cbp CALIFORNIA BUDGET PROJECT

June 26, 2014

# 2014-15 Budget Agreement Prioritizes Fiscal Austerity, Takes Only a Small Step Toward Reinvesting in Shared Prosperity

Signed into law on June 20, 2014, the 2014-15 budget package places a heavy emphasis on fiscal austerity – prioritizing paying down debt and saving for a rainy day – with only modest progress made in reinvesting in a variety of core public systems and services that were battered by cuts in prior years. The budget package – which has $156.4 billion in total state spending ($108.0 billion General Fund) – includes plans both to reduce budgetary debt (the so-called "Wall of Debt") by up to $10.7 billion in 2014-15 and to begin paying down unfunded liabilities in the California State Teachers' Retirement System. The budget also includes a $1.6 billion transfer to the state's rainy day fund, the Budget Stabilization Account.

Yet despite increased revenues and an improving state fiscal outlook, the 2014-15 spending plan takes only a small step toward boosting support for public services and systems that are operating at severely diminished levels of funding in the aftermath of the Great Recession, including child care, higher education, and safety-net services for low-income seniors and people with disabilities. Although the budget agreement includes funding to expand access to the state preschool program and slightly increases cash grants for families in the CalWORKs welfare-to-work program, it does not include several legislative proposals that would have further boosted critical support for low-income families. At the same time, the enacted spending plan continues the persistent trend of higher state corrections spending.

The 2014-15 budget agreement represents a missed opportunity to reinvest in California's families and communities and help foster broadly shared prosperity. New revenues, coupled with an improving economy, provided an opportunity for policymakers to strike a better balance among paying down debts and liabilities, saving for a rainy day, and ensuring that the state's budget is working for Californians still struggling to make ends meet in the aftermath of the worst economic downturn in generations. With poverty rates and long-term unemployment still high, widening income inequality, and a safety net severely weakened by years of funding cuts, the budget agreement reflects a choice of austerity over prosperity, leaving many California families and communities, once again, waiting for next year.

The following sections highlight key provisions of the 2014-15 budget package and discuss issues and potential challenges they raise for California in the coming fiscal year – which begins July 1 – and beyond. Over the next several weeks, the CBP will provide additional commentary and analysis via our blog at www.californiabudgetbites.org.

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## Budget Agreement Allocates Up to $13 Billion for Building the State's Rainy Day Fund, Paying Down Budgetary Debt, and Reducing the Deferred Maintenance Backlog

The 2014-15 budget provides $11.2 billion – more than 10 percent of projected General Fund revenues – in order to build the state's rainy day reserve, pay down budgetary debt, and reduce the backlog of deferred maintenance on the state's infrastructure. Moreover, if certain conditions are met, up to $2 billion in additional state funds would be used to further reduce both budgetary debt and the deferred maintenance backlog. The budget agreement allocates:

- **$1.6 billion** to build the state's rainy day reserve – the Budget Stabilization Account – which was established by voters through passage of Proposition 58 in 2004.

- **$1.6 billion** to pay off – one year earlier than anticipated – the deficit-financing bonds authorized by voters through passage of Proposition 57 in 2004.

- **$5.2 billion** to K-12 schools ($4.7 billion) and community colleges ($498 million) to pay down most of the outstanding debt attributable to payment "deferrals" in prior years. (The state deferred payments to schools and community colleges during and following the Great Recession in order to help close substantial state budget shortfalls.) Moreover, the spending plan contains a provision that would provide **up to an additional $992 million** to K-12 schools ($897.2 million) and community colleges ($94.5 million) in order to retire the remaining deferrals. These funds would be provided if the Proposition 98 minimum funding guarantees for 2013-14 and 2014-15 are revised to levels higher than those estimated in the budget agreement.

- **$801 million** to repay various loans from state special funds to the General Fund, leaving a total outstanding loan debt of $3.1 billion.

- **$688 million** to reduce the backlog of deferred maintenance on state infrastructure, which now exceeds $64 billion, according to the Administration. Moreover, the spending plan contains a provision that would direct **up to an additional $200 million** toward deferred maintenance, including $50 million each for the California State University and the University of California, $40 million for state parks, and $20 million for state corrections. These funds would be provided if local property tax collections for 2013-14 exceed the level estimated in the budget agreement. (Higher-than-anticipated property taxes would offset state costs for K-12 schools and community colleges, thereby freeing up state dollars that could be redirected toward other purposes, such as deferred maintenance.)

