



COMMITTEE ON BUDGET & FISCAL REVIEW  
Room 5019, State Capitol  
Sacramento, CA 95814

**SENATOR MARK LENO, CHAIR**

**MAY REVISION HIGHLIGHTS**  
May 14, 2015

Staff of the Senate Budget and Fiscal Review Committee prepared the attached overview of the May Revision. More detailed program information follows these Highlights as described in the Table of Contents.

Please note that this is not a comprehensive analysis of the May Revision. Staff is currently working on detailed analyses for legislative hearings beginning May 18, 2015.

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**OVERVIEW OF GOVERNOR'S MAY REVISION**

On May 14, the Governor released his May Revision for budget year 2015-16. The Governor now projects budget year General Fund expenditures of \$115.3 billion, revenues of \$115.0 billion, and a general budget reserve of \$1.1 billion. Compared to January, the revenues represent an increase of \$1.7 billion and the reserve level an increase of \$579 million. In addition, the Governor adjusts some assumptions in the current year and budget year regarding expenditures in certain programs. The May Revision reflects a significant increase in the Proposition 98 guarantee, based on robust revenues and a significantly greater General Fund cost. The Governor's overall budgetary framework continues to be balanced over most of the forecast period and the budget plan would continue to reduce the budgetary and other obligations. The proposal continues to include a deposit to the Budget Stabilization Account (BSA) of three percent of revenues, with a diversion of half that amount to retire certain long-term budget debt.

The General Fund budget summaries for January and May are listed below:

**2014-15 and 2015-16  
General Fund Summary  
(Dollars in Millions)**

	January Budget		May Revision	
	2014-15	2015-16	2014-15	2015-16
<b>Prior Year Balance</b>	<b>\$5,100</b>	<b>\$1,423</b>	<b>\$5,589</b>	<b>\$2,359</b>
Revenues and Transfers	\$108,042	\$113,380	\$111,307	\$115,033
<b>Total Resources</b>	<b>\$113,142</b>	<b>\$114,803</b>	<b>\$116,896</b>	<b>\$117,392</b>
Non-Proposition 98	\$65,071	\$66,279	\$64,929	\$65,892
Proposition 98	\$46,648	\$47,019	\$49,608	\$49,416
<b>Total Expenditures</b>	<b>\$111,719</b>	<b>\$113,298</b>	<b>\$114,537</b>	<b>\$115,308</b>
<b>Fund Balance</b>	<b>\$1,423</b>	<b>\$1,505</b>	<b>\$2,359</b>	<b>\$2,084</b>
Encumbrances	\$971	\$971	\$971	\$971
Special Fund for Economic Uncertainties	\$452	\$534	\$1,388	\$1,113
<b>Budget Stabilization Account</b>	<b>\$1,606</b>	<b>\$2,826</b>	<b>\$1,606</b>	<b>\$3,460</b>

**Economic Forecast Somewhat Revised.** The Governor's economic forecast is largely unchanged from January, with steady improvement over the near and medium term. This reflects national trends, which has projected GDP increases of 2.8 percent in 2015 and 2.7 percent in 2016. Personal income in the state is expected to grow by 4.8 percent from 2014 to 2015, and 5.2 percent from 2015 to 2016. California's economy has performed steadily with respect to job creation since the sharp downturn, and as of February had gained private sector jobs in excess of those lost during the recession. Unemployment remains above the national average—as is typical for California—but also somewhat higher than the state's historical average. The average annual unemployment rate, which was 7.5 percent in 2014, is expected to drop to 6.5 percent through 2015, and down to 6.0 percent in 2016. California is expected to add jobs at a steady pace in the near to medium term. March 2015 marked the state's 56<sup>th</sup> consecutive month of non-farm job growth since 2010. The unemployment rate is expected to drop below 6 percent towards the end of 2016.

**Continued Revenue Improvements.** After accounting for transfers, revenues at the May Revision were expected to be nearly \$5.7 billion higher than the Governor's January expectations for the three-year period (2013-14, 2014-15 and 2015-16). Most of the increase—\$3.3 billion—is attributable to the current year. Revenue improvements are due largely to increases in personal income tax (PIT) revenue, and result largely from very strong withholding and increased quarterly payments. Quarterly payments are largely attributable to capital gains, dividends, and other one-time increases based on timing of their receipt. Withholding has outpaced wage growth, suggesting that a higher share of wage gains have gone to higher income earners with higher tax liabilities. Corporation taxes are also up slightly from January, reflecting higher cash receipts. Sales tax revenues are up modestly from the January forecast. Forecasts of local property tax revenues (an important part of meeting the Proposition 98 guarantee) are somewhat higher than forecast in January, with growth rates of 6.14 percent in 2014-15 and 5.52 percent for 2015-16. These are slightly higher than the rates forecast in January.

Overview of the May Revision of the 2015-16 Governor's Budget

The General Fund revenue forecasts for the May Revision and the January budget are compared in the following table:

**2014-15 and 2015-16  
General Fund Revenue Sources  
(Dollars in Millions)**

	<b>January Budget</b>		<b>May Revision</b>	
	<b>2014-15</b>	<b>2015-16</b>	<b>2014-15</b>	<b>2015-16</b>
<b>Source</b>				
Personal Income Tax	\$71,699	\$75,213	\$75,384	\$77,700
Sales and Use Tax	\$23,438	\$25,166	\$23,684	\$25,240
Corporation Tax	\$9,618	\$10,173	\$9,809	\$10,342
Other Revenues	\$4,893	\$4,048	\$4,036	\$3,605
<b>Total</b>	<b>\$109,648</b>	<b>\$114,600</b>	<b>\$112,913</b>	<b>\$116,887</b>

**Increase in General Fund Expenditures.** The overall General Fund expenditures by program area as proposed in January, and revised in May, are presented below:

**Expenditures by Agency  
General Fund  
(Dollars in Millions)**

	<b>January Budget</b>		<b>May Revision</b>	
	<b>2014-15</b>	<b>2015-16</b>	<b>2014-15</b>	<b>2015-16</b>
<b>Agency</b>				
Legislative, Judicial, Executive	\$3,007	\$3,131	\$3,017	\$3,180
Business, Consumer, Housing	839	639	843	623
Transportation	158	237	200	261
Natural Resources	2,497	2,561	2,558	2,490
Environmental Protection	78	68	87	65
Health and Human Services	30,490	31,929	30,046	31,811
Corrections and Rehabilitation	9,995	10,160	10,030	10,087
K-12 Education	47,121	47,173	49,659	49,285
Higher Education	12,947	14,063	13,267	14,195
Labor and Workforce	282	265	282	215
Government Operations	730	701	754	739
General Government	1,969	2,371	2,188	2,357
Supplemental Payment to ERBs	1,606	-	1,606	-
<b>Total</b>	<b>\$111,719</b>	<b>\$113,298</b>	<b>\$114,537</b>	<b>\$115,308</b>

## Key Features of the May Revision

- **Proposition 98 Guarantee and Investments in Education.** The May Revision forecasts significant changes to the Proposition 98 minimum guarantee, with a total increase of \$6.1 billion over the three-year period. Due to strong state revenue growth, General Fund costs will increase by \$5.5 billion over the three-year period, while increased property taxes in each year make up the balance. The overall funding plan for education builds upon the priorities in the January proposal and includes an additional \$2.1 billion in ongoing support for implementation of the Local Control Funding Formula and an additional \$2.5 billion to pay down mandate debt. The budget plan also includes an additional \$150 million over the January proposal for Career Technical Education Incentive Grants and \$42 million to support special education services for students with disabilities. Community Colleges will receive an additional \$786 million in Proposition 98 General Fund above the Governor's January proposal, which includes increased investments of \$142 million for an unallocated base increase, \$75 million for full-time faculty, \$15 million for student equity plans, and various one-time allocations of \$275 million to pay down the mandate backlog, and \$148 million deferred maintenance and instructional equipment, among others.
- **Higher Education Investment.** The May Revision proposal includes a \$662 million General Fund total increase of investment for higher education above the Governor's January proposal. The Governor continues to provide \$119 million to the University of California, but no longer makes this augmentation contingent on holding tuition and nonresident enrollment flat. Instead, UC has agreed to keep tuition flat through 2016-17 and will undertake a number of operational reforms. Most significantly, the Administration proposes to provide \$96 million to UC in 2015-16 and \$170 million in each of the next two years to cover its unfunded pension debt. Additionally, CSU will receive an unallocated base augmentation of \$38 million above the Governor's January proposal for a total of \$157 million. Community Colleges will receive additional amounts as noted above.
- **President's Executive Action on Immigration.** The May Revision includes \$62 million General Fund in 2015-16 (and \$200 million estimated General Fund upon full implementation) to provide Medi-Cal coverage to immigrants who gain Permanent Residence Under Color of Law status under

