CALIFORNIA BUDGET PROJECT

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Governor's Budget Proposal Prioritizes Paying Down Debt and Saving for a Rainy Day, Takes Only a Modest Step Toward Reinvesting in California's Future

On Thursday, January 9, Governor Jerry Brown released his proposed 2014-15 budget, reflecting a total of $6.3 billion in unanticipated revenues from 2012-13 to 2014-15, driven primarily by growth in personal income tax revenues.

Growing state revenues and an improved fiscal outlook present California policymakers with a range of options for how best to build pathways to opportunity and broadly shared prosperity. The Governor's proposal emphasizes paying down budgetary debt and longer-term liabilities and creates a new rainy day fund. The Governor's proposal also includes the ongoing state-led expansion of Medi-Cal, adopted in the 2013-14 budget, and additional spending for restructuring of school finance, also approved last year, to provide additional dollars to support disadvantaged students.

While the Governor's proposed budget calls for some significant improvements in a number of areas, it represents only a modest step toward reinvestment in public services that are critical to individuals, families, and communities. The Administration's proposal does not include any major restorations in funding for a variety of areas that were subject to deep cuts in recent years, including child care and preschool programs – which lost more than 100,000 slots in prior years – the CalWORKs welfare-to-work program, and higher education, among others. At a time when poverty and long-term unemployment are still high in many parts of the state, increased funding for these programs is needed to support the many Californians still hurting in the wake of the Great Recession.

The Governor's budget proposal would move the state forward in some significant ways, yet represents an incomplete vision for investing in California's future. By leaving too many core public systems and supports operating at historically low levels, the proposal fails to provide a platform for growth that benefits all Californians.

The following sections summarize many key provisions of the Governor's proposed 2014-15 budget. As additional details become available, the California Budget Project (CBP) will update this document. The CBP will also prepare in-depth analyses of major proposals contained in the budget in the upcoming days and weeks. Please check the CBP website (www.cbp.org) for refinements and additions to this analysis as more information becomes available. The Governor's budget documents are available online at http://www.ebudget.ca.gov/.

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The Administration Forecasts a Slowly Improving California Economy Over the Next Two Years

The economic projections included in the Governor's proposed 2014-15 budget show that while California's economy is improving, workers still face a difficult economic environment nearly four years since the Great Recession ended.

The Administration forecasts that the economy will see "slow to steady growth over the next few years." The Governor's proposed budget estimates that US gross domestic product (GDP) – the value of all goods and services produced – will increase by an annual rate that exceeds 3 percent by 2015. California's economy is also expected to grow through 2015, and the Administration forecasts steady improvements in the state's labor market. The Administration projects California's unemployment rate will fall to 7.9 percent in 2014 and 7.3 percent in 2015. This is a significant improvement from the unemployment rate of 12.4 percent in 2010. Further, the Governor's economic outlook anticipates a more accelerated recovery in the job market relative to last year's forecast. However, even with the improved economic outlook, under the Administration's forecast California's unemployment rate will not fall to its pre-recession level (4.9 percent in 2006) for at least a few years.

The Governor's proposed budget also points to a number of risks to California's economic outlook. The slow pace of the US economic recovery has led to slow growth in workers' wages, and the Administration suggests that this weak wage growth makes it difficult for people to save for retirement or buy homes. The Governor's proposed budget also notes that decisions by the US Federal Reserve – such as tapering the pace of bond purchases – could have a negative impact on the US economy.

Governor's Proposed Budget Includes Improved Revenue Forecast, Primarily Due to Higher Personal Income Tax (PIT) Receipts

The Governor's proposed budget projects significant increases in General Fund revenues over the "budget window" from 2012-13 to 2014-15. The total revenues for this period are expected to be $6.3 billion higher than anticipated in the 2013-14 budget. This reflects an increase of $1.7 billion over the earlier forecast for 2012-13; $3 billion over the earlier forecast for 2013-14; and, $1.6 billion over the earlier forecast for 2014-15. For 2014-15, the Administration proposes to deposit the unanticipated revenues in the state's Budget Stabilization Account (BSA), or rainy day fund. The state's improved revenue collections are primarily attributable to increases in PIT revenues, driven by a significantly higher capital gains forecast. Due to gains in the stock market and the real estate market, capital gains revenues are projected to grow to 9.9 percent of total General Fund revenues in 2014-15, up from a recent low of 3.5 percent in 2009-10.