- **$450 million** to K-12 schools ($400.5 million) and community colleges ($49.5 million) for the cost of state-mandated services that these entities provided in prior years, but for which they have not yet been reimbursed. The state owed schools and community colleges $5.8 billion for unpaid mandate claims as of April 1, 2014, according to the State Controller's Office.

- **$410 million** to retire the state's remaining obligation to schools and community colleges under the Quality Education Investment Act (QEIA), which resulted from the *California Teachers Association v. Schwarzenegger* settlement agreement in 2006.

- **$188 million** to K-12 schools to reduce the state's current obligation of $462 million for the Emergency Repair Program, which funds urgent maintenance projects at low-performing schools as part of the 2004 *Williams v. California* settlement agreement.

- **$100 million** to local governments for the cost of state-mandated services that counties, cities, and special districts provided prior to 2004, but for which they have not yet been reimbursed. Moreover, the spending plan contains a provision that would provide **up to an additional $800 million** to local governments in order to retire these outstanding mandate claims. This funding would be provided if General Fund revenues for 2013-14 and 2014-15 are revised to levels higher than those estimated in the budget agreement. If this were to occur, local governments' unpaid mandate claims would have first call on any additional revenues – up to $800 million – that remain after the state fully funds the Proposition 98 guarantee for K-12 schools and community colleges.

- **$97 million** to pay down a portion of deferred Medi-Cal costs, with remaining deferrals totaling $2.2 billion.

- **$85 million** to repay approximately half of the remaining debt owed to certain transportation funds.

## Budget Agreement Reflects Legislature's Decision to Place a New Rainy Day Fund Measure Before the Voters

The budget agreement reflects the Legislature's decision in May to place a constitutional amendment (ACA 1) on the November 2014 ballot, creating a new rainy day fund that would replace the current reserve. Pending voter approval, ACA 1 would:

- Base rainy day fund deposits on 1.5 percent of annual General Fund revenues. In addition, deposits would be required when capital gains revenues in a given year exceed 8 percent of General Fund revenues.

- Increase the maximum size of the rainy day fund from 5 percent to 10 percent of General Fund revenues.

- Require half of each year's deposits for the next 15 years to be used for paying down certain debts and liabilities.

- Allow for withdrawal of funds from the rainy day reserve only if the Governor declares a budget emergency, defined as either a disaster or a year in which General Fund expenditures would fall below the highest level of spending from the prior three years, adjusted for the change in population and inflation.

- Limit the maximum amount that could be withdrawn from the rainy day fund in the first year of a budget emergency to one-half of the fund's balance.

- Create a Proposition 98 reserve – the Public School System Stabilization Account – whereby in some years, with large increases in state revenue, dollars would be set aside to fund K-14 education when growth in the Proposition 98 minimum funding guarantee is insufficient to provide the prior year's funding level adjusted for attendance and the cost of living.

## Budget Package Includes a Long-Term Financing Plan for the California State Teachers' Retirement System (CalSTRS)

The 2014-15 budget agreement includes a new plan to finance unfunded liabilities in CalSTRS. CalSTRS is the state's second-largest pension system, serving more than 860,000 current, former, and retired public school teachers, community college instructors, and school administrators. Recent estimates suggest that CalSTRS currently has an unfunded liability of more than $74 billion. This refers to the amount of funding needed, in addition to available assets, in order to provide pension benefits that are already earned but not yet being provided to employees. If California does not take action to address this sizeable unfunded liability, CalSTRS is expected to deplete its assets in approximately 33 years.

The budget agreement puts forth a plan to eliminate CalSTRS' unfunded liability by 2046. Specifically, the plan would:

- Increase CalSTRS member contributions from 8 percent of their pay to 10.25 percent, phased in over the next three years;

- More than double school district contributions from 8.25 percent of payroll to 19.1 percent, phased in over the next seven years; and

- Raise the state's contribution to the Defined Benefit Program from about 3 percent of payroll in 2013-14 to 6.3 percent of payroll beginning in 2016-17, while maintaining the state's current 2.5 percent contribution to the Supplemental Benefit Maintenance Account – resulting in a total state CalSTRS contribution of 8.8 percent of payroll.

The budget agreement increases CalSTRS funding by a total of $276 million in 2014-15 to begin implementing this plan. This figure includes an increase of $59.1 million General Fund, reflecting the state's portion of the increased CalSTRS contributions. The remainder will be paid by CalSTRS members and by school districts.