the President's executive actions. In November, the President announced several executive actions intended to allow certain undocumented immigrants to pass a criminal background check and pay taxes in order to temporarily stay in the U.S. without fear of deportation. The May Revision also includes \$5 million General Fund for the Department of Social Services to deliver grants to non-profit organizations that provide application assistance to undocumented immigrants eligible for deferred action. In addition, the May Revision proposes a voluntary two-year pilot program (\$148,000 General Fund) within the Labor and Workforce Development Agency to improve coordination and prevent abuses in the recruitment of temporary workers.

- **Earned Income Tax Credit.** The Administration proposes a refundable Earned Income Tax Credit (EITC) for households with earned income from employment not exceeding \$13,870 annually. The credit would benefit an estimated 825,000 families and reduce the state's revenue by \$380 million. The amount of the credit depends on income and number of dependents. The average credit is estimated to be \$460 a year, with a maximum credit (households with three or more children) of \$2,653.
- **Redevelopment Agency Wind-down, Part III.** The Administration has continued with legislation to bring the state redevelopment chapter to a close. The Administration's new version of the proposed statutory language begins with the January proposal (streamlining the approach to the review of enforceable obligations; clarifying and refining various provisions in statute; and adding new incentives for local governments), and adds some features that address outstanding issues, including the use of bond proceeds, treatment of pension bond obligations, and re-entered agreements. In addition, the proposal addresses other random local government issues, including: negative bailout counties, newly incorporated cities, and insufficient Educational Revenue Augmentation Funding (ERAF).
- **2015-16 Cap-and-Trade Expenditure Plan.** The Administration proposes to spend \$2.2 billion to further reduce emissions by providing additional resources for clean transportation and mass transit, energy efficiency, and renewable energy, waste reduction, and ecosystem restoration programs. The plan reflects a revised auction proceed estimate and a prudent reserve of \$500 million.

- **Additional Refinement to Drought Package Response.** The Administration proposes to spend \$2 billion on drought relief in addition to the \$1 billion passed earlier in the year in special legislation. Of this amount, over \$120 million is proposed from the General Fund for fire protection, disaster assistance, and other emergency response, \$1.7 billion is proposed from Proposition 1, mainly for water quality and water supply projects, and at least \$220 million is proposed from Cap-and-Trade funds.
- **Proposed Closure of State Developmental Centers.** The May Revision proposes to initiate the closure of state developmental centers. Under the Governor's proposal, Sonoma Developmental Center would close by the end of 2018; Fairview Developmental Center and the non-secure treatment portion of Porterville Developmental Center would close by 2021. The Governor provides \$49.3 million (\$46.9 million General Fund) to begin the development of resources necessary to support Sonoma Developmental Center residents in the community and for closure activities. The department will convene a task force to discuss alternative uses for the Sonoma Developmental Center property.
- **Prison Population Reduction.** The Administration's revised prison population projections assume a reduction of over 5,000 inmates in 2015-16 when compared to the January projections. The decline is driven primarily by the impact of Proposition 47, which reduced certain drug related crimes from felonies to misdemeanors. Due to the significant reduction, the Administration proposes returning 4,000 inmates from out-of-state prison facilities by June 2016.
- **Additional Changes Outside of Proposition 98.** The Governor has made a few small investments outside of Proposition 98. These General Fund investments include an additional \$16 million to stabilize trial court funding and \$5 million for the California Arts Council. In addition, the state will realize savings from the federal reauthorization of the Children's Health Insurance Program (CHIP) of \$381 million.
- **Continues Commitment to Debt Buy-Down.** As in the Governor's Budget, the May Revision continues the Governor's commitment to pay down budgetary debt and borrowing, including through the Proposition 2 mechanism. The following table shows changes to the Proposition 2 debts and the debt repayment plan in 2015-16.

**Debts and Liabilities  
Payments Under Proposition 2  
(Dollars in Millions)**

	<b>Outstanding Amount</b>	<b>January Payment</b>	<b>May Added Payment</b>
<b>Budgetary Borrowing</b>			
Special Fund Loans	\$3,028	\$965	\$537
Proposition 98 Settle-Up	1,512	256	0
Local Gov. Mandate Claims	0	0	0
<b>State Retirement Liabilities</b>			
State Retiree Health	71,773	0	0
State Employee Pensions	43,303	0	0
Teacher Pensions	72,718	0	0
Judges Pensions	3,358	0	0
CalPERS Deferred Payments	530	0	0
<b>UC Retirement Liabilities</b>			
Employee Pensions	7,633	0	96
Retiree Health	14,519	0	0
<b>Total</b>	<b>\$218,374</b>	<b>\$1,221</b>	<b>\$633</b>

**Risks Inherent in Budget Plan and Underlying Economics.** The economy has continued its moderate recovery and the Administration has taken a conservative approach in its revenue forecasting. Nevertheless, the May Revision notes continued economic risks as a result of potential corrections in the stock market and economic uncertainty abroad. The Administration has in the past also noted the slow pace of recovery and growing income inequality that could slow consumption and make it more difficult for people to save and invest. In addition, the Administration has previously indicated that although there are few signs of conditions that could curtail growth, the nation is already six years into a recovery—longer than the historic average. Globally, continued stagnation in Europe, the appreciating dollar and slowing growth in Asia could have an impact on the national—and California’s—economic growth trajectory.

## **CORRECTIONS, PUBLIC SAFETY, AND THE JUDICIARY**

### **CALIFORNIA DEPARTMENT OF CORRECTIONS AND REHABILITATION**

The May Revision includes \$10.2 billion (\$9.9 billion General Fund and \$283 million other funds) for the California Department of Corrections and Rehabilitation (CDCR). This represents a \$70 million reduction from the Governor's January budget.

- **Adult Offender Population Adjustment.** The May Revision includes a decrease of \$21.3 million General Fund in 2014-15 and \$108.5 million General Fund in budget year for costs related to adult inmate and parole population changes. The revised average daily population projections for adult inmates are 133,451 in 2014-15 (a decrease of 1,535 inmates below the Governor's January budget) and 127,990 in 2015-16 (a decrease of 5,119 inmates below the Governor's January budget). The revised average daily parolee population projection is 44,073 in 2014-15 (an increase of 847 parolees above the Governor's January budget) and 44,570 in the budget year (an increase of 4,103 parolees above the Governor's January budget).
- **Decrease in Contract Beds.** The May Revision includes a decrease of \$73.3 million to reflect a 4,000 bed reduction in the out-of-state contract facilities by June 2016. The reduction assumes vacating two out-of-state facilities and reducing the use of the remaining out-of-state facilities.
- **Hepatitis C Treatment.** The May Revision includes a General Fund increase of \$51.8 million in 2014-15 and \$60.6 million in 2015-16 for the cost of providing inmates with new Hepatitis C treatments. The Governor's January budget proposal included this funding in the statewide set-aside for high cost medications. The funding is now proposed to be shifted to the CDCR budget.
- **Correctional Officer Training.** The May Revision includes a proposal to reduce the Correctional Officer Training Academy from 16 weeks to 12 weeks, and to re-establish the Commission on Correctional Peace Officer Standards and Training (CPOST).