Other notable revenue changes reflected in the Governor's proposed budget include:

- A year-to-year increase in General Fund revenues of 5.9 percent from $100.1 billion in 2013-14 to $106.1 billion in 2014-15;
- Projected decreases in General Fund sales tax revenues and General Fund corporation tax revenues; and
- A projected average year-over-year growth rate of 6.8 percent from 2012-13 to 2017-18 for the state's three largest revenue sources: PIT, the sales tax, and the corporation tax.

Proposed Budget Addresses Some of the State's Long-Term Liabilities

The Governor's proposed budget highlights the state's debts and liabilities, noting "an unprecedented level of debts, deferrals, and budgetary obligations accumulated over the prior decade." These long-term liabilities include budgetary debt (the Governor's so-called "Wall of Debt"), unemployment insurance debt, unfunded retirement liabilities, deferred maintenance for infrastructure, and other debts. Total long-term liabilities amount to $354.5

billion, although repayment schedules vary dramatically across different forms of debt. In addition, some repayments are required by the state Constitution while others are discretionary.

The Administration proposes to use the positive balances made possible by increased revenue collections to pay down some of the state's long-term debts and liabilities. While the Governor's proposal would address some of the state's long-term liabilities, it defers dealing with unfunded retirement liabilities and an unemployment insurance (UI) imbalance, specifically mentioning that in the cases of UI and teachers' retirement liabilities "the Administration will spend the coming year working with stakeholders to craft strategies to address them."

The Governor's proposed budget:

- **Reduces budgetary debt to $13.1 billion in 2014-15 – down from $24.9 billion in 2013-14 – and eliminates budgetary debt altogether by 2017-18.** The Governor's proposed spending plan for 2014-15 eliminates deferred payments to schools and community colleges ($6.2 billion), pays off deficit financing bonds approved by voters in 2004 ($3.9 billion), and repays borrowed transportation funds early ($340 million). The Administration's proposal also includes a $100 million payment as the first in a series of repayments on a loan from the "cap and trade" auction revenues that was made to support General Fund expenditures in 2013-14.

- **Includes $815 million in one-time funds for deferred maintenance of the state's existing infrastructure.** The Governor's spending plan would provide these funds to a number of entities, including K-12 schools ($188 million), community colleges ($175 million), and the state Department of Parks and Recreation ($40 million). The Administration estimates that the total cost of deferred maintenance for the state's existing infrastructure is $64.6 billion. By beginning to address this backlog, "the state will keep its assets functioning longer and reduce the need to build costlier new infrastructure," according to the Administration.

- **Includes $231.6 million in General Fund spending to pay interest on federal loans that cover the UI Fund imbalance.** The state's UI Fund was exhausted in January 2009 and the state borrowed funds from the Federal Unemployment Account to avoid interruptions in benefit payments. California began paying interest on these borrowed funds in 2011, and state spending on the interest payments totaled $870.7 million from 2011 through 2013. California is projected to owe $8.8 billion by the end of 2014.

The Administration Proposes a Constitutional Amendment to Create a New Rainy Day Fund

The Governor's proposed budget calls for a constitutional amendment to "strengthen" the state's rainy day fund. This constitutional amendment would require legislative approval to appear on the November 2014 ballot.

In 2004, the state's voters approved Proposition 58, directing 3 percent of annual revenues into a rainy day fund, the Budget Stabilization Account (BSA). Proposition 58 allows the Governor to suspend the BSA transfer, which the state has done every year since 2007. In addition, Proposition 58 places no restrictions on when the funds deposited into the BSA can be used.

In 2010, the Legislature passed a constitutional amendment, ACA 4, which is scheduled to appear on the November 2014 ballot. ACA 4 calls for changes to the state's rainy day fund, including new restrictions on deposits and when the funds can be withdrawn. However, the Administration notes that ACA 4 does not give the state the option of paying down liabilities instead of making deposits, and that it bases deposits on revenues from the past 20 years rather than on "spikes" in capital gains.