## Spending Plan Increases the CalWORKs Grant and Provides Funding for Housing Stability Services, But Does Not Include Many Legislative Proposals to Further Boost Support for Low-Income Families

The California Work Opportunity and Responsibility to Kids (CalWORKs) Program provides modest cash assistance to more than half a million low-income families with children while helping parents overcome barriers to employment and find jobs. In recent years, state policymakers made deep cuts to CalWORKs, including substantially reducing cash aid for families and imposing a 24-month limit on the amount of time parents can access the full array of welfare-to-work activities. As part of the 2013-14 budget agreement, cuts to cash assistance were partially reversed with a 5 percent grant increase effective March 1, 2014. The 2014-15 budget agreement funds another grant increase and also invests in housing stability services for CalWORKs families. Specifically, the budget agreement:

- **Increases the CalWORKs grant by 5 percent.** Effective April 1, 2015, the maximum CalWORKs grant will increase by 5 percent. This grant increase is estimated to cost $46.6 million in 2014-15 and $184 million in 2015-16. Similar to the 5 percent increase provided earlier this year, the new grant increase will be paid for with funds from the Child Poverty and Family Supplemental Support Subaccount. This subaccount is funded with special fund growth dollars from the 1991 realignment. However, the Child Poverty and Family Supplemental Support Subaccount does not currently have sufficient revenue, and the estimated cost for the grant increase will be supported with General Fund dollars until the subaccount has enough funds to cover the cost.

- **Funds housing stability services for CalWORKs families.** The budget agreement allocates $20 million to support CalWORKs families experiencing homelessness or housing instability that presents a barrier to self-sufficiency or child well-being. Services include rental assistance, housing search and placement, and support for moving expenses, among others. This only applies to CalWORKs families living in counties that choose to provide these supports and as long as funding is available. In addition, the budget agreement authorizes existing funds for family stabilization services – intensive case management for families who are in crisis – to be used for housing assistance for these families.

The budget agreement does not contain a number of legislative proposals that would have provided additional support for families. These include, for example, increasing the earned income disregard (which is the portion of income excluded from the calculation of the CalWORKs grant), reinstating the annual cost-of-living adjustment for cash assistance, providing additional funding for family stabilization services, temporarily suspending the 24-month CalWORKs clock, and providing a small per-child food benefit for CalWORKs families.

## Budget Agreement Maintains Cuts From Prior Years That Reduce Assistance for Seniors and People With Disabilities

The 2014-15 budget reflects cuts made in prior years to assistance for low-income seniors and people with disabilities. Specifically, the spending plan:

- **Provides no state cost-of-living adjustment (COLA) for Supplemental Security Income/State Supplementary Payment (SSI/SSP) grants.** SSI/SSP grants help 1.3 million low-income seniors and people with disabilities in California to afford food and other basic necessities. State policymakers eliminated the annual COLA in 2010-11 after suspending it several times in prior years. Policymakers also cut the state's SSP portion of the grant (the federal government funds the SSI portion), ultimately reducing it to the minimum level allowed under federal law for both individuals and couples. The current SSI/SSP grant for individuals is $30 below the level in effect five years ago and is equal to just 90 percent of the federal poverty line.

- **Maintains prior cuts to hours of care for In-Home Supportive Services (IHSS) consumers.** IHSS helps more than 450,000 low-income seniors and people with disabilities remain safely in their own homes, preventing the need for more costly out-of-home care. In July 2013, the total allowable hours of care for IHSS consumers were cut by 8 percent. This reduction is scheduled to scale back to 7 percent effective July 1, 2014, and the budget agreement leaves this cut in place.

## Budget Agreement Reflects New Federal Rules Regarding Compensation for Home Care Workers, Including IHSS Providers

Last year, the federal government issued rules mandating overtime pay for home care workers and requiring that providers be paid for time spent in transit between multiple recipients, at medical appointments, and in mandatory trainings. These new rules take effect on January 1, 2015. In order to reduce state costs associated with these changes, the Governor proposed to prohibit IHSS providers from working overtime and to establish a "provider back-up system" for IHSS consumers who need more than 40 hours of care per week. The budget agreement rejects these proposals. Paying overtime to IHSS providers – as well as paying for travel time, trainings, and wait time for medical appointments – is estimated to increase state spending by $172.2 million in 2014-15.

## Budget Makes Modest Reinvestment in State Preschool, Increases Subsidized Child Care and State Preschool Provider Payment Rates, and Invests in Quality Improvements

California's subsidized child care and preschool programs help prepare children for school and provide affordable care so that low- and moderate-income parents can find jobs and remain employed. State policymakers have cut annual funding for these programs by roughly 40 percent – after adjusting for inflation – since 2007-08, resulting in the loss of approximately 110,000 child care and preschool "slots."

