 98 package funds K-14 education at the 2017-18 Proposition 98 guarantee level of $74.1 billion. The Senate Proposition 98 package overappropriates the Proposition 98 minimum guarantee in 2015-16 by $433 million and funds at the Proposition 98 guarantee level of $71.5 billion in 2016-17. The Senate plan provides $427 million in settle-up payments for 2016-17. Similar to the May Revision, the package does not include expenditure deferrals and notwithstands supplementary Test 3B payments.

For K-12 education, the Senate package includes LCFF implementation funding of almost $1.2 billion in 2017-18 and $770 million in discretionary funding to be allocated to local educational agencies in the budget year. For California Community Colleges, the Senate package includes $183.6 million in unallocated base funding and $87.1 million in deferred maintenance funding to be allocated in the budget year.

The Senate package also includes technical changes to budget act items to enact the proposed Proposition 98 changes and scores additional one-time savings.

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 in the budget year. The Senate plan also recognizes the need to allocate all 2017-18 funding in the 2017-18 year for local educational agencies and community colleges to address current local needs, rather than delaying the payment until 2019.

Staff Recommendation. Adopt the Senate Proposition 98 Package.

6100 DEPARTMENT OF EDUCATION
5180 DEPARTMENT OF SOCIAL SERVICES

Issue 17: Early Education and Child Care

Governor's Proposal. The Governor's budget includes $3.1 billion total funds (approximately $1.1 billion Proposition 98 General Fund; $1 billion federal funds; and $1 billion 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	$361
Stage 2	$503
Stage 3	$298
Subtotal	$1,162
Non-CalWORKs Programs	
General Child Care	$360
Alternative Payment	$292
Other	$37
State Preschool	$1,240
Totals	$3,092

The Governor's budget did not include expected additional funding for rate increases and preschool slots in the 2017-18 year, delaying a 2016-17 budget agreement by one year. The May Revision restored the commitment to the budget agreement and included an increase over the January proposal of:

- $68 million to annualize the 10 percent Standard Reimbursement Rate (SRR) increase intended to begin January 1, 2017.
- $93 million to increase the SRR an additional six percent, beginning July 1, 2017.
- $42 million to increase the Regional Market Rate (RMR) to the 75th percentile of the 2016 regional market survey, starting January 1, 2017. This includes a temporary hold harmless provision so no provider receives less in 2017-18 than it receives under current rates.
- $29 million for cost-of-living adjustments for non-CalWORKs child care and preschool programs.
- $8 million to add 2,959 full-day State Preschool slots at local education agencies, starting April 1, 2018.

In addition, the Governor included adjustments for caseload, cost of care, growth, and COLA, as well as technical adjustments to align to available federal funds, including the federal 21st Century grant program.

The Governor also proposed trailer bill language to provide additional flexibility, including:

- Exempt State Preschool programs run by school districts from California Care Licensing Title 22 licensing requirements as long as they are located in a facility governed by K-12 building standards and are subject to the California Department of Education's (CDE's) requirements for staffing/environment (Title 5). The May Revision delays this change until July 1, 2018, in order to give CDE time to make necessary changes to regulations.

- Provide all State Preschool programs more flexibility in meeting minimum requirements for staffing ratios and teacher qualifications. Specifically, this would exempt State Preschool providers with QRIS Tier 4 or higher ratings from the State Preschool staffing ratio requirements. These providers, however, still would need to meet licensing requirements (have an adult-to-child ratio of 1:12). Similarly, for State Preschool programs with lower QRIS ratings or no rating, allow classrooms taught by a teacher with a Multiple Subject Teaching Credential and 24 units of ECE (or comparable experience) to operate with an adult-to-child ratio of 1:12 (rather than the 1:8 ratio currently required).

- Allow part-day State Preschool programs to enroll children with special needs whose families do not meet income eligibility criteria after all income eligible and interested children are served first. (Currently children with special needs are prioritized within each income eligibility level and LEAs may serve 10 percent of children in their program who are up to 15 percent above the income threshold).

Staff Comments. High-quality early learning and care provide proven positive impacts on a child's long-term health and well-being, as well as provide the necessary support for working families. These are the same children who are entering our K-12 education system and utilizing health care resources, meaning the impact from quality child care is magnified across multiple systems. Although the 2016-17 budget agreement built in investments in rates and preschool slots over a multi-year period, there are still needed investments in early care and implementation. Child care and preschool income eligibility requirements for families remain frozen, while the state's minimum wage is increasing. Families lose their eligibility for subsidized child care when they reach 70 percent of SMI (as calculated in 2007-08). This freeze impacts the ability of providers to quickly fill available slots and may destabilize families who lose care if their wages increase. Families may also face burdensome reporting requirements and timelines when there are changes in their schedules.