The constitutional amendment included in the Governor's proposed budget – which would appear on the November 2014 ballot with legislative approval – would supercede Proposition 58 and ACA 4. This constitutional amendment would:

- Base fund deposits on when capital gains revenues exceed 6.5 percent of General Fund revenues;
- Create a Proposition 98 reserve, where increases in funding would be saved for future years of decline, to "smooth school spending." The reserve "would make no changes to the guaranteed level of funding dedicated to schools under Proposition 98";
- Increase the size of the rainy day fund from 5 percent to 10 percent of General Fund revenues;
- Allow the state to pay down budgetary debt or other long-term liabilities instead of making a deposit into the rainy day fund; and
- Limit the maximum amount that could be withdrawn from the rainy day fund in the first year of a recession to one-half of the fund's balance in an effort to ensure that the state does not deplete the rainy day fund too quickly in the early phases of a downturn.

Increased Revenues Boost the Minimum Funding Level for Schools and Community Colleges

Approved by voters in 1988, Proposition 98 constitutionally guarantees a minimum level of funding for K-12 schools, community colleges, and the state preschool program. The Governor's proposed budget assumes a 2014-15 Proposition 98 funding level of $61.6 billion for K-14 education programs, $4.8 billion above the revised 2013-14 minimum funding level. Because changes in state General Fund revenues tend to affect the Proposition 98 guarantee, the Proposition 98 funding levels included in the Governor's proposed budget reflect increases in 2012-13 and 2013-14 estimated revenue compared to the levels assumed in the 2013-14 budget agreement. Based on these revised revenue estimates, the Governor's proposed budget assumes a 2013-14 Proposition 98 funding level of $56.8 billion, $1.5 billion more than the level assumed in the 2013-14 budget agreement, and a $58.3 billion 2012-13 Proposition 98 funding level, $1.8 billion above the level assumed in the 2013-14 budget agreement. The Administration also proposes a constitutional amendment to create a new rainy day fund, which would include a new Proposition 98 reserve "whereby spikes in funding would instead be saved for future years of decline."

The Governor's proposed budget eliminates outstanding obligations to K-12 school districts and increases funding for the state's new education funding formula. Specifically, the Governor's proposed budget:

- **Eliminates $5.6 billion in outstanding debt owed to schools.** The Governor's proposed budget provides more than $2.2 billion in 2014-15, and $3.3 billion in 2012-13 and 2013-14 combined, to repay previously deferred payments to K-12 school districts, which reached $9.5 billion at the end of 2011-12.

- **Provides $4.5 billion to continue implementation of the state's new education funding formula.** As part of the 2013-14 budget agreement, the Local Control Funding Formula (LCFF) restructured the state's education finance system. The LCFF provides school districts a base grant per student, adjusted to reflect the number of students at various grade levels, as well as additional grants for the costs of educating English learners, students from low-income families, and foster youth. The Governor's proposed budget provides $4.5 billion to fund LCFF grants for K-12 school districts and charter schools in 2014-15, and $25.9 million to fund LCFF grants for county offices of education – all of which include cost-of-living adjustments. The Administration proposes legislation to create a continuous appropriation for LCFF funding to ensure that implementation moves forward regardless of legislative action on future budgets. Increasing LCFF funding may reduce the amount of time it takes to fully implement the formula, which depends on sufficient funding for all districts to reach a target base grant.

- **Allocates $316 million from Proposition 39 revenues to K-12 school districts for energy efficiency project grants.** Proposition 39, the California Clean Energy Jobs Act approved by voters in November 2012, increased state corporation tax revenue by requiring multistate corporations to use the "single sales factor" method of apportionment in calculating their taxable income.

- **Provides $188.1 million in one-time Proposition 98 funding for the Emergency Repair Program.** The Governor's proposed budget would reduce the state's current obligation of $462 million to schools under the *Williams v. California* settlement agreement. In 2004, the Legislature agreed to provide $800 million to pay for emergency facility repairs in schools ranked in deciles one through three of the Academic Performance Index as part of the *Williams* agreement.

- **Provides cost-of-living adjustments (COLAs) for non-LCFF programs.** The Governor's proposed budget funds a 0.86 percent COLA ($33.3 million) for several categorical programs that remain outside of the new education funding formula, including special education, child nutrition, and American Indian Education Centers.

