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California State Senate

COMMITTEE
ON
BUDGET AND FISCAL REVIEW

ROOM 5019, STATE CAPITOL
SACRAMENTO, CA 95814

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COMMITTEE ASSISTANT
GLENDA HIGGINS
MARY TEABO

(916) 651-4103
FAX (916) 323-8386

Agenda
June 25, 2012
Room 4203
4 p.m.

VOTE ONLY

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2600 and 3500 Vote Only—Department of Transportation and Department of Resources

Governor’s Proposal	2012-13 (\$ in thousands)	Comments
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2660-401 Department of Transportation
3500-401 Department of Resources

Special Fund Loan Repayment

The Governor’s Budget called for a delay in the repayment of certain loans from transportation and resources special funds as a budget solution in 2012-13. The June 15 budget plan made certain changes to the budget borrowing plan. This action would revert special fund borrowing action to the approach laid-out in the May Revision involving the delay in the repayment of loans.

Staff Recommendation: Approve action to revert to May Revision approach for repayment of special fund loans.

8885 **Vote Only—Commission on State Mandates**

Governor’s Proposal	2012-13 (\$ in thousands)	Comments
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8885-001-0001 **Commission on State Mandates**

Additional Suspension of Selected Mandates

The Governor’s Budget called for the suspension of various mandates resulting in budget year savings of \$375.7 million, which the Senate previously approved. The amended proposal from the Administration calls for such suspensions to be continued for an additional two years, and implementing trailer bill language.

Out-year
Savings

TBL

Staff Recommendation: Approve.

9600 **Vote Only--Bond Debt Service**

Governor's Proposal	2012-13 (\$ in thousands)	Comments
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9600-510-0001

Technical Cleanup, Bond Extinguishment

The Governor's January budget proposes to reduce up to nine GO bond acts authorized by the voters between 1976 and 1998 by up to \$44 million. This remaining authority is no longer needed or cannot be legally issued for another purpose. Secondly, this proposal eliminates \$250 million in lease-revenue bond authority associated with two state office building projects that were authorized in 1993 and 1994 that were never pursued.

TBL This is a technical cleanup to bond authority.

Staff Recommendation: Approve trailer bill language.

XXXX Redevelopment

Governor's Proposal	2012-13 (\$ in thousands)	Comments
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XXXX Redevelopment

Local Government Pass-Through Payments

Under the budget proposal, the property tax “pass-through” payments negotiated by former redevelopment agencies and local governments would be honored. Under the proposal, there would be no “netting-out” of amounts owed from the property tax amounts that would otherwise be received based on allocation formulas and paid to local governments. Thus, there would be no change in the current treatment of property tax “pass-through” payments to local governments.

Staff Recommendation: Approve and incorporate current treatment of pass-through payments to local governments.

0555 Secretary for Environmental Protection

Governor’s Proposal	2012-13 (\$ in thousands)	Comments
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0555 – Secretary for Environmental Protection
3980 – Office of Environmental Health Hazard Assessment
3500 – Department of Resources Recycling and Recovery

Technical Cleanup, Program Locations

Two activities authorized under law, the Education and the Environment Initiative and the bio-methane research are located in the Secretary for Cal-EPA and the California Public Utilities Commission, respectively. At this point in the program and activity, it is more appropriate that they be moved to other boards and departments. This trailer bill enacts statute to allow these positions to be appropriately located in the Department of Resources Recycling and Recovery and the Office of Environmental Health Hazard Assessment, respectively.

TBL The Education and the Environment Initiative is in a program maintenance mode and is not appropriately placed in the Secretary’s office. The Department of Resources Recycling and Recovery has similar activities and can absorb this program as it winds down. There is no change in positions or funding.

The bio-methane research position is authorized in the California Public Utilities Commission but the expertise for this position is within the Office of Environmental Health Hazard Assessment. Therefore, this position and funding for one position should be shifted to this office.

0820 Department of Justice

Governor's Proposal	2012-13 (\$ in thousands)	Comments
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0820 Department of Justice

National Mortgage Settlement Proceeds

The Governor's May Revise included a request via trailer bill language that identified where \$292 million of the \$410.6 million in discretionary funds would be spent in Budget Year 2012-13 in order to provide greater General Fund relief.