Staff Recommendation.

- Adopt the Governor's May Revision proposals to provide additional funding in 2017-18 for rates and slots pursuant to the 2016-17 budget agreement, and other workload and technical adjustments.

- Provide an additional $20 million in ongoing General Fund and adopt trailer bill language, to be refined as necessary, to update to income eligibility requirements for families. This includes ensuring families have 12 month eligibility in practice, and updating income eligibility for subsidized child care to at or below 70 percent of the most recent state median income and defining ongoing eligibility as at or below 85 percent of the most recent state median income.

- Adopt the Governor's proposal, and trailer bill language, to be refined as necessary, to exempt State Preschool programs run by school districts from California Care Licensing Title 22 licensing requirements effective in 2018-19.

- Adopt the Governor's proposal, and trailer bill language to be refined as necessary, to allow part-day State Preschool programs to enroll children with special needs whose families do not meet income eligibility criteria after all income eligible and interested children are served first.

- Reject the Governor's proposal to provide all State Preschool programs more flexibility in meeting minimum requirements for staffing ratios and teacher qualifications.

3860 DEPARTMENT OF WATER RESOURCES
3940 STATE WATER RESOURCES CONTROL BOARD

Issue 18: Making Water Conservation a California Way of Life

Governor's Proposal. The Governor's budget proposes trailer bill language to make water conservation a way of life. Specifically, the proposal would:

- Require the State Water Resources Control Board (SWRCB), in consultation with the Department of Water Resources (DWR), to set long-term urban water use efficiency standards by May 20, 2021.

- Authorize SWRCB, in consultation with DWR, to adopt interim standards for urban water conservation and water use by emergency regulation.

- Require SWRCB, prior to adopting emergency regulation, to provide at least 60 days for the public to review and comment on the proposed regulation, and to hold a public hearing.

- Provide SWRCB authority to issue cease-and-desist orders to enforce all adopted regulations in the same manner that they did for emergency conservation regulations during the drought.

- Authorize SWRCB to set emergency conservation regulations for one year instead of 270 days.

- Require urban water suppliers to submit a water shortage contingency plan and conduct a drought risk assessment every five years, and submit a water budget forecast annually.

- Expand existing requirements to require agricultural water suppliers providing water to over 10,000 irrigated acres of land to prepare, adopt, and submit plans by April 1, 2021, and every five years thereafter.

- Require agricultural water suppliers to:
    - Develop an annual water budget for the agricultural water service area.
    - Identify agricultural water management objectives and implementation plans.
    - Quantify measures to increase water use efficiency, and
    - Develop an adequate drought plan for periods of limited supply.

In addition, the May Revision proposed five positions for the SWRCB to establish a new conservation unit within the Office of Research, Planning, and Performance to support efforts consistent with the April 2017 report "Making Water Conservation a California Way of Life."

Subcommittee Action. This issue was not heard in the subcommittee.

Staff Comments. There are eight measures moving through the legislative process that seek to improve water conservation. All eight measures passed out of the Assembly Committee on Water, Parks, and Wildlife on April 25, 2017. Some of the bills propose a very similar approach to the trailer bill and some propose competing approaches. Virtually all of the proposed language in the trailer bills is contained within Assembly Bills 1667, 1668, and 1669 (all authored by Assembly Member Friedman). Given the significant policy changes presented by this proposal, the policy process is the appropriate venue for consideration.

Staff Recommendation. Reject the trailer bill and the implementing positions.

3900 AIR RESOURCES BOARD

Issue 19: Clean Freight Funding

Legislative Proposal. $100 million from the Trade Corridor Enhancement Account has been proposed for the deployment of zero and near-zero emissions freight-related equipment, including but not limited to heavy duty drayage trucks, cargo handling equipment, and ship emissions capture technology.

Subcommittee Action. This issue was not heard in the subcommittee.

Staff Comments. Goods movement is the greatest source of air pollution, especially near freight hubs like ports. Stakeholders agree that massive amounts of incentive funds will be needed to replace older dirtier diesel engines with advanced technology clean vehicles and equipment, but available dollars are scarce. As in SB 132 (Committee on Budget and Fiscal Review), Chapter 7, Statutes of 2017, Section 4 ($50 million warehouse program), this proposal would provide funding to be allocated by the California Air Resources Board on a competitive basis with a one-to-one match required. Only the cleanest available technology should be eligible, and funds would be used for early compliance with regulatory standards or for going above and beyond compliance.

Staff Recommendation. Approve the proposal.