The Governor's proposed budget eliminates outstanding obligations to California Community Colleges (CCCs) while also increasing funding for CCC general-purpose apportionments. Specifically, the Governor's proposed budget:

- **Eliminates $592.4 million in outstanding debt owed to CCCs.** The Governor's proposed budget provides $235.6 million in 2014-15, and $356.8 million in 2012-13 and 2013-14 combined, to repay previously deferred payments to CCCs, which reached $961 million at the end of 2011-12.

- **Provides $200 million to "improve and expand student success programs."** The Governor's proposed budget allocates $100 million to increase funding for orientation, assessment, placement, counseling, and other education planning services, and targets $100 million toward underrepresented student groups to close achievement gaps.

- **Provides $175 million in one-time Proposition 98 funding for facilities and equipment.** The Governor's proposed budget splits allocated funds equally between deferred maintenance and instructional equipment purchases.

- **Increases CCC apportionment funding by $155.2 million.** The proposed increase in apportionments – which provide general purpose funding for CCCs – represents a 3 percent enrollment increase.

- **Provides $48.5 million to fund a 0.86 percent statutory COLA.** Statutory COLAs are periodic funding increases predetermined in state law, in contrast to discretionary COLAs that are established at optional levels by the Administration and Legislature through the annual budget process.

- **Allocates $39 million from Proposition 39 revenues to CCCs for energy efficiency project grants.** Proposition 39, the California Clean Energy Jobs Act approved by voters in November 2012, increased state corporation tax revenue by requiring multistate corporations to use the "single sales factor" method of apportionment in calculating their taxable income.

Governor Proposes Funding Increases for the University of California and the California State University Along With Funding to Begin Implementing the Middle Class Scholarship Program

The Governor's proposed budget continues a plan, included in the 2013-14 budget agreement, that increases General Fund spending for the University of California (UC) and the California State University (CSU) with the expectation that this additional funding would be used to avoid tuition and fee hikes. For 2014-15, the Governor proposes General Fund increases of $142.2 million each for UC and CSU. The 2013-14 budget agreement increased General Fund spending by more than $250 million each for UC and CSU over the prior year. Even with the 2013-14 increases and the proposed 2014-15 increases, General Fund spending for UC and CSU would be 14.2 and 15.6 percent lower, respectively, than in 2007-08, without adjusting for inflation. At the same time, UC and CSU tuition and fees have increased significantly between 2007-08 and 2013-14 – by 83.7 percent at UC and by 97.4 percent at CSU, without adjusting for inflation – and remain at record highs for both institutions – $12,192 at UC and $5,472 at CSU.

In addition to proposing increases to UC and CSU funding, the Governor's proposed budget:

- **Provides $107 million in 2014-15 to begin implementation of the Middle Class Scholarship (MCS) Program.** The MCS Program would provide scholarships to eligible California resident undergraduates from families with annual household incomes up to $150,000 who attend a UC or CSU. Upon full implementation of the MCS Program, participating students would be eligible for awards that, combined with other publicly funded student financial aid, would cover up to 40 percent of mandatory systemwide tuition and fees. Full implementation of the MCS is expected in 2017-18.

- **Includes $50 million in one-time General Fund dollars to create the Awards for Innovation in Higher Education program.** These awards would be given to a UC, CSU, or community college – or a group of any of these – that proposes innovative ways to increase the number of individuals earning bachelor's degrees, allow students to earn bachelor's degrees within four years, and simplify transfer through the state's higher education system.

Governor's Proposed Budget Reflects Medi-Cal Expansion, Generally Maintains Prior Cuts Made to Provider Payments and Counties' Health Care Safety Net

The Governor's proposed budget reflects the full implementation of federal health care reform in California. This includes the expansion of Medi-Cal health care services – which took effect January 1, 2014 – to parents and childless adults who were previously excluded from the program and whose incomes are at or below 138 percent of the federal poverty line ($15,856 for an individual in 2013). The federal government will pay the full cost of this expansion through 2016, phasing down to a still-high 90 percent of the cost in 2020 and beyond. The Governor estimates the expansion will cost $2.6 billion during the remainder of 2013-14 and $6.6 billion in 2014-15. In other words, California is estimated to receive a total of $9.2 billion in new federal funding over the next 18 months – dollars that will flow to doctors, clinics, and other health care providers across the state – in order to extend health coverage to low-income Californians who have historically lacked access to affordable coverage. Overall, full implementation of health care reform is expected to result in an additional 1.4 million low-income Californians enrolling in Medi-Cal by the end of 2015-16, according to the Administration.