- **Health Care Transition Plan.** The May Revision includes a request for \$1.9 million General Fund and 16 positions to address the workload associated with the March 10, 2015, federal court order modifying the federal health care receivership transition plan.
- **Recidivism Reduction Fund.** The May Revision assumes the availability of an additional \$3.3 million in Recidivism Reduction Funding and requests that those funds be used to offset the General Fund cost of providing substance abuse treatment at all prisons that do not have a reentry hub.
- **Juvenile Offender Population Adjustment.** The May Revision includes a decrease of \$494,000 General Fund in 2014-15 and \$2 million General Fund in 2015-16 for costs related to adult inmate and parole population changes. The revised average daily population projections for juvenile wards are 683 in 2014-15 (a decrease of two wards below the Governor's January budget) and 677 in 2015-16 (a decrease of 32 wards below the Governor's January budget).

## JUDICIAL BRANCH

The May Revision includes \$3.8 billion (\$1.7 billion General Fund) for the Judicial Branch. This represents approximately the same level of funding as the Governor's January budget proposal.

- **Trial Court Trust Fund Revenues.** The May Revision includes \$15.5 million General Fund to offset a further reduction in the estimated revenue associated with fines and penalties. The total 2015-16 offset for the trust fund is proposed to be \$66.2 million.
- **Amnesty Program.** The May Revision updates the Governor's proposed 18-month amnesty program, which allows individuals with past-due court-ordered debt to receive a reduction in the amount owed if they meet certain eligibility criteria. The May Revision expands the proposed program to allow drivers with suspended licenses to reinstate their licenses as part of the amnesty program.

## DEPARTMENT OF STATE HOSPITALS

The May Revision includes \$1.7 billion (\$1.6 billion General Fund) for the Department of State Hospitals (DSH). This represents approximately the same level of funding as the Governor's January budget proposal.

- **Restoration of Competency (ROC Expansion).** The May Revision includes \$10.1 million General Fund to expand the ROC program by 108 beds. The program provides treatment to individuals deemed incompetent to stand trial in county jails rather than in state hospitals. The Administration estimates that 148 ROC beds will be available by the end of 2015-16.
- ***Coleman v. Brown Inmate-Patients.*** The May Revision includes an increase of 30 beds at the California Medical Facility in Vacaville to treat inmates with acute mental illnesses.

## REALIGNMENT/COMMUNITY CORRECTIONS

- **Community Corrections Performance Incentive Grants.** The May Revision includes an increase of \$1.1 million in Community Corrections Performance Incentive Grants funding due to an update in the formula used for measuring county performance. The May Revision proposes including all types of local felony supervision. The May Revision also proposes essentially block granting sixty percent of the funding that counties receive rather than rewarding all of the funding based upon performance, as required by the implementing legislation, SB 678 (Leno), Chapter 608, Statutes of 2009.

## **GENERAL GOVERNMENT**

### **OFFICE OF EMERGENCY SERVICES**

The Governor's May Revision includes an increase of \$22.2 million General Fund to provide local assistance support through the California Disaster Assistance Act.

### **STATE CONTROLLER'S OFFICE**

The Governor's May Revision includes a request for \$492,000 (\$199,000 General Fund, \$150,000 Central Service Cost Recovery Fund, and \$143,000 Reimbursements) to review alternatives to the California Automated Travel Expense Reimbursement System.

The Governor's May Revision includes a request for \$581,000 (Unclaimed Property Fund) in fiscal year 2015-16, and \$857,000 (Unclaimed Property Fund) in 2016-17, and ongoing, to increase the Unclaimed Property Program's return of unclaimed property by enhancing the State Controller's online eClaim paperless process.

### **SECRETARY OF STATE**

The May Revision includes a request for a one-time \$2.35 million General Fund augmentation to the Secretary of State to enhance the online motor voter registration system. The requested resources will upgrade the current Secretary of State and Department of Motor Vehicle's voter registrations that electronically transmit voter registration information, captured on driver license/identification card application, from the Department of Motor Vehicles to the Secretary of State.

### **DEPARTMENT OF CONSUMER AFFAIRS**

The May Revision includes a request to increase the expenditure and positional authority within the Bureau of Private Postsecondary Education (Bureau). Specifically, the request will convert 17.0 limited-term positions to permanent status, requiring \$628,000 (Private Postsecondary Administration Fund) in fiscal year 2016-17 and \$1.845 million (Private Postsecondary Administration Fund) in fiscal year 2017-18, and ongoing. The Bureau is also requesting an augmentation of \$1.03 million (Private Postsecondary Administration Fund) in fiscal year 2015-16 and \$903,000 (Private Postsecondary Administration Fund) in fiscal year 2016-17, and ongoing, to fund ten permanent positions. Additionally, the Bureau is

requesting that provisional budget bill language be added to increase the Bureau's budget by \$1.0 million (Private Postsecondary Administration Fund), \$1.5 million (Private Postsecondary Administration Fund) in fiscal year 2016-17, and \$1 million in 2017-18, to increase the amount of resources that can be dedicated to overtime and temporary help in order to further reduce the backlog of license applications and enforcement complaints.

The May Revision includes a request for an appropriation of \$1.112 million in fiscal year 2015-16, and ongoing, from the Controlled Substance Utilization and Review System (CURES) Fund to reimburse the Department of Justice (DOJ) for ongoing maintenance costs associated with the project.

## **DEPARTMENT OF GENERAL SERVICES**

The May Revision includes \$5.4 million (Service Revolving Fund) to increase water efficiency and conservation measures in Department of General Services (DGS) – managed facilities. The May Revision includes a request for a one-time \$10 million General Fund augmentation in order to provide grants for water conservation projects through a grant process to state-owned facilities.

## **CALIFORNIA ARTS COUNCIL**

The Governor's May Revision includes a request for a permanent \$5 million General Fund augmentation of the California Arts Council's budget. The additional funding will be utilized for local assistance grants, and \$100,000 in fiscal year 2015-16, and ongoing, will be utilized for the administration of the grant process.

## **REDEVELOPMENT AGENCIES**

The May Revision proposes additional changes to the wind-down process for redevelopment agencies (RDA). In January, the Administration proposed additional legislation that would meet the following objectives: minimize the potential erosion of property tax residuals being returned to the local affected taxing entities while transitioning the state from detailed review of enforceable obligations to a streamlined process; clarify and refine various provisions in statute to eliminate ambiguity, where appropriate; make the statutes operate more successfully for all parties; and, maintain the wind-down of former RDA activities while adding new incentives for substantial compliance with the law.

The May Revision includes additional provisions to the proposal, including:

- **Findings of Completion.** Allows successor agencies that enter into a written payment agreement with Department of Finance to remit their unencumbered RDA cash assets to the county auditor-controller to receive a finding of completion.
- **Stranded 2011 Bond Proceeds.** Provides that successor agencies with a finding of completion may expend a portion of these stranded proceeds, with the unused portions to be used to defease the outstanding bonds.
- **Property Tax “Override” Revenues.** Clarifies that any pension or State Water Project override revenues pledged to RDA debt service must be used for that purpose, with certain limitations.
- **Highway Infrastructure Improvements.** Allows agreements between the former RDA and its sponsoring entity that relate to state highway infrastructure improvements to be an enforceable obligation.
- **Litigation Expenses.** Clarifies that a sponsoring entity can loan money to a successor agency for litigation expenses associated with challenging dissolution decisions and those loaned amounts may be repaid as an enforceable obligation if the litigation is successful.
- **Reentered Agreements.** Clarifies, as a result of a final court decision, that reentered agreements entered into after the passage of AB 1484 (Committee on Budget), Chapter 26, Statutes of 2012, are unauthorized and unenforceable, unless they were for the purpose of providing administrative support activities.

## LOCAL GOVERNMENT ISSUES

The May Revision includes several proposals for local governments related primarily to long-running issues involving the state-local fiscal relationship. Specifically, the proposals include:

- **“Negative Bailout” Counties.** Ends negative bailout, which will provide approximately \$6.9 million in annual relief to four counties. Negative bailout refers to a situation where if the health and welfare costs that the state assumed for a county exceed the additional property tax the county

receives from the schools, statute reduces the county's property tax revenue by the difference.