4260 DEPARTMENT OF HEALTH CARE SERVICES

Issue 20: Allocation of Proposition 56 Tobacco Tax Revenue

Governor's Proposal. The Governor's January budget and May Revision propose to allocate approximately $1.3 billion of revenue from the tobacco tax imposed pursuant to Proposition 56 to fund growth in the Medi-Cal program. According to the Administration, the revenue is specifically allocated to expenditure growth in existing Medi-Cal programs for base managed care capitation payments, base dental expenditures, high-cost drugs, drug treatment and specialty mental health programs.

Subcommittee Action. This issue was heard in Subcommittee No. 3 on May 18th. The subcommittee rejected the Governor's proposed allocation of Proposition 56 revenue to growth in Medi-Cal.

Staff Comments. The Administration asserts its allocation of Proposition 56 revenue to expenditure growth in existing Medi-Cal programs is consistent with the legal provisions of the initiative. However, this allocation to expenditures that would have otherwise been funded by the state's General Fund is inconsistent with the clear intent of the initiative, which was meant to augment and improve the delivery of health care services to the poorest and most vulnerable residents of California.

The proposed Senate package for Proposition 56 revenues contains targeted investments of $348.5 million in 2017-18, growing to $1.1 billion by 2020-21, to improve access to necessary medical care for Medi-Cal beneficiaries. These investments, which are focused on the Medi-Cal services most in need of improvement or other support, are as follows:

- **High-Need Specialty Access Pool**. The proposed Senate package allocates $150 million in 2017-18, growing to $700 million in 2020-21 and annually thereafter, for a high-need specialty access pool. The pool is to be distributed for rate increases for services provided by physicians, in consultation with stakeholders and the Legislature, for high need areas and specialty services in a manner that is consistent with the results of the Access Assessment study required by the Medi-Cal 2020 waiver, network adequacy standards established to conform to federal requirements, or to more closely align Medi-Cal rates with those in the Medicare program.

  $150 million in 2017-18
  $400 million in 2018-19
  $600 million in 2019-20
  $700 million in 2020-21, and annually thereafter

- **Dental Provider Reimbursements**. The Medi-Cal program has experienced long-standing problems providing adequate dental services to beneficiaries, particularly children. The proposed Senate package allocates $130 million, beginning in 2017-18, for increasing reimbursement rates to dental providers. This investment will improve access and utilization of covered dental services by Medi-Cal beneficiaries and lead to better health and other outcomes.

$130 million annually

- **Family Planning Reimbursements.** Access to family planning services for Medi-Cal beneficiaries provides significant health and economic benefits. Family planning service providers are facing significant uncertainty regarding the future of federal funding. The proposed Senate package allocates $50 million annually to improve reimbursements to family planning providers.

  $50 million annually

- **Other Rate Adjustments**. The proposed Senate package allocates $18.5 million to the following additional rate adjustments:
  - **Intermediate Care Facilities-Developmental Disabilities** - $14.5 million annually to re-base reimbursement rates frozen for several years.
  - **AIDS Waiver** - $4 million annually to align reimbursement rates in the AIDS Waiver with other home- and community-based services waiver programs in Medi-Cal.

  $18.5 million annually

- **Restoration of Full Dental Benefits**. The proposed Senate package allocates $34.5 million in 2018-19 and $69 million annually thereafter, to restore the remaining dental benefits subject to elimination during the recession. According to this schedule, these benefits would be restored on January 1, 2019.

  $34.5 million in 2018-19
  $69 million in 2019-20 and annually thereafter

- **Restoration of Other Optional Benefits**. The proposed Senate package allocates $18.4 million in 2018-19, and $36.8 million annually thereafter, to restore the other optional benefits subject to elimination during the recession. These benefits include optical benefits, audiology, incontinence creams, podiatry, and speech therapy. According to this schedule, these benefits would be restored on January 1, 2019.

  $18.4 million in 2018-19
  $36.8 million in 2019-20 and annually thereafter

- **Full-Scope Medi-Cal Coverage to Age 26 Regardless of Immigration Status**. The proposed Senate package allocates $63.1 million in 2018-19, and $85.8 million annually thereafter, to provide full-scope Medi-Cal coverage to all individuals up to age 26 regardless of immigration status, beginning July 1, 2018.

  $63.1 million in 2018-19
  $85.8 million in 2019-20 and annually thereafter

Staff Recommendation. Approve the Senate Package.

5180 DEPARTMENT OF SOCIAL SERVICES

Issue 21: CalWORKs Administration and Services

Governor's Proposal. The Governor's budget proposes to reduce the CalWORKs Single Allocation by $200 million in 2017-18. The May Revision proposes to reduce it by an additional $45 million in 2017-18, bringing the total reduction up to $245 million on top of a $160 million Single Allocation reduction in the current year.