At the same time, the Governor's proposed budget reflects two major policy changes adopted in recent years that could hinder efforts to increase Californians' access to health care. Specifically, the Governor's proposed budget:

- **Maintains a 10 percent cut to payments for doctors and other Medi-Cal providers, while partially rolling back the retroactive portion of this cut.** The Administration began implementing this provider payment reduction in September 2013, with the cut being retroactive to June 2011. Overall, this cut is estimated to reduce state spending on Medi-Cal by $282.8 million in 2014-15. However, some providers have been exempted from the reduction, and the Governor now indicates the state will "forgive" the *retroactive* portion of the cut for certain providers and services, including physicians and clinics, certain high-cost drugs, and dental services. (On a conference call with stakeholders, Administration officials indicated that this change would require federal approval.) Yet, even with this partial rollback of the provider rate reduction, the remaining cut still could discourage some providers from participating in Medi-Cal as enrollment rises due to the expansion.

- **Reflects a recent policy change that permanently redirects – from counties to the state – funding that counties currently use to provide health care to uninsured, low-income residents.** Counties receive these dollars as part of a state-to-county transfer – or "realignment" – of services that was implemented in 1991. As part of the 2013-14 budget agreement, state policymakers shifted a significant share of these dollars to the General Fund. This shift was based on the assumption that counties will no longer need all of these funds to support their health care safety nets as many low-income adults newly enroll in Medi-Cal under the expansion. Up to $300 million will be shifted from counties to the state in 2013-14, rising to an estimated $900 million in 2014-15, with these dollars used to offset the state's General Fund costs for the CalWORKs Program. It is uncertain whether counties will be left with sufficient funds to provide health care for the 3 to 4 million Californians who are projected to lack coverage even after full implementation of health care reform.

Proposed Budget Assumes a Two-Year Extension of the Deadline for Meeting a Court-Ordered Prison Population Cap

California's state prisons are designed to house nearly 81,600 inmates, but the prison population currently exceeds 118,600 – roughly 145 percent of the system's capacity. The state is under a federal court order to reduce the prison population to 137.5 percent of capacity – which currently equals about 112,200 inmates – by April 18, 2014, a deadline that has been extended several times. The Governor's budget proposal assumes that the court will grant the state a new two-year extension, pushing the deadline for meeting the population cap into 2016. Under the Governor's proposal, if the state receives this two-year extension, approximately $81 million in state funds would be made available in 2014-15 – based on a funding formula included in a bill approved last year – for a range of rehabilitative activities intended to reduce recidivism. These activities could include re-entry programs for inmates who are within one year of release from prison and an expansion of substance use disorder and mental health services. In contrast, "if there are no further extensions to the population cap deadline, this funding will be used for increased capacity to avoid the early release of inmates," according to the Administration.

In addition, the Governor's proposed budget:

- **Calls for an increased use of "split sentences" for lower-level felony offenders sentenced to county jail.** In 2011, state policymakers shifted (or "realigned") responsibility for certain lower-level offenders – generally defined as those who have committed nonviolent, nonserious, nonsex crimes – from the state to the counties. Currently, these offenders may receive either a "straight sentence" (jail time only) or a "split sentence" (jail time followed by mandatory supervision). The Governor proposes to require the use of split sentences for "any county jail felony sentence … unless the court finds it to be in the interests of justice … to impose a straight sentence." The Governor suggests that increased use of split sentences could help reduce recidivism and relieve jail overcrowding.

- **Recommends that lower-level offenders who receive sentences longer than 10 years be required to serve their time in state prison rather than in county jail.** Lower-level offenders may receive "overly long sentences" that are "not appropriate for county facilities," according to the Administration. Requiring lower-level offenders who receive sentences longer than 10 years to serve their time in state prison would increase the prison population by about 300 inmates on an annual basis. The Governor's proposal indicates that this change could be implemented only if the state is successful "in its efforts to meet its court-ordered population cap." This appears to mean that the Administration would support this jail-to-prison inmate shift only if the state receives an additional two years to reduce the prison population to the court-ordered level, a key assumption in the Governor's proposed budget.