100,000 This funding would be in addition to the already agreed to \$292 million that has been incorporated into the 2012 Budget Act.

The Legislature and the Administration have reached an agreement to utilize an additional \$100 million of the discretionary funds to provide additional relief to the General Fund. This is \$50 million more than was approved as part of the budget approved on June 15, 2012.

0820 Department of Justice

Governor's Proposal	2012-13 (\$ in thousands)	Comments
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0820-101-8071 Department of Justice

Oversight and Enforcement of the National Mortgage Settlement

On February 9, 2012, the federal government and 49 states reached a settlement with a number of national banks with respect to certain practices implemented by these banks regarding mortgage servicing and home foreclosures, the agreement was signed off by a federal judge on April 6, 2012.

The award amount included \$410.6 million in discretionary funds that were in addition to the \$18 billion settlement provided to homeowners and consumers in the state. The Legislature has appropriated a significant portion of the funds to support General Fund expenditures.

18,000 The Legislature should consider appropriating the remaining funds to support the enforcement and oversight of the Mortgage Settlement. The funding should be utilized to conduct enforcement related activities which will be conducted by the Office of the California Monitor. Additionally, funds should be utilized by the Department of Justice to assist homeowners in avoiding foreclosure by providing homeownership counseling services to the public.

2660 Department of Transportation

Governor's Proposal	2012-13 (\$ in thousands)	Comments
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2660-001-0046 Department of Transportation

Administrative Support

The Governor's May Revision proposal would provide support for the Department of Transportation (Caltrans) payable from the Public Transportation Account, State Transportation Account. Currently, \$159,262,000 has been approved in the budget. This action would approve an addition \$705,000 to provide staffing to coordinate with High Speed Rail Authority and other local and regional rail operators to improve service on Northern California intercity rail lines.

705

Special
Funds

This request is tied to appropriations identified in items in the High-Speed Rail Authority item.

2660

Department of Transportation

Governor's Proposal	2012-13 (\$ in thousands)	Comments
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Excise Taxes Shifted to General Fund

The Governor's proposal would shift certain excise taxes that are generated from gasoline purchased for certain uses be directed to the General Fund. The Legislature imposed a three-year sunset date on the shift of these revenues. This amended proposal would remove the three-year sunset and allow the excise tax revenues to flow to the General Fund indefinitely.

Out-year
budget
savings

2665 High-Speed Rail Authority

Governor's Proposal	2012-13 (\$ in thousands)	Comments
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2665-004-0890, 2665-004-6043 High-Speed Rail Authority
2665-304-0890, 2665-304-6043
2665-305-0890, 2665-305-6043

Administrative and Operations Support

The Governor's Budget would provide administrative and operations support for the High-Speed Rail Authority (HSRA) and Budget Bill Language. Amounts appropriated would be used for administration, program management, contract oversight, public information and communications contracts, fiscal contracts, and other outside consulting.

23,987
 Bond
 Funds

 660
 Federal
 Trust
 Funds

 BBL

This request provides on-going support for HSRA. This item does not include the major capital outlay for the High-Speed Rail project.

2665 High-Speed Rail Authority

Governor's Proposal	2012-13 (\$ in thousands)	Comments
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Continuing Capital Expenditures

The Governor's Budget calls for ongoing funding for design-related activities, determination of preferred routes, environmental research, and other activities related to High-Speed Rail segments largely in urban development areas in northern and southern California.

204,173
Bond
Funds

48,354
Federal
Trust
Funds

BBL

This request provides on-going support for HSRA for existing activities and was funded as part of last year's budget.

Capital commitments for the acquisition and construction of the initial operating segment in the Central Valley are addressed in a separate trailer bill.

3825 San Gabriel and Lower Los Angeles Rivers and Mountains Conservancy

Governor's Proposal	2012-13 (\$ in thousands)	Comments
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3825-001-0001 San Gabriel and Lower Los Angeles Rivers and Mountains Conservancy

Senate Appointments to Conservancy

Governor's Proposal: No Proposal

Current law requires the Senate to appoint one member of the Conservancy board from a list of two or more potential members submitted by the board of directors. This trailer bill would clarify that if the board fails to provide the Senate Committee on Rules a list of two or more potential members, at least 30 days prior to the date a current member's term of office expires, then the committee may appoint a member, subject to current law categorical requirements.