The LAO believes that the Administration has overstated caseload, and that it will actually decline more than the May Revision projects. Under the LAO's estimates, there are $55 million less in anticipated grant costs.

Advocates have requested that counties be allowed to offer mental health and substance abuse services to children in the program, and propose to align statutory language on CalWORKs mental health services in the Welfare and Institutions Code with related statute on CalWORKs substance abuse services that permits county human services to contract with community-based providers for assessments under specified circumstances.

Subcommittee Action. The subcommittee heard and discussed the Single Allocation and LAO caseload items during its April 20, 2017 and May 17, 2017 hearings, and took no action. The advocate proposal on mental health was not heard in subcommittee. The subcommittee voted to eliminate the Statewide Fingerprint Imaging System (SFIS) used in CalWORKs for savings of approximately $8 million General Fund in 2017-18, as well as to fund $3.7 million General Fund for the integration of the Online CalWORKs Assessment Tool (OCAT), and to adopt placeholder trailer bill language to establish a new performance outcomes system for the program.

Staff Comments. The CalWORKs Single Allocation reflects the cost to administer the CalWORKs program and provide employment services and Stage One Child Care. Funding for each category within the Single Allocation is based on different methodologies that adjust funding from prior years based on caseload projections and assumed costs per case. Advocates are concerned that the methodology behind the Single Allocation is problematic. When the program sees dramatic swings in caseload, it makes it difficult for counties to ramp up quickly in years when caseload and funding increases, as well as when they have to make rapid cuts when caseload and funding drops. With the latest proposed cuts, counties will likely be forced to enact immediate service reductions, eliminate positions, and lay off existing staff.

Staff Recommendation. Staff recommends approval of the following actions related to CalWORKs:

- Adopt the LAO caseload assumptions for purposes of budgeting for CalWORKs grants for a total savings of $55 million, redirect $8 million in General Fund savings from the elimination of SFIS, and add an additional $37 million General Fund to mitigate the impacts of proposed reductions to counties, for a total of $100 million in 2017-18.

- Direct the department to work with counties and consult with advocates on the revision of the Single Allocation budgeting methodology (proposal heard in subcommittee April 20, 2017).

- Adopt placeholder trailer bill language to provide additional flexibility to counties regarding the use of mental health and substance abuse funding, including allowing counties to offer services to children in the program.

5180 DEPARTMENT OF SOCIAL SERVICES

Issue 22: In-Home Supportive Services: Coordinated Care Initiative Elimination

Governor's Proposal. The Governor's budget proposal ended the Coordinated Care Initiative funding structure, which in turn, ended the In-Home Supportive Services (IHSS) Maintenance-of-Effort (MOE) and returned to the prior state-county cost sharing ratio, and shifted collective bargaining responsibility back to demonstration counties. The May Revision reflects an updated estimate of $592.2 million General Fund savings due to this shift of costs back to the counties, and to mitigate the effects on counties, the Administration has put forth a new proposal which stems from discussions with stakeholders during the spring. The proposal includes the following provisions:

- General Fund assistance for counties of $400 million in 2017-18, $330 million in 2018-19, $200 million in 2019-20, and $150 million in 2020-21 and ongoing.

- Redirection of the Vehicle License Fee growth from the Health, County Medical Services Program, and Mental Health Subaccounts to provide additional resources for IHSS to offset General Fund costs. The MOE structure would in place, with a new base for county costs and an annual inflation factor would be phased in. In year one, the inflation factor will be zero; in the second year, five percent; and in future years, will be on a sliding scale based on 1991 Realignment revenue performance.

- Returns collective bargaining to counties and maintains the 35 percent county share of negotiated increases and proposes that the state participation cap always be $1.10 above the hourly minimum wage. The cap would rise with inflation once the minimum wage reaches $15 per hour. For counties over the current state cap of $12.10, the state would agree to participate at its 65 percent share of costs up to a 10 percent increase in wages and benefits over three years. Also, beginning July 1, 2017, if a county does not conclude bargaining with its IHSS workers within nine months, the union may appeal to the Public Employment Relations Board.

Subcommittee Action. The subcommittee heard and discussed this item during its March 2, 2017 and May 17, 2017 hearings and took no action.

Staff Comments. To date, the Administration has not provided draft trailer bill language to implement this proposal. As a result, significant details are not yet available. There are many outstanding questions, including what the long-term impacts will be for programs that rely on the redirected growth from realignment funds, how counties will fare in the out years once the growth funds go back to their original purposes, and whether the new MOE and bargaining structure reflect the appropriate balance of state and county control. However, this proposal does significantly mitigate the impact on counties, and provides stability in the form of the MOE and addresses various concerns from labor, and is representative of many conversations between the Administration and stakeholders.