- **Newly Incorporated Cities.** Provide fiscal relief for four cities in Riverside County incorporated after 2004. These cities experienced fiscal stress due to lost revenue from the VLF swap, for which they were ineligible, and the loss of the enhanced VLF rate redirected in 2011 to fund public safety realignment.
- **San Benito County.** Allows the County of San Benito to participate in an Educational Revenue Augmentation Fund (ERAF) repayment program, for which they are currently ineligible, in order to pay amounts owed to the ERAF. The proposal results in the state forgiving approximately \$3.4 million of the \$4 million owed.
- **Tax Equity Allocations (TEA).** Ends, over a five-year period, the requirement of four cities in Santa Clara County to reimburse the county for the loss of ERAF due to the TEAs. TEAs provide property tax to cities that levied little or no property tax prior to Proposition 13, by shifting property taxes from the county.
- **Prior Years Insufficient ERAF.** Provides \$5.8 million in backfills for insufficient ERAF to reimburse the cities and counties for their VLF Swap and "Triple-Flip" costs.

## LOCAL GOVERNMENT MANDATES

Specified local government mandates must either be funded or suspended in the budget. Currently, the state owes counties, cities, and special districts \$765 million in mandate reimbursements for costs incurred prior to 2004 that must be repaid by 2020-21. This is down from the \$800 million estimated in the Governor's Budget due to new calculations. The 2014 Budget Act includes a trigger mechanism that makes additional mandate payments, if estimated General Fund revenues exceed a specified threshold. Current estimates indicate the trigger mechanism calculation will result in a total of \$765 million, which will fully satisfy the remaining pre-2004 mandate debt. This amount is \$232 million more than what was estimated in the Governor's Budget. Of the \$765 million, approximately 77 percent will go to counties, 22 percent to cities, and 1 percent to special districts.

## **DEBT SERVICE**

The May Revision reflects an increase in debt service costs of \$35.3 million compared to the Governor's Budget, for a total of \$5.2 billion. This reflects increased General Obligation debt service costs (\$4.7 billion total) and no change for lease revenue bond debt service costs (\$505.3 million total). The minor increase in General Obligation debt service cost is a result of bond issuances over the previous years increasing debt service costs at a faster pace than bonds being retired. For the budget year, debt service expenditures will decrease by \$161.7 million to a total of \$5.4 billion. This adjustment reflects reduced General Obligation debt service costs (\$4.8 billion total) and lease revenue bond debt service costs (\$535.8 million total). The decrease in General Obligation debt service is primarily attributable to a smaller spring 2015 bond sale than projected, increased estimated premium on future bond sales, and savings related to bond refinancings this spring. The decrease in lease revenue bond debt service costs is attributable to savings related to bond refinancings this spring.

## **PERSONAL INCOME TAXES—EARNED INCOME TAX CREDIT**

The May Revision proposes an Earned Income Tax Credit (EITC), which would provide a refundable tax credit for wage income for households with income less than \$6,580, if there are no dependents; or, income less than \$13,870, if there are three or more dependents. The credit would match 85 percent of the federal credits up to half of the federal phase-in range; and then, begin to taper off relative to these maximum wage amounts. The credit will be available beginning with tax returns filed for wages earned in 2015. The tax credit is expected to reduce revenues by \$380 million annually beginning in 2015-16, and benefit an estimated 825,000 families. The estimated average household benefit is \$460 per year, with a maximum credit of \$2,653.

## **VETERANS AFFAIRS**

- The May Revision includes a request for a one-time reduction of \$10.4 million General Fund in recognition of the continued delay of the skilled nursing facility at the Veterans Home of California (VHC) - West Los Angeles, and the delay of opening the community based adult services at the VHC - Lancaster, and the VHC - Ventura.

## HEALTH

### DEPARTMENT OF HEALTH CARE SERVICES

- **President's Executive Action on Immigration.** The May Revision includes \$62 million General Fund in 2015-16 (and estimates \$200 million General Fund upon full implementation) to provide Medi-Cal coverage to immigrants who gain Permanent Residence Under Color of Law status under the President's executive actions. In November, the President announced several executive actions intended to allow certain undocumented immigrants to pass a criminal background check and pay taxes in order to temporarily stay in the U.S. without fear of deportation. For additional information regarding Presidential Immigration Actions, please see the Human Services section of this report.
- **Children's Health Insurance Program (CHIP) Reauthorization.** The May Revision reflects General Fund savings of \$381 million in 2015-16 as a result of the federal reauthorization of CHIP through September 2017 and enhanced federal funding for the CHIP program, effective October 1, 2015.
- **High Cost Drugs.** The May Revision allocates \$228 million of the \$300 million that was set aside in the Governor's budget to various state departments for Hepatitis C treatment drugs. This amount includes funding for implementing expanded clinical guidelines that are largely consistent with national clinical recommendations for the treatment of Hepatitis C.
- **Health Homes Program.** The May Revision includes \$61.6 million in non-state funds for additional payments to health plans that participate in the Health Homes Program, beginning January 2016. AB 361 (Mitchell), Chapter 642, Statutes of 2013, permits the Department of Health Care Services (DHCS) to develop a health homes program that would enhance care management and coordination for beneficiaries with complex needs.
- **Updated Caseload Projections for Medi-Cal.** The May Revision reflects updated caseload forecast of 12.4 million individuals in Medi-Cal in 2015-16.
- **County Eligibility Workload.** The May Revision includes an additional \$150 million (\$48.8 million General Fund) in 2015-16 for federal health care

reform-related Medi-Cal eligibility determination workload performed by the counties.

- **Managed Care Rate Increases.** The May Revision includes \$125 million General Fund for Medi-Cal managed care rate increases in 2015-16.
- **Current Year Operating Shortfall.** DHCS will seek a supplemental appropriation of \$241.5 million in the current year to fund Medi-Cal cost increases as a result of higher costs than previously estimated for: the mandatory expansion population, hospital presumptive eligibility, and Medicare payments. These increases are partially offset by increased savings from litigation settlements and additional rebates for aged and disputed drugs.

## HIGHER EDUCATION

### UNIVERSITY OF CALIFORNIA (UC)

- The Governor's May Revision continues to provide \$119 million base augmentation as proposed in January; however, the Governor withdraws his proposed budget bill language that made this augmentation contingent on UC not increasing tuition and not increasing nonresident enrollment. Instead, the Governor reports that UC has agreed to keep tuition flat through 2016-17, and to change its operations to make them more efficient.
- Provides \$96 million in one-time Proposition 2 funds to pay down UC's unfunded pension liability. UC would be required to adopt a pension program by July 1, 2016 for new employees with a limit on the amount of salary eligible for pensions consistent with the Public Employees' Pension Reform Act of 2013. The Governor proposes additional one-time Proposition 2 payments of \$170 million in each 2016-17 and 2017-18 for the same purpose.
- Provides \$25 million in one-time cap-and-trade revenues for energy efficiency projects at campuses to reduce greenhouse gas emissions. This funding is part of the Governor's larger expenditure plan that allocates \$2.2 billion in cap-and-trade revenues.
- The Governor reports that UC has agreed to various operational changes including:
  - Over the next two academic years, create transfer pathways for its 20 most popular majors that are closely aligned to associate's degrees established by community colleges and CSU pursuant to SB 1440 (Padilla), transfer pathways;
  - By July 1, 2017, review course requirements for 75 percent of majors and reduce them to no more than 45 units wherever possible;
  - Encourage its Academic Senate to review policies on credits for AP courses, College Level Examination Program tests and use of the Common Identification Numbering System;
  - Pilot alternative pricing models for summer session at three campuses;

- Develop three-year degree pathways for 10 of the top 15 majors at each campus by March 1, 2016;
- Pilot an activity-based costing model at three campuses;
- Establish a multi-campus pilot program focused on adaptive learning technologies that improve instruction and increase completion rates;
- Expand the impact of the university's existing Innovative Learning Technology Initiative; and,
- Convene industry leaders and other stakeholders this summer to identify online certificate and master's degree programs needed for California's workforce.