The 2014-15 budget agreement makes a modest reinvestment in California's child care and development system. Specifically, the budget agreement:

- **Increases access to preschool for four-year-olds from low- and moderate-income families.** The spending plan restores 7,500 state preschool slots with wrap-around care, with an additional 4,000 slots with wrap-around care to be added on June 15, 2015. Restoring these preschool slots is estimated to cost $70 million

($30 million Proposition 98) in 2014-15. In addition, the budget agreement eliminates the fees for part-day preschool and backfills these fees with $15 million in Proposition 98 funds.

- **Funds quality improvement projects for state preschool and transitional kindergarten.** The budget includes $50 million in 2014-15 in Proposition 98 funding for Quality Rating Improvement System (QRIS) block grants – to be distributed by local or regional groups – in an effort to provide support and incentives for preschool providers to achieve high standards for quality. Other support for quality improvement includes $25 million in one-time Proposition 98 funding for professional development for preschool and transitional kindergarten teachers and $10 million in one-time Proposition 98 funding for loans for preschool facility expansion projects.

- **Increases child care and preschool provider payment rates and funds a small increase in the number of child care slots.** The Standard Reimbursement Rate – which is used to pay child care and preschool providers that contract directly with the state – will increase by 5 percent at an estimated cost of $49 million in 2014-15 ($25 million Proposition 98). The Regional Market Rate (RMR) – used to provide payment for families seeking child care with the use of vouchers – will be updated on January 1, 2015 to reflect market rates from the 2009 RMR Survey, but only after the 2009 RMR has been reduced by 13 percent. The estimated cost to update the RMR is $19 million in 2014-15. In addition, the budget agreement restores funding for 1,000 General Child Care slots as well as 500 slots in the Alternative Payment Program. Restoring these slots is estimated to cost $17 million in 2014-15.

The budget agreement does not contain many of the funding restorations and program changes proposed by the Senate and Assembly. These include greatly increasing access for low- and moderate-income children by restoring funding for approximately 50,000 child care and preschool slots, updating the income eligibility limits, and further increasing provider payment rates, which would both improve access and enhance the quality of programs.

## Budget Agreement Expands Health Care Coverage for Pregnant Women and Makes Modest Investments in Some Health Services, But Leaves in Place Several Health-Related Cuts Adopted in Prior Years

Even with California's successful implementation of federal health care reform, pregnant women continue to face obstacles to obtaining affordable and comprehensive health care coverage due to the complexity of the rules that have remained in effect. The budget agreement eliminates many of these obstacles by simplifying the rules in order to expand no-cost, comprehensive health care coverage to pregnant women who have low or moderate incomes. Moreover, by maximizing available federal funding, this change is estimated to result in state *savings* of $16.6 million in 2014-15. Under the budget agreement:

- **Pregnant women with incomes up to 138 percent of the poverty line (about $16,100 per year for an individual) will be eligible for no-cost, comprehensive coverage through Medi-Cal, the state's Medicaid program.** This change will align the eligibility rules for pregnant women with the rules that apply to other low-income adults, which the state implemented earlier this year as part of the Medi-Cal expansion authorized by the federal Affordable Care Act (ACA).

- **Pregnant women whose incomes exceed 138 percent of the poverty line but are at or below 213 percent of the poverty line (about $24,900 per year for an individual) will have the option to enroll – with no out-of-pocket costs – in a Covered California health plan while maintaining access to Medi-Cal services as needed.** For women who choose this option, the state will pay Covered California health plan costs – that is, premiums and copayments – that are not covered by federal subsidies provided through the ACA.

This new policy, combined with women's access to no-cost Medi-Cal services, means that pregnant women will receive comprehensive health care coverage with no out-of-pocket costs.

In addition to expanding coverage for pregnant women, the budget agreement makes modest state investments in selected health care services. For example, the spending plan:

- **Provides $4 million for the California Black Infant Health Program**, which aims to improve health among African American mothers and babies and address the high rates of preterm births and infant mortality.

- **Allocates $3 million to support HIV demonstration projects** that will provide outreach, screenings, and care.

- **Provides $1.8 million to increase payments – beginning April 1, 2015 – to providers in the Program for All-Inclusive Care for the Elderly (PACE)**, which coordinates care and services to allow older adults to remain in their homes and avoid nursing home care.