Staff Recommendation. Approve trailer bill as placeholder, and include language that will require the Department of Finance, in consultation with the California State Association of Counties and other stakeholders, to prepare a report to the Legislature that evaluates the 1991 Realignment and the IHSS MOE structure and inflation factor on the long-term sustainability of the 1991 Realignment to ensure that the shift in fiscal responsibility for realigned programs continues to meet State and County priorities. The report shall be submitted to the Legislature within two years of the 2017-18 budget changes going into effect.

5180 DEPARTMENT OF SOCIAL SERVICES

Issue 23: Immigration Proposals

Governor's Proposal. The May Revision proposes to increase Immigration Services funding by $15 million General Fund one-time, for a total of $30 million General Fund in 2017-18 ($15 million one-time; $15 million ongoing), to further expand the availability of legal services for people seeking naturalization services or assistance in securing other legal immigration status. Various immigrant rights and civil rights organizations, joined by the Latino Legislative Caucus and the Asian Pacific Islander Legislative Caucus on various pieces, have made the following, related requests: 1) That there be and ongoing $30 million General Fund for affirmative immigration remedies and naturalization services including education, outreach, and application assistance be ongoing instead of one-time (this portion acknowledges the $15 million ongoing existing funding); 2) $31 million General Fund ongoing for removal defense services, including $1 million General Fund one-time to aid deported veterans with post-conviction relief and return; and 3) $545,000 General Fund one-time to support expanded legal training and resources. The request totals $61,545,000 million.

Subcommittee Action. The subcommittee heard and discussed these items during its April 20, 2017 and May 17, 2017 hearings and took no action.

Staff Comments. The Department of Social Services administers Immigration Services funding, a program which funds nonprofit services for low-income Californians eligible for citizenship or affirmative immigration remedies, including naturalization. Advocates point out that deportation protection through naturalization services are critical as immigrant communities face increased detentions and deportations under the federal government, and that state-funded defense counsel is also critical to ensure low-income non-citizen Californians have a fair shot in immigration court.

Staff Recommendation. Approve trailer bill as placeholder and a total of $45 million General Fund on-going to the Immigrant Services Program for the next three years. This would provide an additional $15 million for 2017-18 in addition to the $15 million provided in the May Revision, adding this combined additional $30 million in on-going funding to the current base of $15 million. This would raise the base to $45 million General Fund through 2019-20. Of this appropriation, $545,000 is a one-time set aside in the 2017-18 overall appropriation for legal resources and training to nonprofit legal services projects.

Trailer bill language should: 1) Expand the purpose of the program to facilitate due process to individuals in deportation proceedings. It is the intent of the Legislature that approximately two-thirds of the program funding be utilized for the purposes of the program as it has existed, and that around a third be used for this additional purpose; 2) Acknowledges and provides access to an expanded set of immigration remedies; 3) Provides that services may be provided to persons residing or formerly residing in California, allowing access to deported veterans; and 4) Facilitates service provision to underserved areas of the state with demonstrated community need and growing legal capacity.

0000 BUDGET RESERVE AND DEBT PAYMENTS

Issue 24: Deposits to the Budget Reserve and Payment on Debts

Governor's Proposal. Under the Administration's May Revision calculations, Proposition 2 captures a total of $3.5 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 $1.8 billion on paying down $252 million in special fund loans, $603 million in prior-year Proposition 98 costs known as "settle-up" and $235 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 2020-21. In addition, the Administration plans to pay $89 million for retiree health costs, $427 million for the payment on the proposed loan for a supplemental payment for state employee pensions, and $169 million for University of California employee pensions. Due to the dynamic nature of budgeting and changing fiscal circumstances, the pay-off schedule always changes somewhat from year to year.

Legislative Proposal. The proposed Senate plan makes the required deposit to the BSA, based on estimated revenues in the package. For the debt payment requirement, the Senate package will result in an increase in the amount of Proposition 2 funds available for debt repayment due to revenue assumptions, the Proposition 98 package, and assumptions on CalPERs payment plan. Additional resources in Proposition 2 funds will be used for earlier payment of special fund loans.

Subcommittee Action. This issue was heard in Subcommittee No. 4 on March 30th 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.

Staff Recommendation. Adopt Senate proposal.

0650 OFFICE OF PLANNING AND RESEARCH

Issue 25: Precision Medicine

Governor's Proposal. The Governor's budget proposes $10 million in General Fund in Fiscal Year (FY) 2017-18 for continued administration and investment in the California Initiative to Advance Precision Medicine (CIAPM).