## **CALIFORNIA STATE UNIVERSITY (CSU)**

- Provides an additional \$38 million unallocated base increase. This increase augments the \$119 million proposed in the Governor's January Budget. The CSU will have discretion as to how to spend this funding increase; however, the Administration encourages the CSU to use these funds to improve student success and time-to-degree at all campuses, and to enroll approximately 1,500 more transfer students by spring of 2016.
- Provides \$35 million in one-time cap-and-trade revenues for energy efficiency projects at campuses to reduce greenhouse gas emissions. This funding is part of a larger expenditure plan proposed by the Governor that allocates \$2.2 billion in cap-and-trade revenues.
- Creates a Basic Skills Partnership Pilot with the California Community Colleges, as discussed in the Community College section, which will offer basic skills education to incoming CSU students who need remediation through the community colleges.

## **CALIFORNIA COMMUNITY COLLEGES (CCC)**

- The May Revise includes an increase of \$50 million to reflect an increase in of growth from two percent to three percent. The Administration cites Corinthian Colleges' closure, adult education consortia, remaining unfunded FTES, and new growth allocation model among reasons for the increase.
- Provides \$42 million in enrollment restoration adjustments to resume the practice of earmarking funds for districts to earn back after they experience a decline in enrollment.
- Provides a \$142 million unallocated base increase above the Governor's January proposal for a total of \$267 million. As in January, the Governor's May Revise suggests various uses such as facilities, retirement benefits, professional development, and converting more faculty to full-time, but leaves funds unrestricted.
- Includes a one-time increase of \$275 million, for a total of \$626 million, to pay down outstanding mandate debt claims by community colleges. Provides \$93.5 million in 2013-14 funds and \$407.2 million in 2014-15 funds to pay down the mandate backlog (rather than \$80 million and \$146 million, respectively, as proposed in January).
- Includes a one-time increase of \$148 million for deferred maintenance and instructional equipment with \$48 million in the current year and \$100 million in the budget year. Community colleges will not need to provide matching funds for deferred maintenance in 2015-16.
- Provides \$75 million for full-time faculty. Funds are for colleges to hire additional full-time faculty, thereby increasing their full-time to part-time faculty ratios. The Administration expects an increase of approximately 600 full-time faculty.
- Provides \$60 million on a one-time basis for Basic Skills and Student Outcomes Transformation Program. Colleges would use these grants to adopt or expand the use of evidence-based models of basic skills assessment, placement, and instruction.
- Augments student equity plans by an additional \$15 million, for a total of \$115 million. Includes language intended to implement the terms of SB

1023 (Liu), Chapter 771, Statutes of 2014, regarding foster youth participating in the Extended Opportunity and Services program at up to ten community colleges.

- Provides \$15 million in Proposition 98 funds for the Institutional Effectiveness Partnership Initiative, supplementing the 2014-15 Budget Act appropriation of \$2.5 million. Includes \$12 million for statewide dissemination of effective professional, administrative, and educational practices and \$3 million for local implementation of effective practices. Includes developing curricula and practices for serving inmates and California Conservation Corps members to support effective implementation of SB 1391(Hancock), Chapter 695, Statutes of 2014, but does not link this to a specific amount.
- Includes an increase of \$2.5 million to reflect a cost-of-living-adjustment for several categorical programs: Disabled Student Programs and Services; Extended Opportunities Programs and Services program; Special Services for CalWORKs Recipient program; and, the Child Care Tax Bailout program.
- Includes a decrease of \$825,000 for the Proposition 39 energy efficiency funds for community college energy efficiency projects to reflect reduced revenue estimates.
- Includes an increase of \$2 million Proposition 98 General Fund for a pilot program to provide incentives to community college districts and the CSU to coordinate their efforts to provide instruction in basic skills to incoming CSU students.
- Includes a decrease of \$156.1 million in Proposition 98 General Fund to reflect increased offsetting local property tax revenues, and an increase of \$7.4 million Proposition 98 General Fund as a result of decreased offsetting enrollment fee revenues.

## **FINANCIAL AID**

- Includes a decrease of \$54.2 million General Fund in 2014-15 and \$42.2 million General Fund in 2015-16 to reflect revised participation estimates in the Cal Grant program.
- Includes an increase of \$247.3 million in Federal Temporary Assistance for Needy Families (TANF) Reimbursements in 2015-16, and a corresponding decrease of General Fund. Combined with the TANF funds included in the Governor's budget, the May Revision offsets \$533.6 million in Cal Grant General Fund costs.
- The Governor estimates \$1.9 million will be available from the newly created College Access Tax Credit Fund in 2015-16 to increase Cal Grant B awards, an estimated increase in award of \$8 per student.

## **AWARDS FOR INNOVATION IN HIGHER EDUCATION**

- Provides an additional \$25 million General Fund above the January proposal to bring the total funding to \$50 million. The Governor modifies the proposal to allow either CSU or CCC campuses to apply for the awards, and for programs to align more closely with the goals of SB 195(Liu), Chapter 367, Statutes of 2013.
- Decreases General Fund support in 2014-15 by \$23 million and provides a corresponding increase in Proposition 98 General Fund to reflect the awards earned by community colleges.

## **STATE LIBRARY**

- Provides a \$2 million increase for literacy programs. These programs, administered by local libraries, use volunteers to help adult students become literate. The Governor indicates his expectation that these programs coordinate with regional adult education consortia.
- Provides a \$1.7 million increase for internet connectivity. The Governor proposes \$1.5 million in one-time funding for grants to local libraries to upgrade Internet equipment. In addition, the Administration proposes \$225,000 to pay a vendor to administer contracts with local libraries using

**Overview of the May Revision of the 2015-16 Governor's Budget**

the Corporation for Education Network Initiatives in California (CENIC) Internet backbone.

- Provides \$521,000 for preservation activities. The proposal provides \$181,000 for two positions to preserve historical items, as well as \$340,000 on a one-time basis for related equipment.

## HUMAN SERVICES

### DEPARTMENT OF SOCIAL SERVICES (DSS)

- **Establishes Immigration Application Assistance.** In November 2014, the President announced executive actions to allow specified undocumented immigrants to temporarily remain in the country without fear of deportation, with status known as deferred action. The May Revision includes \$5 million General Fund for the Department of Social Services to deliver grants to non-profit organizations that provide application assistance to undocumented immigrants eligible for deferred action. For additional information regarding Presidential Immigration Actions, please see the Health section of this report.
- **Assumes full-year funding for Fair Labor Standards Act.** In September 2013, the U.S. Department of Labor's Fair Labor Standards Act (FLSA) established a Final Rule, which requires overtime pay for domestic workers and payment for activities not previously eligible for compensation, such as travel time between multiple recipients, wait time associated with medical accompaniment, and time spent in mandatory provider training. In January 2015, a federal district court vacated the federal Department of Labor's rule. On May 6, the court considered the federal governor's appeal; but in the interim, the state has halted implementation of required overtime pay.

Although a court decision may be unlikely by June 2015, a decision could result in immediate implementation within the budget year. The Governor's budget includes \$316 million in the budget year for implementation of the federal rule, and the May Revision continues to assume this full-year funding.

- **Adjusts caseload for In-Home Supportive Services (IHSS).** Due to increases in caseload, hours per case, and costs per hour, the May Revision increases funding for the program by \$147.6 million General Fund in current year and \$179.1 million General Fund in budget year.

In addition, the May Revision proposes to use one-time, unspent \$184 million General Fund – the amount included in the current year for implementation of the Fair Labor Standards Act – to offset increasing IHSS costs.

- **No new proposal regarding the restoration of the seven-percent across-the-board reduction.** The Governor's budget includes a proposal to create a new managed care organization (MCO) tax, which is projected to raise an additional \$215.6 million General Fund in revenues (to be matched with federal funds) to fully restore the seven-percent reduction in IHSS hours. The May Revision does not include a new proposal to restore the seven-percent reduction in IHSS services hours.
- **Adjusts caseload for CalWORKs.** The May Revision proposes to decrease General Fund and federal Temporary Assistance for Needy Families (TANF) block grant of \$97 million to reflect updated caseload projections since the Governor's budget. The Administration continues to project a declining CalWORKs caseload in current year (539,000) and budget year (525,000).