- **Includes $500 million to build county jail facilities.** The Governor's proposal suggests that these new funds would be available primarily for facilities that include space for providing treatment and rehabilitation services, with counties subject to a 10 percent matching requirement. This would be similar to the requirements of SB 1022 of 2012, which also provided $500 million for county jails. Under the Governor's proposal, counties applying for funding would have to demonstrate that they are using their current jail space effectively.

Proposed Budget Reflects a 5 Percent CalWORKs Grant Increase, Introduces Engagement Pilot Project

The California Work Opportunity and Responsibility to Kids (CalWORKs) Program provides modest cash assistance for more than 1 million low-income children while helping parents overcome barriers to employment and find jobs. State policymakers made deep cuts to the program in recent years, including substantially reducing cash aid for families and imposing a 24-month limit on the amount of time CalWORKs parents can access the full array of welfare-to-work activities available under state law before having to meet less flexible federal work participation requirements.

The Governor's proposed budget:

- **Reflects the 5 percent increase in the CalWORKs grant that was adopted in the 2013-14 budget agreement, but assumes no additional grant increase in 2014-15.** The grant increase will take effect March 1, 2014, and will be funded with special fund growth dollars from the 1991 realignment. The Administration estimates that the cost of the partial-year grant increase in 2013-14 will be $57.5 million. Legislation enacting the grant increase allows for further increases to the CalWORKs grant in 2014-15 and beyond, depending on the amount of growth dollars available. However, the Administration estimates that the full-year cost of the higher grant level in 2014-15 will be $168 million, an amount that will exceed the growth dollars available for that year. The Governor's proposed budget would use General Fund dollars to pay for the remaining $6.3 million. Under the Governor's proposed budget, cash grants for most families will remain below the "deep poverty" cut-off of 50 percent of the federal poverty line.

- **Includes a six-county "Parent/Child Engagement Demonstration Pilot."** This pilot program would provide additional targeted assistance to CalWORKs families who face multiple challenges to securing employment. The program would help approximately 2,000 families access licensed child care. Parents would also participate in "work readiness activities" and activities designed to "enhance parenting and life skills." The Administration estimates that the pilot, which would take place over a three-year period starting in 2015, would cost a total of $115.4 million General Fund.

Proposed Budget Does Not Restore Child Care Slots Lost in Recent Years

California's child care programs provide safe and affordable care that helps lower-income parents find and keep jobs. In addition, the state preschool program provides full- and part-day preschool for eligible three- and four-year-olds from lower-income families. State policymakers have repeatedly cut child care and development programs in recent years in order to help close budget shortfalls. Since 2007-08, state policymakers have cut total funding for child care and preschool programs by nearly 40 percent, resulting in the elimination of about 110,000 child care and preschool "slots."

The Governor's proposed 2014-15 budget generally maintains the prior year's funding levels for subsidized child care and the state preschool program, with no significant increases in funding and – in some cases – slight funding reductions.

Proposed Budget Reflects Prior Cuts to In-Home Supportive Services (IHSS) and Would Ban Overtime for IHSS Workers

Many seniors and people with disabilities in California rely on the In-Home Supportive Services (IHSS) Program, which helps more than 400,000 low-income individuals remain safely in their own homes, preventing the need for more costly out-of-home care. The Governor's proposed budget reflects an 8 percent across-the-board cut – implemented in July 2013 – to the total hours of care each IHSS consumer may receive. Under current law, this reduction is scheduled to scale back to 7 percent in 2014-15, and the Governor does not propose to reduce or repeal this cut.

In September 2013, the US Department of Labor issued new rules that extend minimum wage and overtime protections to home care workers, including IHSS providers. The rules go into effect January 1, 2015. The Administration states that the new regulations "have the potential to increase IHSS program costs by over $600 million by 2015-16." The Governor's proposed budget, in order to "control costs," would prohibit IHSS providers from working overtime. IHSS recipients who need more than 40 hours of care a week would have to hire an additional provider. The Governor's proposed budget would establish a "Provider Backup System" to help connect IHSS consumers with additional providers.