Subcommittee Action. Budget Subcommittee No. 4 heard and discussed this item in its May 18th hearing, and held took no action.

Staff Comments. In April 2015, the Office of Planning and Research (OPR) launched the California Initiative to Advance Precision Medicine, with an appropriation of $3 million in FY 2014-15. The University of California, San Francisco, was selected as the lead partner to OPR, in collaboration with UC Health, which represents UC's academic medical centers and health professional schools.

The initial $3 million appropriation was used to support two precision medicine demonstration projects (awarded through a competitive, peer-reviewed process similar to the process used by the National Institutes of Health), an initial phase of an asset inventory database, one administrative position, and professional convenings related to grant making and policy development.

In FY 2016-17, an additional $10 million was appropriated to OPR to build on the initiative through additional competitive grant making, which resulted in six new demonstration projects receiving awards following a second statewide competitive, peer-reviewed process, and funding of other related activities, including contract and grant oversight, economic analysis of precision medicine, and the next phase of asset inventory. Follow-on funding for previously awarded projects is also allowed under this appropriation.

This request includes provisional language allowing OPR to award these funds in a non-competitive manner if they do not include demonstration projects in the proposed expenditure plan, effectively giving OPR the choice of managing the program in a competitive or non-competitive manner. Staff notes that this proposal is not consistent with previously-passed trailer bill language directing OPR to manage the program in a competitive manner.

Staff Recommendation. Approve the requested $10 million. Reject the proposed provisional language and adopt provisional language to align the program with the legislative intent that the program be operated in a competitive manner.

7730 FRANCHISE TAX BOARD

Issue 26: Earned Income Tax Credit Outreach

Legislative Proposal. This proposal would provide the Franchise Tax Board (FTB) $2 million for education and outreach efforts related to the California Earned Income Tax Credit (EITC) that was implemented in the 2015 tax year. Last year an equivalent amount was provided to FTB in the May Revision; no additional funding has been provided in the budget for 2017-18. The funds are directed to be used for education and outreach, as they were in the current year. The EITC provides a targeted, refundable credit for wage income (excluding self- employment) and focuses on the lowest-income Californians – households with incomes less than $6,580 if there are no dependents or $13,870 if there are three or more dependents. The state program complements the existing federal EITC and matches 85 percent of the federal credits up to half of the federal phase-in range and then tapers off relative to the maximum wage amounts. The proposal includes the following budget bill language:

> *In order to maximize participation and claiming of the Earned Income Tax Credit, $2,000,000 of the amount appropriated in Schedule (1) of this item should be allocated in a manner that emphasizes nonprofit and community-based organizations that provide increased awareness of the CA Earned Income Tax Credit and free tax preparation assistance to eligible families and individuals.*

Subcommittee Action. This issue was heard in Subcommittee No. 4 on May 11th, but no action was taken at that hearing.

Staff Comment. Participation in California EITC continues to lag. Despite efforts to reach the intended population, analysis suggests that a significant proportion of the population that is eligible for the program has not participated and additional outreach resources are warranted. As initially estimated, the program was expected to cost $380 million annually, beginning in 2015, and benefit an estimated 825,000 families and two million individuals. When adopted, the estimated mean household benefit was $460 per year, with the median benefit expected to be in the range of $200 to $250 per year. Based on actual data to date for tax year 2015, as of December 2016, the mean credit is $519, and the median credit is $202. The amount of EITC claimed and allowed in the 2015 tax year was approximately $200 million. Preliminary data for the most recent tax year (2016) also indicate that participation and usage are below expectations. In the current year, FTB collaborated with a wide breadth of government and non-government agencies to develop a detailed communication plan to reach California taxpayers who might qualify for both the federal and state credits.

Staff Recommendation. Approve additional resources for education and outreach for the EITC and budget bill language.

7760 DEPARTMENT OF GENERAL SERVICES (DGS)

Issue 27: R Street Parking Structure Acquisition

Governor's Proposal. The May Revision includes $1,660,000 (Service Revolving Fund) for the acquisition phase of the Sacramento Region R Street Parking Structure project. This request will authorize DGS, in partnership with the Capitol Area Development Authority (CADA), to acquire two parcels of land, located between Q, R, 8th, and 9th Streets, to allow for the construction of a new parking structure.