## **DEPARTMENT OF DEVELOPMENTAL SERVICES (DDS)**

### **PROPOSED DEVELOPMENTAL CENTER CLOSURES**

- Proposes to initiate the closure of state developmental centers. Under the Governor's proposal, Sonoma Developmental Center would close by the end of 2018; and Fairview Developmental Center and the non-secure treatment portion of Porterville Developmental Center would close by 2021.
- Provides \$49.3 million (\$46.9 million General Fund) to begin the development of resources necessary to support Sonoma Developmental Center residents in the community and for closure activities. This includes:
  - \$46.7 million for program start-up and placement costs;
  - \$1.3 million for regional center operational costs;
  - \$1.3 million General Fund for 7.0 positions at headquarters, and reimbursement costs for one dedicated staff position at the Department of Social Services, to expedite the licensing of new facilities.

The department will convene a task force to discuss alternative uses for the Sonoma Developmental Center property.

## **DEVELOPMENTAL CENTERS**

- Proposes a decrease of \$2.0 million General Fund, and a reduction of 19.0 positions, in the current year to reflect an updated estimate of admissions to the secure treatment program (STP) at Porterville Developmental Center from 32 to 20; in the budget year, the Governor proposes a net increase of \$0.8 million General Fund and a net reduction of 2.5 positions, updated to expand the STP from 170 beds to 211 (an increase of nine beds over the January budget), and designating the STP as adult beds only.
- Proposes a decrease of \$3.1 million (\$1.9 million General Fund) and a reduction of 46.1 positions in the current year, reflecting slower than expected hiring of key positions to implement program improvement plans (PIP) at both Fairview and Porterville developmental centers; \$1.2 million General Fund increase in the budget year to reflect a miscalculation of the amount of PIP implementation costs eligible for federal funding.
- Proposes a decrease of \$4.4 million in federal funds, offset by a corresponding increase of \$4.4 million General Fund, in the current year, to backfill for an additional four months of lost Medi-Cal reimbursements for the four decertified units at Sonoma Developmental Center; an increase of \$13.2 million to backfill for lost federal funding in the budget year.
- Proposes a net decrease of \$0.4 million (\$0.1 million General Fund increase) and a net reduction of 18.7 positions due to an update of operational needs at the developmental center and an increase of 25 in the average in-center resident population, over the Governor's budget.

## **COMMUNITY-SERVICES**

- Proposes no rate adjustments for community-based services or increases for regional center operations.
- Proposes a \$73.9 million (\$52.4 million General Fund) increase to reflect caseload and utilization increases in regional center purchase-of-services (POS) and operations in the current year; and a \$120.8 million (\$82.9 million General Fund) increase in the budget year.

**Overview of the May Revision of the 2015-16 Governor's Budget**

- Proposes a \$31.2 million decrease (\$16.4 million General Fund) in POS to reflect lower than anticipated costs in the current year associated with the July 1, 2014 minimum wage increase; and a \$31.2 million (\$16.5 million General Fund) decrease in the budget year.
- Proposes a \$20.7 million decrease (\$11.2 million General Fund) in the current year due to the United States District Court action to vacate the federal regulation regarding overtime for companionship service workers. However, the May Revision continues the funding provided in the January budget of \$24.4 million (\$13.1 million General Fund) to reflect the full year implementation of this policy, adjusted by a \$2.0 million increase (\$0.9 million General Fund decrease) to correct an error.
- Proposes an increase of \$1.7 million (\$0.9 million General Fund) to reflect an update of costs associated with the implementation of paid sick days by community service providers.
- Proposes an increase of \$9.8 million General Fund to reflect full year costs associated with the restoration of eligibility in the Early Start Program, approved in the 2014-15 budget.
- Proposes a decrease of \$3.0 million (\$1.5 million General Fund) to reflect an updated caseload estimate for providing behavioral health treatment (BHT) services as a Medi-Cal benefit to eligible recipients.
- Offsets a decrease of \$1.4 million in revenue from the Program Development Fund with an increase of \$1.4 million General Fund.
- Proposes a decrease of \$0.5 million in the Early Start, Part C grant, and a corresponding increase of \$0.5 million General Fund.
- Proposes a net \$61.5 million (General Fund) increase in the current year, reflecting prior year shortfalls in 2011-12 and 2012-13 due to overestimations of federal reimbursements not adjusted for cost-containment proposals enacted during these fiscal years and lower than anticipated savings from use of private insurance coverage of BHT services.

## **K-12 EDUCATION AND CHILD CARE**

The May Revision includes \$83 billion total funds (\$49.7 billion General Fund and \$33.3 billion other funds) for all K-12 Education programs.

### **PROPOSITION 98 – K-14 EDUCATION**

- **Changes to the Minimum Guarantee.** Driven by significant growth in General Fund revenues, the estimated Proposition 98 funding obligations included in the May Revision for the three-year period of 2013-14 to 2015-16, increases by a total of \$6.1 billion over the Governor's budget. More specifically, the revised Proposition 98 minimum guarantee levels for the 2013-14 through 2015-16 fiscal years are \$58.9 billion, \$66.3 billion, and \$68.4 billion, respectively. Compared to January, this reflects the following yearly changes, due to strong General Fund revenue growth:
  - o An increase of \$241 million to the 2013-14 guarantee.
  - o An increase of approximately \$3.1 billion to the 2014-15 guarantee.
  - o An increase of approximately \$2.7 billion to the 2015-16 guarantee.

In addition, these proposed funding levels reflect a remaining Proposition 98 Maintenance Factor balance of \$772 million, down from almost \$11 billion in 2011-12.

- **Mandates.** The May Revision includes a total of \$3.5 billion in one-time Proposition 98 General Fund to pay down the backlog of the state's obligations attributable to mandates, which are a component of the "Wall of Debt." This is an increase of \$2.4 billion over the January proposal to pay down approximately \$1.1 billion. Similar to last year's mandates payment, the Administration notes that this is discretionary one-time funding that schools could use to make investments in professional development, provide teacher induction to beginning teachers, and invest in instructional materials and technology, among other uses. Of this total, \$40 million will be provided to county offices of education. The May Revision also includes the following additional mandate-related adjustments:

- o An increase to the K-12 mandates block grant of \$1.2 million to account for increased school district participation in the mandates block grant.
- o The addition of the “Race to the Top” mandate to the K-12 mandates block grant. The Governor adds the new Race to the Top mandate to the mandates block grant for K-12 schools, with no additional funding due to low cost estimates. This mandate primarily impacted low-achieving K-12 schools and required implementation of prescribed interventions.
- **Local Control Funding Formula (LCFF).** The May Revision includes approximately \$6.1 billion in implementation investment in the LCFF formula, which eliminates around 53 percent of the remaining funding gap. This is an increase of \$2.1 billion over the January proposal of \$4 billion in ongoing investments in LCFF.

## **PROPOSITION 98 – OTHER MAJOR CHANGES FOR K-12 EDUCATION**

- **Career Technical Education.** The May Revision provides an additional \$150 million in one-time funding for a January proposal to create a Career Technical Education Incentive Grant Program. With this increase, the grant program provides \$400 million, \$300 million, and \$200 million in one-time Proposition 98 General Fund in the 2015-16, 2016-17, and 2017-18 fiscal years, respectively. This program provides funding for school districts, charter schools, and county offices of education to develop and expand career technical education programs. Grantees would be required to provide increasing matching funds (one-to-one match in 2015-16, a 1.5-to-1 match in 2016-17, and a 2-to-1 match in 2017-18), and to demonstrate positive results on career technical education-related outcomes over time.
- **Adult Education.** The May Revision maintains the January proposal to provide \$500 million in ongoing Proposition 98 General Fund for an Adult Education Block Grant. However, the Governor proposes notable changes to the program structure, including the following:
  - o Elimination of local allocation boards and replacement with a local structure, as determined by each regional consortium, to determine allocation of funds;

- o Addition of comprehensive three-year regional adult education planning cycles;
- o Addition of a state funding allocation structure that requires the Superintendent of Public Instruction and the Chancellor of the Community Colleges to provide preliminary allocations in advance of state budget enactment, followed by final allocations at a later point. Regional consortia no longer are required to use a local fiscal administrator for distribution of funds; and,
- o Addition of requirement for the Superintendent of Public Instruction and the Chancellor of the Community Colleges to submit a plan by January 31, 2016, to distribute federal adult education funds through the regional consortia in future years.
- **Special Education.** The May Revision includes the following major investments in supports for Special Education, based on recommendations of the California Statewide Special Education Taskforce:
  - o \$30 million in Proposition 98 General Fund to augment the Early Education Program for Infants and Toddlers with Exceptional Needs. These funds expand participation beyond local education agencies that currently participate in the program to provide early intervention for infants with special needs.
  - o \$10 million in one-time Proposition 98 General Fund for incentive grants and technical assistance to improve how districts provide instruction and manage behaviors to reduce special education referrals.
  - o \$1.7 million in federal funds to provide additional alternative dispute resolution grants for all Special Education Local Plan Areas in the state, and \$500,000 in federal funds for implementation of the State Systemic Improvement Plan for students with disabilities. This use of federal funds is backfilled with ongoing Proposition 98 funds.