- **Allocates $1 million to establish a vision-services pilot program in Los Angeles County** that will allow children who are enrolled in Medi-Cal to receive vision care at their schools.

In contrast to these modest additional investments in health care services, the spending plan leaves in place a number of health-related cuts that were adopted during and after the Great Recession. Specifically, the budget agreement:

- **Leaves in place a 10 percent cut to payments for certain Medi-Cal providers.** The Administration began implementing this cut in September 2013, with the reduction being retroactive to June 2011. However, some providers have been exempted from the cut, and the Governor has indicated the state would "forgive" the *retroactive* portion of the cut for certain providers and services, including physicians and clinics, some high-cost drugs, and dental services. Legislative proposals to repeal all or most of the remaining cut were not included in the budget agreement. As a result, this cut largely remains in place and could discourage some doctors and other providers from participating in Medi-Cal even as enrollment rises, thus potentially impeding access to care for millions of Californians.

- **Assumes that $725 million will be shifted from county health care services to the state in 2014-15.** Since 1991, counties have used state special fund dollars to provide health care to uninsured, low-income residents. In 2013-14, state policymakers began shifting a significant share of these funds back to the state, with these dollars used to offset part of the state's cost for CalWORKs – and thereby generate ongoing General Fund savings. (The size of this shift is expected to vary each year based on a number of factors.) This fund shift is based on the assumption that counties no longer need all of these dollars as many low-income adults newly enroll in Medi-Cal under the program expansion that took effect on January 1, 2014. It is uncertain whether counties will be left with sufficient funds to provide health care to the roughly 3 million Californians – about half of whom are undocumented immigrants – who are projected to lack coverage even after full implementation of health care reform.

- **Does not reinstate funding for the Early Mental Health Initiative (EMHI).** Prior to its elimination in 2012-13, the EMHI funded school-based prevention and early-intervention services for students experiencing moderate difficulty in adjusting to school. The Assembly proposed to reinstate $15 million in state funds for the EMHI in 2014-15, but this proposal was not included in the budget agreement.

- **Does not reinstate certain Medi-Cal services that were eliminated in 2009.** These services include audiology, podiatry, speech therapy, and incontinence creams and washes. The Senate proposed to provide $12.8 million in state funds (matched by nearly $15 million in federal funds) to reinstate these services in 2014-15, but this proposal was not included in the budget agreement.

- **Does not reinstate funding for the California Children's Dental Disease Prevention Program.** Prior to its elimination in 2009-10, this program provided school-based oral health prevention services. The Assembly proposed to reinstate $3.5 million in state funds for these services in 2014-15, but this proposal was not included in the budget agreement.

## Budget Includes Policies Intended to Boost Access to Food Assistance

The budget agreement includes two policy changes intended to increase or maintain low-income families' access to the Supplemental Nutrition Assistance Program (SNAP), known as CalFresh in California. In addition, the spending plan provides food assistance to communities most affected by the drought. Specifically, the budget agreement:

- **Expands eligibility for CalFresh by adopting a federal option called "broad-based categorical eligibility."** This option enables households with *gross* incomes up to 200 percent of the poverty line to qualify for food assistance as long as their *net* incomes – their incomes after subtracting certain expenses such as child care – remain at or below the poverty line. Adopting broad-based categorical eligibility removes a significant barrier to CalFresh enrollment primarily for low-income working families whose gross incomes are above the poverty line, but who spend much of their incomes on necessities like child care and housing and thus have little remaining for food.

- **Prevents a substantial reduction in CalFresh food assistance that was slated to occur due to new federal restrictions on state "Heat and Eat" policies.** These policies allow certain families participating in the federal Low-Income Home Energy Assistance Program (LIHEAP) to receive additional CalFresh food assistance. The budget agreement creates a state-funded energy assistance program called the State Utility Assistance Subsidy (SUAS), which will serve a similar function to LIHEAP and complies with the new federal restrictions. This change will prevent more than 300,000 California households from losing an average of $62 per month in food assistance. The budget agreement allocates $10.5 million in 2014-15 to the SUAS. By preserving California's Heat and Eat policy, creation of the SUAS will prevent the state from losing hundreds of millions of dollars in federal food assistance funds.

- **Provides food assistance targeted to communities most affected by the drought.** The budget agreement provides up to $20 million for the Drought Food Assistance Program, which provides boxes of groceries to food banks in high-unemployment counties that are most affected by the drought. The budget also includes a provision authorizing funding above $20 million for drought-related food assistance if state officials determine that additional support is needed.