The request also includes TBL to: (1) authorize DGS to enter into an agreement with CADA to construct the parking garage at a cost not to exceed $30 million, (2) authorize DGS to enter into lease agreements necessary for the financing of the facility, (3) authorize the use of the California Infrastructure and Economic Development Bank Infrastructure Program to allow CADA to secure project financing, and (4) allow demolition of existing improvements. The TBL would authorize the department to charge state employees and the public for use of the structure, and would require the department to deposit parking revenues into the Motor Vehicle Parking Facilities Money Account. Funds in that account, upon appropriation by the Legislature, would be available to the department to make specified lease payments.

Subcommittee Action. The proposal was heard on May 18, 2017 and held open.

Staff Comment. While the LAO recommends rejecting this proposal without prejudice as it believes that a major new proposal is more appropriately proposed in January, staff will note that the department has adequately addressed all identified staff concerns.

Staff Recommendation. Approve as budgeted and adopt proposed TBL.

0250 JUDICIAL BRANCH

Issue 28: Legal Services Funding

Governor's Proposal. The Governor's proposed budget includes $15.9 million in funding for the Equal Access Fund ($10.4 million General Fund and $5.5 million Special Funds).

Staff Comments. Civil legal aid organizations provide free legal assistance to low-income Californians, people with disabilities, and seniors. Legal aid helps people with problems such as foreclosure, unemployment, domestic violence, health access, consumer debt, housing, and re-entry.

Federal Funding for Legal Services. The largest single funder of legal aid in the nation—and in California—is the federal government, largely through the Legal Services Corporation (LSC). Eleven of California's ninety-four legal aid programs receive LSC funding. California's share of LSC funding is approximately $41 million for 2017. California's community of legal aid programs also receive approximately $8 million in funding from the federal Older Americans Act and $28 million in a mix of many other smaller federal funds, including from the Department of Justice, Department of Education, and Office of the Violence Against Women grants.

Equal Access Fund. The Equal Access Fund (EAF) supports approximately 100 legal aid non-profits providing critical assistance to low-income Californians throughout the state. The EAF was established in 1999 with a $10 million ongoing General Fund appropriation; in subsequent years the EAF also began to receive a portion of court filing fees. As noted above, the Governor's budget contains a total of approximately $16 million ($10.4 million General Fund and $5.5 million special fund). Legal aid services providers argue that their funding remains unchanged despite significant increases in the number of clients who need their services. Providers further note that California was once 10th in the nation in state funding for legal services but has now fallen to 22nd in the nation. They further note that the State of New York provides $85 million per year for their legal aid programs.

Residual Funds from Class Action Law Suits. Often in the event of a class action law suit, there are leftover, unclaimed funds. Over 20 states currently redirect a percentage of those funds toward legal services. Under California law, the residual funds are provided to nonprofit organizations or foundations to support projects that will benefit the class or similarly situated persons, or that promote the law consistent with the objectives and purposes of the underlying cause of action; to child advocacy programs; or to nonprofit organizations providing civil legal services to the indigent.

In addition, given the heightened role of legal services attorneys and concerns about cuts to federal funding, the committee may wish to consider providing an ongoing General Fund augmentation.

Staff Recommendation. Augment the Equal Access Fund by $30 million ongoing General Fund. In addition, approve draft, placeholder trailer bill language specifying that 25 percent of residual funds from class action lawsuits will be deposited in the Equal Access Fund, 25 percent will be provided to the Judicial Council for collaborative court grants, and the remaining 50 percent shall be distributed as it is under current law.

0250 JUDICIAL BRANCH

Issue 29: Dependency Counsel Funding

Governor's Proposal. The Governor did not include any increases to dependency counsel funding in the proposed budget.

Staff Comment. When a child is removed from his or her home because of physical, emotional, or sexual abuse, the State of California assumes the role of a legal parent and local child welfare agencies are entrusted with the care and custody of these children. County child welfare works in partnership with the courts, attorneys, care providers, and others to meet desired outcomes of safety, permanency, and well-being for foster children. Through the dependency court, critical decisions are made regarding the child's life and future – i.e., whether the child will return to his or her parents, whether the child will be placed with siblings, and what services the child will receive.

Every child in the dependency court system is assigned his or her own attorney who represents that child's interests. Budget reductions over the years have increased the caseloads of children's attorneys. Children's attorneys represent, on average, 250 clients per year, far above the recommended optimal standard of 77 clients and maximum of 188 clients per attorney. Inadequate funding can impede services to children and families and may result in delays in court hearings, all of which undermines county child welfare's efforts for improved outcomes for children, such as reunifying children with their families, placing children with siblings, and finding a permanent home through adoption or guardianship.