Additional changes to support students with disabilities in the State Preschool Program are discussed in the “Child Care and Early Childhood Education” section later in this report.

- **Repayment of Deferrals.** The May Revision continues to include the repayment of all inter-year budgetary deferrals, a total of \$992 million for K-12 programs and community colleges.
- **K-12 High Speed Network.** The May Revision continues to propose an investment of \$108.8 million in one-time Proposition 98 General Fund for the (K-12) High Speed Network to provide grant funding to school districts to improve network connectivity. This is in addition to the approximately \$26.7 million provided in 2014-15 through the Broadband Infrastructure Improvement Grant (BIIG).
- **Proposition 39 Energy Efficiency Programs for K-12 Education.** The May Revision decreases the amount of energy efficiency funds available to K-12 schools in 2015-16 by \$6.7 million, to \$313.4 million, to reflect reduced revenue estimates.
- **Quality Education Investment Act (QEIA) Transition Funding.** The May Revision includes \$4.6 million in one-time Proposition 98 General Fund to provide transition funding for school districts participating in QEIA who do not receive concentration grants under LCFF. This funding is half of the final QEIA apportionment and is intended to help smooth the transition of schools with concentrations of English learners and low-income students from this expiring fund source.
- **Professional Development.** The May Revision includes \$2 million in ongoing Proposition 98 General Fund to allow the Los Angeles County Office of Education to contract with the Simon Wiesenthal Center to provide “Tools for Tolerance” training programs to support professional development on anti-bias education in schools throughout the state.
- **Other Technical Adjustments.** The May Revision also includes the following adjustments:
  - **Local Property Taxes.** A decrease of \$123.3 million in 2014-15 and a decrease of \$224 million in 2015-16 in Proposition 98 General Fund for school districts, special education local plan areas, and county offices of education as a result of higher offsetting property tax revenues.

- o **Average Daily Attendance.** An increase of \$94.4 million in 2014-15 and an increase of \$173.5 million in 2015-16 for school districts, charter schools and county offices of education as a result of higher LCFF costs related to increases in projected attendance in both years.
- o **Categorical Program Growth.** A decrease of \$18.4 million Proposition 98 General Fund for selected categorical programs based on updated estimates of projected attendance growth.
- o **Cost-of-Living Adjustments.** A decrease of \$22.1 million Proposition 98 General Fund to selected categorical programs based on a revised cost-of-living factor of 1.02 percent for 2015-16.

## **COMMISSION ON TEACHER CREDENTIALING**

- **Commission Operations.** The May Revision includes \$4.5 million General Fund to support the Commission on Teacher Credentialing operating costs. The Administration notes that the number of candidates enrolling in, completing educator preparation programs, and applying for credentials has decreased over the past five years. This trend continues to put pressure on the Commission's fee-based revenues. In addition, to address this structural problem over the long-term, the May Revision proposes to increase the teacher credential fee to \$100 for initial and renewal credentials, up from the current level of \$70, as established in 2012. Finally, the May Revision proposes changes to the Commission's authority to investigate educator misconduct, which is intended to streamline the Commission's activities and manage workload cost effectively.

## **CHILD CARE AND EARLY CHILDHOOD EDUCATION**

The Governor does not propose any major changes for child care provided through CalWORKs or other capped non-CalWORKs programs. Instead, the May Revision includes technical adjustments for caseload and the higher cost of providing care. The May Revision also proposes some investments for preschool-aged children, prioritizing children with exceptional needs.

- **Invests in State Preschool.** The May Revision proposes an increase of \$13.5 million Proposition 98 General Fund to reflect various technical adjustments and an additional 2,500 slots in the State Preschool Program, with prioritization for children with exceptional needs. The May Revision

also provides \$6 million Proposition 98 General Fund to increase the part-day State Preschool standard reimbursement rate by one percent, bringing the daily rate from \$22.28 to \$22.73. Additional proposed trailer bill language requires State Preschool providers to receive professional development to identify and target children with additional needs, as well as requires providers to give parents information about special education services. For more information about improving outcomes for children with exceptional needs, please see the Special Education section above.

- **Increases funding and slots for CalWORKs child care.** The May Revision proposes an increase of \$71 million non-Proposition 98 General Fund to reflect revised caseload estimates and a slightly higher average cost-of-care for Stages 1, 2, and 3. Specifically, the May Revision (1) increases Stage 1 by \$27 million to cover an increase of 3,307 slots; (2) increases Stage 2 by \$43.1 million non-Proposition 98 General Fund and an increase of 4,003 slots; and, (3) increases funding for Stage 3 by \$0.5 million non-Proposition 98 General Fund.
- **Decreases statutory growth and cost-of-living adjustments for capped, non-CalWORKs programs.** Both statutory growth and cost-of-living adjustment (COLA) rates have decreased since Governor's budget. The May Revision changes the COLA from 1.58 percent at the Governor's January budget to 1.02 percent at the May Revision, a net decrease of \$7.2 million (\$3.1 million Proposition 98 General Fund and \$4.1 million non-Proposition 98 General Fund). The growth factor decreases from 0.57 percent from Governor's Budget to 0.37 percent in May Revision, a net decrease of \$2.5 million (\$1.1 million Proposition 98 General Fund and \$1.4 million non-Proposition 98 General Fund) to reflect a decrease in the population of children aged zero to four years old.
- **Adjusts Federal Child Care and Development Funds (CCDF).** The May Revision proposes an increase of \$17.7 million federal CCDF funds and \$21 million increase in federal Temporary Assistance to Needy Families (TANF) in the budget year to reflect: (1) an increase of \$9 million in ongoing base federal funds; (2) an increase of \$4.4 million in one-time general-purpose funds from current year; and (3) an additional \$3.2 million in one-time quality funds from current year.
- **Identifies priorities for Child Care and Development Block Grant (CCDBG).** On November 19, 2014, the President reauthorized the CCDBG,

which includes new requirements, such as annualizing licensing inspections; providing health and safety inspections for non-family license-exempt providers, allowing extended income eligibility; providing funding for child care quality activities; and, restructuring professional development for child care providers and staff. The Office of Child Care extended the submission of the 2016-2018 CCDF State Plan until March 1, 2016 – an extension from the original due date of June 30, 2015. The May Revision recognizes possible mid-year funding adjustments associated with CCDBG.

- **Establishes Infant and Toddler Quality Rating and Improvement System (QRIS) Block Grant in 2016-17.** The May Revision proposes to establish the Infant and Toddler QRIS Block Grant with anticipated federal funds available beginning October 1, 2016. The May Revision also identifies priorities for possible mid-year federal CCDBG funding adjustments.

## NATURAL RESOURCES

### DROUGHT

In February of this year, the Legislature passed a legislative package for drought relief. The legislation provided \$1 billion (multiple funds) for emergency water supply projects, housing and food assistance, flood project funding and immediate drought relief projects. The May Revision includes over \$2 billion in addition to the February allocations, some of which are funded by cap-and-trade dollars proposed in the January budget.