## Budget Agreement Maintains the Minimum Funding Level for Schools and Community Colleges in the May Revision

Approved by voters in 1988, Proposition 98 constitutionally guarantees a minimum level of funding for K-12 schools, community colleges, and state preschool. The 2014-15 budget agreement assumes a Proposition 98 funding level of $58.3 billion for K-14 education programs in 2013-14 and $60.9 billion in 2014-15. Because estimates of General Fund revenue tend to affect the Proposition 98 guarantee, the Proposition 98 funding levels included in the budget agreement reflect the revenue assumptions made by the Governor in his May Revision. Specifically, the budget agreement:

- **Provides $5.2 billion over three years to restore most of the previously deferred payments to schools and community colleges.** The budget agreement repays previously deferred payments to K-14 education by $1.4 billion in 2012-13, by $3.1 billion in 2013-14, and by $661.7 million in 2014-15. While the Governor had called for eliminating *all* of the $6.2 billion in outstanding deferred payments to schools and community colleges by the end of 2014-15, the budget agreement leaves $991.6 million in deferrals still unpaid. However, if the Proposition 98 minimum funding guarantees for 2013-14 and 2014-15 are revised to levels higher than those estimated in the budget agreement, the increases will be used to repay this outstanding debt.

- **Provides $4.7 billion – an increase of $250 million above the Governor's proposal – to continue implementation of the state's new education funding formula.** Adopted as part of the 2013-14 budget agreement, the Local Control Funding Formula (LCFF) restructured the state's K-12 education finance system. The LCFF establishes a target funding level for each California school district, which reflects uniform base grants per student for four grade spans (kindergarten through 3rd; 4th through 6th; 7th and 8th; and 9th through 12th) and additional per student grants based on each district's number of English learners, foster youth, and students eligible for free or reduced-price meals (FRPM). The budget agreement makes it easier for schools that make free meals available to *all* students – under certain provisions of the National School Lunch Program – to determine student FRPM eligibility for the purpose of receiving LCFF grants. The budget agreement also maintains the Governor's January proposal to provide $25.9 million to fully implement the LCFF in county offices of education.

- **Provides $450 million to pay down the state's K-14 education mandate backlog.** The California Constitution requires the state to reimburse school districts and community colleges for certain state-mandated activities. The budget agreement provides $336.6 million in ongoing Proposition 98 funding and $113.4 million in one-time Proposition 98 funding to pay down the K-14 mandate backlog. The State Controller's Office reported that the state owed schools and community colleges $5.8 billion for unpaid mandate claims as of April 1, 2014.

- **Maintains the May Revision's $344.5 million in Proposition 39 funding for schools and community colleges, but shifts $28 million to a revolving loan program for energy efficiency projects.** Proposition 39 (the California Clean Energy Jobs Act), approved by voters in November 2012, boosted state corporate tax revenue by ending the practice of allowing multistate corporations to choose between two methods for calculating their taxable income. The May Revision provided $307 million for K-12 school districts and $37.5 million for community colleges from Proposition 39 revenues to fund energy efficiency project grants. The budget agreement maintains this total amount of Proposition 39 dollars for K-14 schools, but shifts $28 million allocated to K-12 school districts to the Energy Conservation Assistance Account (ECAA). The budget agreement allocates ECAA dollars to increase funds available for low-interest and no-interest revolving loans to either schools or community colleges for energy efficiency projects.

- **Provides $250 million in one-time funding for Career Technical Education through the California Career Pathways Trust (CCPT).** In July 2013 the Legislature created the CCPT, which makes funds available to schools and community colleges through competitive grants. CCPT grants are awarded for career pathway programs that aim to align educational activities with regional economies, such as by establishing regional partnerships between K-14 education and business entities.

- **Maintains $188.1 million in one-time Proposition 98 funding for the Emergency Repair Program.** The Governor's January budget proposed to 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.

- **Maintains the proposed COLA for non-LCFF programs that was included in the May Revision.** The budget agreement provides $32.9 million to fund a 0.85 percent COLA for several categorical programs that remain outside of the state's new education funding formula, including special education, child nutrition, and American Indian Education Centers.

- **Maintains the Governor's proposal for an additional $26.7 million in one-time funding for the K-12 High Speed Network to support implementation of the Common Core State Standards (CCSS).** Computer-based tests are part of CCSS implementation. This one-time funding would be used to assess school districts' Internet connectivity and to provide grants to districts with the greatest need based on this assessment.