For several years, the Legislature has worked to increase funding for dependency counsel but has remained largely unsuccessful. In the 2015-16 budget, the Legislature included and the Governor approved an $11 million General Fund augmentation to reduce the overall funding need from $33 million to $22 million. In addition, the Legislature shifted dependency counsel funding into its own budget item to ensure that those funds would remain dedicated to dependency counsel and could not be shifted to other funding priorities.

At the urging of the Administration, the Judicial Council was asked to develop a new funding methodology to determine the appropriate caseload and funding level for dependency attorneys. In addition, the Judicial Council was asked to begin redistributing funding among the courts to create a more equitable attorney-client caseload ratio throughout the different courts. The Judicial Council has completed the two phases of a three phase redistribution process.

Staff Recommendation. Augment the funding for dependency counsel by $22 million General Fund per year.

8260 ARTS COUNCIL
5225 DEPARTMENT OF CORRECTIONS AND REHABILITATION

Issue 30: Arts for At-Risk Youth

Governor's Proposal. The Governor's budget includes $8 million a year in General Fund for the Arts in Corrections program in the state's 35 adult prisons. In addition, the current budget includes $20.1 million ($8.3 million General Fund, $1.1 million Federal Trust Fund, $2.5 million special funds and $8.2 million reimbursements) and 19.2 positions to support the California Arts Council and its programs. This is a $4.8 million General Fund reduction over 2016-17 and a $6.8 million reduction to the grants provided by the Arts Council.

Subcommittee Action. Budget Subcommittee No. 4 restored the $6.8 million General Fund grants reduction proposed in the Governor's budget.

Staff Comment. While the Legislature and the Administration have worked to increase funding for rehabilitation programs in adult prisons significantly over the last few years, the same attention has not been paid to programming for youth in the state's juvenile justice facilities. As noted above, currently, the Arts in Corrections program is only available for adult inmates and the state does not provide an organized, formal arts program to the 700 juveniles confined to the four juvenile justice facilities. This is in contrast to the adult institutions that all have Arts in Corrections programs overseen by the California Arts Council.

Impact of Art Programs on At-Risk Youth. A 2012 National Endowment for the Arts research study used the data from four longitudinal databases to determine the relationship between arts involvement and academic and social achievements. Essentially, the report found that socially and economically-disadvantaged children and teenagers who have high levels of art engagement or arts learning show more positive outcomes in a variety of areas than their low arts-engaged peers. In fact, at-risk teenagers or young adults with a history of intensive arts experiences show achievement levels closer to, or in some cases exceeding, the levels shown by the general youth population.

State Supported Art Programs for At-Risk Youth. Through the California Arts Council, the state funds a number of art programs that benefit at-risk youth. For example, JUMP StArts grants support arts education programs for youth in the local juvenile justice system by funding artists-in-residence who work with juveniles in juvenile justice facilities, schools, and communities to teach them various forms of art from music to performing arts to visual arts. In addition, the artists-in-residence bring in other community artists to work with the juveniles on various art forms.

Staff Recommendation. Augment the Arts Council budget by $750,000 for JUMP StArts. In addition, adopt budget bill language expanding JUMP StArts to the three state juvenile facilities. This level of funding doubles the amount currently available for JUMP StArts and would allow for an expansion within the community, as well as creating new programs within the Division of Juvenile Justice.

5227 BOARD OF STATE AND COMMUNITY CORRECTIONS
0977 HEALTH CARE FACILITIES FINANCING AUTHORITY

Issue 31: Mental Health Infrastructure

Governor's Proposal. The Governor's budget proposes a reversion of $67.5 million General Fund in 2016-17. These funds were approved in the 2016 Budget Act for infrastructure grant funding to assist communities in providing mental health or substance use disorder treatment. In addition, the Governor's budget proposes a reversion of $17 million General Fund in 2016-17. These funds were approved in the 2016 Budget Act to increase the number of facilities providing a continuum of crisis services for children.

Staff Comment. As part of the jail facilities infrastructure package in the 2016 budget, the Legislature included a series of augmentations designed to reduce the number of people who end up involved in the criminal justice system. Among the many items contained in the package, the community infrastructure grants for mental health infrastructure and the children's crisis capacity infrastructure were the cornerstone and designed to reduce the number of people with mental illness who end up in the county jails and state prisons.

Staff Recommendation. Reduce the lease-revenue bond authority provided to the Board of State and Community Corrections through SB 844 (Committee on Budget and Fiscal Review), Chapter 24, Statutes of 2016, by $85 million and provide the Health Care Facilities Financing Authority with $85 million in lease-revenue bond authority to provide grants to counties to build infrastructure for mental health treatment for both adults and children. Specifically, $68 million will be provided for community mental health infrastructure grants and $17 million will be provided for children's crisis capacity infrastructure grants.