Proposed Budget Does Not Restore State Cost-of-Living Adjustment for SSI/SSP

Supplemental Security Income/State Supplementary Payment (SSI/SSP) grants help nearly 1.3 million low-income seniors and people with disabilities to afford food and other basic necessities. Monthly grants for couples and for individuals were reduced to federal minimums in 2009 and 2011, respectively. The Governor's proposed budget does not restore the annual state COLA for SSI/SSP grants that was eliminated in 2009. Effective January 2014, SSI/SSP grant levels are $877 for individuals and $1,478 per month for couples. The maximum SSI/SSP grant for individuals dropped below the federal poverty line in 2009 – and remains below the poverty threshold.

Governor Proposes Expanding the Use of Infrastructure Financing Districts to Boost Local Economic Development

State actions in recent years have removed two longstanding and widely used tools intended to promote local economic development. In 2011, the state eliminated Redevelopment Agencies (RDAs), resulting in an estimated Proposition 98 General Fund savings of $1.1 billion in 2013-14 and $785 million in 2014-15, as well as the return of an estimated $1.3 billion to cities, counties, and special districts during that same time period. In 2013, the state phased out the Enterprise Zone Program, replacing it with a new set of economic incentives. As a result, local governments were left with few available tools to promote local economic development. In response, the Administration proposes to expand the use of Infrastructure Financing Districts (IFDs), which use tax increment financing to divert future tax revenue from other local agencies in order to finance economic development. Local authority to establish IFDs was granted by the state in 1990, but they have been underutilized due to the prevalence of RDAs and the vote requirements necessary to both establish and fund IFDs.

The Governor proposes to:

- **Alter the two-thirds requirement for voter approval of IFDs.** Currently, cities and counties need a two-thirds vote of the electorate both to establish an IFD and to issue IFD bonds. Under the Governor's proposal, these vote thresholds would be reduced to 55 percent.

- **Expand the type of projects that IFDs can fund.** Currently, IFDs are only permitted to fund certain local projects, including transit and highways, wastewater management, child care facilities, and libraries and parks.

The Governor's proposal would allow IFDs to fund projects that have "quality-of-life benefits," such as affordable housing and urban infill.

- **Require cities and counties seeking to establish an IFD to meet certain benchmarks related to the dissolution of RDAs.** In cases where a city or county formerly operated an RDA, the Administration's plan would require the entity to meet certain goals prior to establishing an IFD, including paying – in full – any amounts owed to cities, counties and/or school districts; complying with state audit findings; and finalizing all legal issues. In addition, if the new IFD overlaps with a dissolved RDA, the amount of funding available for the IFD would depend on the extent to which the RDA's existing payment obligations have been met.

Unlike RDAs, IFDs cannot divert funding from K-14 districts, and, as a result, the Governor's proposal would not have an impact on the General Fund. In addition, the Governor's proposal maintains the current rules requiring a new IFD's establishment to be approved by the cities, counties, and special districts that would contribute revenues to it.

Governor Proposes Significant Investments in Infrastructure Projects

The Governor proposes investments in the state's infrastructure, with substantial funding dedicated to supporting transportation and water projects. The proposed budget:

- **Uses revenues from "cap and trade" auctions to support high-speed rail and other projects intended to reduce greenhouse gas emissions.** The Governor's proposed budget includes $850 million in spending from revenues already received or expected to be received from "cap and trade" auctions organized by the Air Resources Board. Proposed expenditures include $250 million for the High-Speed Rail Authority as well as $50 million for other rail modernization projects. The remaining cap-and-trade revenues would be spent on other projects that are expected to reduce greenhouse gas emissions, such as projects that make buildings more energy efficient or restore forest lands.

- **Allocates funding from a variety of sources to begin implementation of the California Water Action Plan.** The California Water Action Plan is a blueprint jointly developed by the California Natural Resources Agency, the California Environmental Protection Agency, and the Department of Food and Agriculture to better manage California's water supply. The Governor proposes $618.7 million to begin implementation of the Plan, including $472.4 million of Proposition 84 funds to support local projects that help regional agencies better manage and conserve water.