- **Eliminated trailer bill language that would have made LCFF grants more transparent.** The budget agreement does not include trailer bill language that would have required the California Department of Education to establish separate accounting codes to distinguish LCFF base grants from supplemental and concentration grants.

- **Limits the amount that school districts can maintain as a reserve for economic uncertainties, in certain years, but only if voters approve the rainy day fund ballot measure.** If voters approve ACA 1, the rainy day fund measure that will appear on the statewide ballot in November 2014, the budget agreement would limit the amount of funding that school districts can maintain as part of their reserves for economic uncertainties in any year after the state transfers dollars into the Public School System Stabilization Account.

## Budget Agreement Increases Funding for Career Technical Education at California Community Colleges

The 2014-15 budget agreement provides $50 million in one-time Proposition 98 funding to California Community Colleges (CCCs) to develop, expand, and enhance career technical education based on regional labor market needs. The budget agreement also includes a provision that will – beginning in 2015-16 – increase the funding rate for career development and college preparation noncredit courses (also known as CDCP or enhanced noncredit courses) to equal the rate provided for credit courses.

In addition, the budget agreement:

- **Includes $170 million to "improve and expand student success programs and to strengthen efforts to assist underrepresented students."** Of this, $100 million is allocated for orientation, assessment, placement, counseling, and other education planning services, and $70 million is directed to help close gaps in access and achievement in underrepresented groups.

- **Includes $140.4 million in CCC apportionment funding.** Apportionments provide general purpose funding for CCCs, and this increase is based on the Administration's assumption that CCC enrollment will increase by 2.75 percent in 2014-15. The budget agreement also requires the CCC Chancellor's Office to develop a new enrollment growth formula that, beginning in 2015-16, directs funding to community college districts "based on each community's need for access to the community colleges, as determined by local demographics."

- **Maintains the proposed COLA from the Governor's May Revision.** The budget agreement provides $47.3 million to fund a 0.85 percent statutory COLA, down from 0.86 percent in the Governor's January budget proposal.

- **Provides $148 million for deferred maintenance and instructional equipment purchases.** This is a one-time funding increase, and CCCs will not be required to provide matching dollars to receive this funding, as the Governor had originally proposed in January.

## Budget Continues a Multiyear Plan for the CSU and the UC Consisting of Modest Funding Increases

The budget agreement continues the Governor's multiyear plan, originally included in the 2013-14 budget, that modestly increases General Fund support for the California State University (CSU) and the University of California (UC) by $142.2 million each in 2014-15 with the expectation that this additional funding would be used to avoid California resident student tuition and fee hikes. The budget agreement also prohibits CSU campuses from adopting mandatory "student success fees" through the end of 2015. After the Governor's May Revision, budget subcommittees in the Senate and the Assembly each proposed funding increases for CSU and UC in 2014-15 beyond what the Governor called for. However, the final budget agreement adopts the Governor's original proposal. The modest increases included in the budget come at a time when direct General Fund spending on a per student basis at both CSU and UC remains near the lowest point in more than 30 years, after adjusting for inflation. Tuition and fees have also increased dramatically in recent decades, more than tripling at CSU and more than quadrupling at UC since 1990-91, after adjusting for inflation.

In addition to slightly increasing General Fund support for CSU and UC, the budget agreement:

- **Shifts CSU's debt service costs – currently funded separately by the state – into the annual appropriation to CSU.** Any new capital expenditures by CSU will be subject to review and approval by the Legislature. A similar policy change for UC was included in the 2013-14 budget agreement.

- **Includes up to $50 million each for CSU and UC to spend on deferred maintenance or other one-time priorities, if property tax revenues are higher than anticipated in 2013-14.** The budget agreement includes triggers that provide one-time funding increases if property tax revenues collected exceed anticipated amounts.

- **Provides $107 million in 2014-15 to begin implementation of the Middle Class Scholarship (MCS) Program.** The MCS Program will provide scholarships to eligible California resident undergraduates from families with annual household incomes between $100,000 and $150,000 who enroll at a CSU or UC campus. Upon full implementation of the MCS Program, participating students will 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 Program is expected by 2017-18.

- **Includes $50 million in one-time General Fund dollars to create the Awards for Innovation in Higher Education.** These awards will be given to CSU or UC campuses and to community colleges – or to groups of any of these – that change existing practices to increase the number of individuals earning bachelor's degrees, help students earn bachelor's degrees within four years, and make it easier to transfer from community colleges to the state's four-year higher education institutions.