TBL This is a technical cleanup. In the past, the board has submitted only one name. Without any consequences (such as are in the new language), the Senate was forced to confirm that individual without any other candidate choices.

4260 Department of Health Care Services

Governor's Proposal	2012-13 (\$ in thousands)	Comments
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4260-101-0001 The Medi-Cal Program, Department of Health Care Services (DHCS)

Healthy Families Program Transition to Medi-Cal

January Budget. The Administration proposed to shift all Healthy Families Program (HFP) children to Medi-Cal beginning October 2012 over nine months.

Prior Legislative Action. The Assembly and Senate approved the transfer of only children in families with income at or below 133 percent of the federal poverty level (FPL).

June Agreement. The Administration and Legislature have agreed to transition all children in HFP to Medi-Cal beginning January 1, 2013 over the course of at least a year (in four phases).

Transition and implementation plans would be required prior to the shift of HFP children to Medi-Cal. These plans would detail the Administration's readiness for this transition; and provide information on health plan readiness, provider network adequacy, and consumer protections and notifications.

Trailer bill language would also require monthly monitoring of this transition and the posting of key data on DHCS' website.

-13,100

+ TBL

Provides for \$58.4 million GF savings in 2013-14 and \$72.9 million GF savings in 2014-15.

5180 Department of Social Services (DSS)

Governor's Proposal	2012-13 (\$ in thousands)	Comments
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California Work Opportunities and Responsibilities to Kids (CalWORKs)

-879,900

CalWORKs provides cash aid and welfare-to-work services to 587,000 needy families with 1.2 million children. Absent these proposals, the program would include \$5.8 billion in combined funds. In just under half of cases, families receive cash assistance for an adult in addition to children. Adult eligibility is subject to a lifetime limit of 48 months. Two-thirds of recipient households are headed by single women, nearly half of whom have 11th grade or less education.

The May Revision includes significant reductions (further detailed on the next pages) in benefits and services under the state's welfare-to-work program. The Governor also proposes restructuring the program into two new subprograms--CalWORKs Basic and CalWORKs Plus--and a third Child Maintenance Program outside of CalWORKs.

CalWORKs Basic would continue much of the current program for 24 months of adult eligibility, but narrow allowable work-related activities in the second 24 months. CalWORKs Plus would enhance benefits when adults fully meet work requirements through unsubsidized employment. Child Maintenance would include families now in the child-only caseload, as well as those in which the adult loses eligibility. Child maintenance grants would be reduced by 27 percent.

Governor's Proposal	2012-13 (\$ in thousands)	Comments
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CalWORKs: Proposed Phase-Out of Temporary Exemptions

Beginning in 2009-10 and 2010-11, and then extended into 2011-12, the state has saved approximately \$375 million GF annually from granting temporary welfare-to-work exemptions to parents of young children (i.e., a child aged 12 to 24 months or two children under the age of six). These parents have continued to receive cash aid, but not welfare-to-work services (including child care).

The May Revision proposes to extend these exemptions until October 1, 2012, with all individuals who would otherwise have been exempted being phased back into work participation requirements by October 1, 2013. During this 12-month period, the affected adults maintain their welfare-to-work exemption-status until their counties re-engage them in welfare-to-work services (although their time in exemption status after October 1, 2012 would newly count against their lifetime 48-month time limit).

Page 2 of 2

Adults aided by the CalWORKs program are required to participate for a specified number of hours in work-related activities (e.g., subsidized or unsubsidized work, education, training, and/or barrier-removal services, such as mental health or substance abuse treatment) outlined in their welfare-to-work case plans. In some cases, these requirements are waived as a result of an exemption from participation. The exempt adult can receive his or her share of the family's aid, but does not receive welfare-to-work services. In addition to the exemptions described at left, the state allows exemptions for adults with disabilities or who are ill, who are over age 60, who are caring for an ill or incapacitated family member, and in other specified circumstances.

In a recent hearing, the Senate Budget Committee took action to: 1) permanently extend the temporary exemptions described at left, 2) restore the Cal-Learn program of intensive case management for teen parents, and adopt a system of annual (rather than quarterly or semi-annual) eligibility reporting for cases without aided adults.