- **Water Quality and Water Rights.** The May Revision includes \$1.4 million (General Fund) and eight positions to implement enhanced enforcement initiatives, data collection and water use reporting, and to develop and implement water conservation regulations and programs including environmental and economic analyses.
- **Groundwater.** The May Revision includes \$784 million (Proposition 1) for groundwater contamination remediation through the Water Boards and \$60 million (Proposition 1) for groundwater sustainability through the Department of Water Resources. Of this amount, \$21 million was proposed in the Governor's January budget for planning and local groundwater plan assistance.
- **Water Recycling and Desalination.** The May Revision includes \$475 million (Proposition 1) for water recycling grants through the State Water Resources Control Board's existing programs. The May Revision also includes \$50 million (Proposition 1) for grants to desalination projects.
- **Stormwater Management.** The May Revision includes \$100 million (Proposition 1) for stormwater management grants to be administered by the State Water Resources Control Board.
- **Safe Drinking Water.** The May Revision includes \$180 million (Proposition 1) for safe drinking water projects in disadvantaged communities.
- **Wastewater Treatment.** The May Revision includes \$160 million (Proposition 1) for grants and loans for communities requiring wastewater treatment projects, with the intent to increase and expand local water supplies.

- **Water Conservation.** The May Revision includes \$245 million (Proposition 1 and cap-and-trade auction revenues) for water conservation programs, including several new initiatives for water conservation at state facilities, research and development, and for urban water conservation.
- **Emergency Salinity Barrier Removal.** The May Revision includes \$22 million (General Fund) for the removal of emergency salinity barriers installed to protect water quality and supply to the State Water Project and Central Valley Project.
- **Human Services and Disaster Assistance.** The May Revision includes \$22 million (General Fund) to the Office of Emergency Services to implement the California Disaster Assistance Act. The May Revision also includes \$7.5 million for farmworker assistance and \$6 million for rental relocation assistance (General Fund).

## NATURAL RESOURCES

- **Forest Health Improvement Projects.** The May Revision includes a proposal to allocate \$5 million (General Fund) from the Department of Forestry and Fire Protection to the Conservation Corps for forest health projects targeted in high fire risk areas of the state.
- **Conservation Corps—Conservation Camps and Long-Term Expansion.** The May Revision includes a major proposal to both open a closed fire camp (Butte County Conservation Camp) with \$3.1 million (General Fund), and to allocate \$200,000 (General Fund) to begin a process to identify sites for additional residential centers for the corps.
- **Salton Sea.** The May Revision includes \$2.5 million (Salton Sea Restoration Fund) to the Department of Fish and Wildlife to continue to pursue a phased strategy to restore the sea, and to form a multi-agency task force to manage construction projects.
- **Lake Tahoe Environmental Improvements.** The May Revision proposes to allocate \$375,000 from funds dedicated to the California Tahoe Conservancy (Lake Tahoe Conservancy Account), to fund an independent evaluation of the Tahoe Regional Planning Agency's environmental thresholds.

- **Department of Conservation Information Technology.** The May Revision includes \$10 million (Oil, Gas, and Geothermal Administrative Fund) for the first year of a two-year project to develop and implement a comprehensive database system. The Oil and Gas Data Management System will be a Web-based system that allows for e-processing to make the permitting of wells more efficient.
- **Native American Heritage Commission.** The May Revision includes \$1.6 million (General Fund) to develop a Native American Land Information System to aid public agencies in identifying tribal territories and tribes within their respective jurisdictions.

## ENVIRONMENTAL PROTECTION

- **Cap-and-Trade Auction-Quantification.** The May Revision revises the Air Resources Board's revenue estimates from the cap-and-trade auction revenues from \$1 billion to \$2.2 billion in 2015-16. The May Revision includes \$1 million (Greenhouse Gas Reduction Fund [GGRF]) and six positions for the Air Resources Board to provide quantification methods, metrics, program development, and implementation assistance to state agencies implementing cap-and-trade funded programs.
- **Low Carbon Transportation.** The May Revision includes an additional \$150 million (GGRF), for a total of \$350 million in 2015-16, to the Air Resources Board, to support activities promoting greenhouse gas emission reductions in the transportation sector. The May Revision also includes 11 positions and \$2 million (GGRF) to provide administrative support to this program.
- **Methane Emission Greenhouse Gas Reductions.** The May Revision requests \$35 million (GGRF), in addition to the \$25 million in the Governor's January proposal, to expand grant and loan programs that are intended to reduce methane emissions from landfills, and support the expansion of organic materials management facilities.
- **Enforcement Enhancement and Initiative (Department of Toxic Substances Control).** The May Revision includes \$2.6 million (Toxic Substances Control Account) to implement and evaluate approaches to address environmental violations in vulnerable communities, and to conduct a two-year review of its hazardous waste management enforcement program.

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- **Fireworks Disposal.** The May Revision includes \$5 million (Toxic Substances Control Account) to continue to dispose of illegal and dangerous fireworks stockpiles, and to form a plan for future fireworks disposal.
- **Bay-Delta Water Quality Control Update Plan.** The May Revision requests \$7.8 million (\$3.7 million General Fund and \$4.1 million Water Rights Fund), to accelerate and complete the update of the Bay-Delta Water Quality Control Plan.

## **PUBLIC EMPLOYMENT AND RETIREMENT**

### **EMPLOYEE COMPENSATION AND RETIREE HEALTH COSTS**

- Proposes a \$57 million (\$43 million General Fund) increase for employee compensation and retiree health care costs. These costs are driven by increases in health care premiums and enrollment.
- The Administration has begun collective bargaining negotiations with four of the state's bargaining units representing correctional peace officers, engineers, scientists, and craft and maintenance workers.

### **STATE EMPLOYEES' RETIREMENT**

- Reflects an increase to state retirement contributions of \$338 million (\$204 million General Fund), a decrease of \$110 million (\$56 million General Fund) from the Governor's budget. Of this incremental decrease, \$19 million General Fund is projected for the California State University. The projected reduction in state retirement contributions reflects employees entering the system under the reduced benefit formula pursuant to the Public Employees' Pension Reform Act of 2013, strong investment performance, and greater than expected contributions to the system.

### **TEACHERS' RETIREMENT SYSTEM**

- State contributions to the California State Teachers' Retirement System increased by \$6.8 million General Fund due to revised compensation figures for K-12 and community colleges teachers.

### **CIVIL SERVICE SYSTEM**

The Administration proposes several statutory and administrative changes to improve the state's civil service system including:

- Amend existing law that requires the elimination of positions, which have been vacant for six months or more, with a better mechanism to improve transparency into departments' budgets.

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- Eliminate of the use of limited-term positions. These positions can be difficult to fill and have resulted in inefficiencies. This change will result in the Administration and Legislature considering limited-term spending authority rather than limited-term position authority, and will require departments to manage their personnel levels within budgeted funds.
- Eliminate certain hiring restrictions that may make it harder for departments to hire eligible candidates in a timely manner.

## **TRANSPORTATION**

### **DEPARTMENT OF TRANSPORTATION**

The May Revision calls for minor changes in the funding and programs for the Department of Transportation (Caltrans).

- A one-time increase of \$2.5 million and six positions for the capital outlay support program for the State Route 710 Affordable Sales Program for the sale of 42 properties. These resources include staff at Caltrans and contracting dollars for interagency agreements with the Department of Housing and Community Development and the California Housing Finance Agency, and service contracts for property sales services.
- An increase of \$1.3 million to accelerate by one year the completion of the Road Usage Charge pilot program. The additional funding will be used for external contract operating expenses.

### **CAP-AND-TRADE EXPENDITURE PLAN**

- The Administration proposes a total of \$1.6 billion in cap-and-trade funds (or nearly 60 percent of the total proposed expenditures) for public transit, high-speed rail, and sustainable community development in 2015-16. The expenditure plan provides:
  - Low Carbon Transit Operations Program—\$100 million.
  - Transit and Intercity Rail Capital Program—\$265 million.
  - Affordable Housing and Sustainable Communities Program—\$400 million.
  - High-Speed Rail—\$500 million.
  - Low Carbon Transportation—\$350 million to the Air Resources Board for clean transportation programs.