## Budget Maintains Increase in Corrections Spending, Shifts Focus to Local Interventions

The 2014-15 budget agreement includes $10 billion for state corrections, excluding spending on infrastructure and on corrections responsibilities transferred to counties in 2011. This is a net increase of nearly $1.2 billion over the 2012-13 spending level, despite a declining statewide crime rate and an expected 2.2 percent reduction in the prison population over the next two years.

The spending plan leaves in place various aspects of the Governor's May Revision, including $500 million in lease-revenue bonds to build county jail facilities, with an emphasis on expanding space for rehabilitative and mental health treatment services. The budget agreement does not include a Senate proposal to use these bonds to build community-based housing and treatment space in addition to jail facilities. However, the budget agreement:

- **Increases funding for a range of community-based interventions intended to reduce recidivism.** Following the establishment of a Recidivism Reduction Fund in the fall of 2013, the budget agreement allocates $91 million for activities that are designed to reduce repeat offending and improve community safety, including delinquency prevention, homelessness prevention, reentry services, mental health and substance abuse disorder treatment, workforce training, pretrial services, and operation of collaborative courts.

- **Lifts the lifetime ban that prevents individuals with drug felony convictions from receiving CalWORKs and CalFresh benefits.** Food insecurity and a lack of employment opportunities are both linked to high recidivism rates. Yet thousands of Californians are permanently ineligible to receive CalWORKs and CalFresh – key public supports that help address these circumstances – as a result of having certain prior drug-related felony convictions. Beginning April 1, 2015, individuals who were convicted of felony drug possession, use, or distribution after December 31, 1997 will no longer be banned from receiving CalWORKs and CalFresh benefits, thus removing a significant challenge that Californians with low-level criminal histories face when returning to the community following incarceration. The spending plan assumes increased state costs of $10.6 million in 2014-15 and $32.5 million annually thereafter due to these changes. However, the state may experience an offsetting *reduction* in public safety costs to the extent that expanding access to CalWORKs and CalFresh reduces recidivism.

- **Implements sentencing and custody changes intended to alleviate overcrowding in county jails.** The budget agreement requires courts to sentence lower-level felony offenders to a "split sentence" – partly served in jail and partly served under supervision in the community – unless the judge makes a finding that such a sentence would not be in the interests of justice. Additionally, the spending plan authorizes counties to implement alternative custody programs for men and women – such as confinement in a residence, a substance abuse disorder treatment facility, or a mental health clinic – in lieu of incarceration in county jail. Both of these measures have been found to reduce jail populations without compromising public safety.

## Budget Agreement Allocates "Cap and Trade" Revenues, Including to High-Speed Rail and Affordable Housing

The budget agreement allocates more than $800 million from the Greenhouse Gas Reduction Fund (GGRF), which receives the proceeds from cap-and-trade auctions, to various programs intended to reduce greenhouse gas emissions. These allocations include $250 million for the California High-Speed Rail Authority (HSRA) and $197 million for California Air Resources Board programs. Another $129 million will go to the Strategic Growth Council, a multi-agency effort to coordinate actions to build stronger and more sustainable communities, including the development of affordable housing. The remainder will be used for various other types of projects, including home weatherization, renewable energy, intercity transit, forestry protection, and recycling.

The budget agreement also establishes a long-term plan for spending annual cap-and-trade revenues starting in 2015-16. As part of the plan, 25 percent of cap-and-trade auction proceeds will go to the HRSA, lower than the 33 percent that the Governor initially proposed. Another 35 percent will go toward transit, affordable housing, and sustainable community programs. The remaining 40 percent will fund a variety of energy, natural resources, and low-carbon transportation programs.

## Budget Agreement Includes State Support for Low-Income Housing

The budget agreement makes two notable investments in affordable housing in response to rising rents and high housing prices in many parts of the state. The 2014-15 spending plan:

- **Makes a one-time investment in housing through loans to developers.** The budget allocates $100 million in 2014-15 to the Multifamily Housing Program, half as much as the Assembly proposed. This program provides low-interest loans to developers for the construction or rehabilitation of affordable rental housing. Of the total, $50 million will be set aside for loans for creating permanent housing for people who are homeless or at risk of homelessness.

- **Provides bond funding to build housing for homeless and low-income veterans.** The passage of Proposition 41 in June 2014 authorized redirecting an unspent $600 million in bonds that were chiefly intended to help veterans purchase single-family homes. These funds will support the construction of affordable multifamily housing for veterans who are homeless or have low incomes. The budget allocates $76.2 million in bond funds for this purpose in 2014-15.