6110 / 6870 Department of Education and California Community Colleges

Governor’s Proposal	2012-13 (\$ in thousands)	Comments
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6110 / 6870 Department of Education and California Community Colleges

Updated K-14 Proposition 98 Budget Package.

On June 11, the committee adopted a K-14 Proposition 98 spending plan that closely resembles the Governor’s plan for K-12 schools and community colleges in the budget year, and also includes several current year adjustments proposed by the Governor.

For K-12 schools and community colleges, more than \$2.3 billion in new funding is directed to paying down inter-year payment deferrals, also the Governor’s highest priority; \$110 million is added for a modified version of the Governor’s K-14 mandate block grant proposal; and \$361 million for the QEIA program is funded within Proposition 98 to achieve GF savings in 2012-13.

Several significant modifications have been proposed, which are before the committee for its consideration today.

Significant Modifications to the K-14 Prop 98 Budget Package

1. For K-12: (a) adds \$53.7 million for charter school categorical program growth; (b) streamlines the deferral waiver process for charter schools, improves access to external financing for charter schools, and gives charter schools priority for lease or purchase of surplus school property; (c) redirects \$24.6 million in special education funding for occupational and physical therapy services to other K-12 purposes; and (d) temporarily suspends Level III developer fees that would otherwise be triggered when state facility bond funds are exhausted.
2. For CCCs: (a) if voters approve the Schools and Local Public Safety Protection Act of 2012, requires the deferral “buy down” of \$209.9 million be reduced by \$50 million and that funding be provided to districts as growth funding; (b) if voters reject the ballot measure and triggered programmatic reductions are operational, permits districts to reduce the number of students they serve in proportion to the reduction; and (3) provides a GF backfill mechanism if RDA-related revenues do not materialize.

6110 Department of Education

Governor's Proposal	2012-13 (\$ in thousands)	Comments
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6110-001-0001

Child Care – Budget Reductions

The Governor has proposed total budget reductions to non-Proposition 98 funded child care programs of \$452.5 million General Fund.

The budget (AB 1464) approved by the Legislature rejected the majority of the Governor's reductions and enacted a 5.5 percent across the board reduction to non-Proposition 98 child care programs. This would result in \$50 million in budgetary savings in 2012-13.

-30,000

The Governor estimated that the cuts he proposed would result in the loss of 29,600 slots. Some estimates are much higher than this given the significant reduction that was proposed in the Governor's proposal to the Regional Market Rate (30 percent reduction), which is the rate paid private providers for care.

The action that was part of the budget that passed last week (AB 1464) would have resulted in the reduction of 6,600 slots.

6440 / 6600 University of California / Hastings College of the Law

Governor's Proposal	2012-13 (\$ in thousands)	Comments
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**6440-001-0001 University of California
6600-001-0001 Hastings College of the Law**

University of California Retirement Plan (UCRP).

On June 11, the committee adopted a budget augmentation of \$52 million, with \$51.5 million and \$500,000 of that total for UC and Hastings, respectively, for employer contributions to UCRP for state General Fund- and tuition-funded employees. This was the level proposed by the Governor at the May Revision.

The January budget had proposed a \$90 million base budget augmentation that could be used to address costs related to retirement program contributions. The January Budget also proposed that UC's budget no longer be adjusted for retirement costs in the future.

UC and Hastings employees are members of the UC Retirement Plan. This plan is separate from CalPERS and under the control of UC; UC not only controls its pension costs but also sets benefits levels for its employees.

38,000
TBL

Prior to 1990, the state adjusted UC's GF appropriation to reflect increases and decreases in the employer's share of retirement contributions for state-funded UC employees. Starting in 1990 UC halted both employer and employee contributions because the plan had become super-funded. This funding holiday lasted nearly 20 years until the plan's assets had declined considerably and contributions became necessary. In April 2010, both UC and its employees resumed contributions. The state, however, has not provided UC with any funding specifically for that purpose. UC projects that annual total state costs would peak at about \$450 million GF.

It is not clear to what extent the state should be expected to pay for retirement benefits that are defined by UC. There are also questions about what legal obligations the state could incur by restarting contributions. The LAO has advised the Legislature proceed with caution and not simply pay whatever bill UC presents; i.e., the state may choose to re-start state contributions under the right conditions.

6440 / 6610 University of California / California State University

Governor's Proposal	2012-13 (\$ in thousands)	Comments
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6440-001-0001 University of California
6610-001-0001 California State University

Systemwide Tuition and Fee Levels.

In 2011-12, UC's mandatory systemwide tuition and fee level is \$12,192 and CSU's mandatory systemwide tuition and fee level is \$5,472.

Budget trailer bill language would provide, in 2013-14, \$125 million augmentations each to UC and CSU only if both of the following conditions exist: (1) the voters approve the Schools and Local Public Safety Protection Act of 2012 and (2) the UC and CSU maintain their respective 2011-12 mandatory systemwide tuition and fee levels in the 2012-13 academic year.

TBL The governing boards of UC and CSU have formal authority to set student fees for their respective systems. Each university system collects tuition and fees from its students. These tuition fees help to support the universities' general education costs. The other main source of funding for postsecondary education costs is the state General Fund.

7980 California Student Aid Commission (CSAC)

Governor's Proposal	2012-13 (\$ in thousands)	Comments
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7980-101-0001 California Student Aid Commission (CSAC)

Cal Grant Program.

On June 11, the committee adopted a number of Cal Grant Program savings proposals, including: (1) starting in 2013-14, reducing the maximum new Cal Grant award levels for students attending private for-profit and independent non-profit institutions to \$4,000 and \$5,472, respectively; (2) restricting institutional eligibility to those institutions with cohort default rates less than 15.5 percent and graduation rates greater than 30 percent, with specified exceptions, and require the CSAC to provide additional notification to students; (3) codifying the current practice of requiring students seeking a Community College Transfer Entitlement Cal Grant award to have attended a community college in the academic year prior to the transfer, with an additional year of eligibility for students who attended community colleges in 2011-12, in recognition of CSU's plan to freeze admissions in Spring 2013; and (4) rescinding a prior Subcommittee No. 1 action to approve a new budget bill control section related to CSAC administration of the Cal Grant program.

Also includes prior Subcommittee No. 1 action to adopt budget trailer bill language authorizing students who initially receive a Cal Grant B to switch to a Cal Grant A, to the extent they become ineligible for the Cal Grant B upon renewal but continue to be eligible for the Cal Grant A.

The Cal Grant program is the primary financial aid program run directly by the state. It was modified in 2000 to become an entitlement award, thereby guaranteeing Cal Grants to high school graduates and community college transfer students who meet several eligibility requirements.

The Administration cites dramatic increases in Cal Grant costs since 2001 as the reasoning for its proposed changes to the program. High school graduation levels have been relatively flat; therefore, the increased costs can be primarily explained by two factors: (1) tuition fee increases at public universities which have increased award amounts and (2) decreased family incomes due to the economy which have increased the number of eligible students.

Total 2012-13 Cal Grant program expenditures are estimated at roughly \$1.6 billion, with roughly 77 percent at public institutions and 16 and eight percent at independent non-profit and private for-profit institutions, respectively.

Control Section 3.62

Budget Trigger Reductions

Governor’s Proposal	2012-13 (\$ in thousands)	Comments
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Budget Trigger Reductions

The Governor has proposed an overall budget architecture for the 2012-13 fiscal year that relies on state revenues that would be raised only if approved by voters in November 2012. The California Constitution requires that the annual state budget be balanced, and this uncertainty requires that the Legislature adopt contingency plans for addressing the \$8.5 billion in revenue that would not be raised if the revenues are not approved by the voters. The Governor has proposed “trigger reductions” effective January 1, 2013 that would be the contingency plan if the ballot measure is not approved.

In January the Governor proposed trigger reductions that totaled \$5.4 billion. In the May Revision the trigger reductions were increased by less than \$1 billion to address the additional revenues being raised by the revised November initiative.

Proposed Budget Trigger Reductions
2012-13 Trigger Cuts (in Millions)

Program Area	Amount
K-14 Education (Proposition 98)	\$5,356.0
University of California	250.0
California State University	250.0
Developmental Services	50.0
Local Water Safety Patrol	5.6
New Police Grant Program	20.0
Department of Forestry and Fire Protection	10.0
Flood Control	6.6
Fish and Game: Non-Warden Programs	2.5
Park Lifeguards and Rangers	1.5
Fish and Game: Wardens	1.0
Department of Justice	1.0
Total	\$5,954.8