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Budget Proposal Prioritizes Austerity, Lacks Plan for Helping Ensure Broadly Shared Economic Recovery

On January 9, Governor Jerry Brown released his proposed 2015-16 state budget. The Governor proposes to spend $113.3 billion from the state's General Fund in 2015-16, an increase of $1.6 billion (1.4 percent) over the estimated spending level for the current fiscal year (2014-15). Yet, even with increased revenues and a continuing economic recovery that has yet to reach many Californians, the Governor prioritizes fiscal austerity over investing in broadly shared prosperity. While the Governor's proposed budget includes long-term plans for paying down budgetary debt and saving for a rainy day, it lacks a similar vision for reinvesting in people and communities and ensuring that all Californians share in the state's economic gains.

The Governor's proposed 2015-16 budget is heavily focused on implementing policy changes approved in prior years. As required by voter approval of Proposition 2 this past November, his proposal sets aside a portion of revenues – $2.4 billion – with half deposited in the state's rainy day fund and half used to pay down budgetary debt. The Governor's proposal also reflects the ongoing implementation of federal health care reform and includes $4 billion for the state's new K-12 school finance system, which is designed to direct additional resources to disadvantaged students. A sizable boost in funding for schools and community colleges is the result of the tax increases of Proposition 30 passed in 2012 and a growing economy.

While these initiatives move the state forward in important ways, the Governor's proposed budget fails to lay out a plan to tackle California's biggest challenges: high levels of unemployment and poverty, widening income inequality, and a safety net severely weakened by years of funding cuts. An improving fiscal outlook provides an opportunity for policymakers to rebuild essential public services and systems – such as by continuing to reinvest in child care and preschool programs, strengthening employment services, helping students and families afford a college education, and increasing assistance for low-income seniors and people with disabilities. Failing to reinvest means that many Californians could be left out of the state's economic future and puts that future at risk.

The following sections summarize key provisions of the Governor's proposed 2015-16 budget. The CBP will prepare in-depth analyses of major proposals contained in budget in the upcoming days and weeks. Please check the CBP website (www.cbp.org) and blog (www.californiabudgetbites.org) for our latest information and analysis.

The Administration Forecasts an Improving but Uneven Economic Recovery

The Governor's forecast has California's economic growth slightly outpacing previous projections. The Administration projects that the state's annual unemployment rate will fall to 6.6 percent in 2015, which is below the 7.3 percent rate projected a year ago.

Even with this improved outlook, the Administration acknowledges that the current economic recovery has failed to generate broad-based economic gains. The Governor's budget proposal states that "the increase in wages and salaries has been uneven – with much of the gains being made by the state's wealthiest residents." Moreover, the Administration points out that California's poverty rate remains above the national average.

The Governor's budget proposal also highlights potential risks to California's economic recovery. As it did in last year's proposed budget, the Administration warns of the potential for a national economic downturn and the impact of a correction in the stock market. Unlike last year, the Administration highlights risks associated with California's housing market. If housing prices rise faster than wages, this could lead to slower economic growth as workers are unable to afford to locate where jobs are being created.

Governor's Proposal Projects Higher Revenues

Due in part to California's growing economy, the Administration projects total General Fund revenues over the three-year "budget window," from 2013-14 to 2015-16, that are $4.1 billion higher than assumed in the 2014-15 budget enacted last June. These higher-than-anticipated revenues include $0.5 billion in 2013-14, $2.6 billion in 2014-15, and $1.1 billion for 2015-16.

The Administration attributes much of this growth to higher forecasts for personal income tax (PIT) and corporate income tax revenues. Projected PIT revenues, for example, have been boosted by higher average wages as well as continued strong stock market performance. However, although wage growth has improved since the Great Recession ended, it is mostly high-income earners who continue to make gains and thus owe more in taxes. Projected revenues from capital gains – which are profits earned from the sale of assets such as corporate stock, a business, or land – remain high at 9.3 percent of total General Fund tax revenues in 2015-16, compared with a recent low of 3.5 percent in 2009-10.

Improving revenue forecasts are also a function of the tax increases of Proposition 30, enacted by voters in 2012. Proposition 30 temporarily raised the state sales tax rate by one-quarter cent and created three new personal income tax rates for very-high-income Californians. The sales tax increase expires in 2016, and the PIT increases expire in 2018.

The expiration of Proposition 30 will reduce General Fund revenues in future years. PIT revenues are projected to *decline* by 0.6 percent, or about $0.5 billion, between 2017-18 and 2018-19 when the high-income tax rates expire. As a result, year-over-year growth for the three largest revenue sources combined – the PIT, the sales tax, and the corporate income tax – is expected to drop from 4.5 percent in 2017-18 to 0.9 percent in 2018-19.

Proposed Budget Estimates $2.4 Billion for Rainy Day Fund and Debt Repayment

California voters approved Proposition 2 in November 2014, amending the California Constitution to revise the rules for the state's Budget Stabilization Account (BSA), commonly referred to as the rainy day fund. Proposition 2 requires an annual set-aside equal to 1.5 percent of estimated General Fund revenues. An additional set-aside is required when capital gains revenues in a given year exceed 8 percent of General Fund tax revenues. For 15 years – from 2015-16 to 2029-30 – half of these funds will be deposited into the rainy day fund, and the other half will be used to reduce certain state liabilities (also known as "budgetary debt"), including:

- Making payments that are owed to K-12 schools and community colleges;
- Repaying dollars that were borrowed – prior to 2014 – from various state special funds and used to pay for services typically supported with General Fund dollars;
- Reimbursing local governments for state-mandated services that they provided prior to 2004-05, but for which the state has not yet provided payment;
- Reducing unfunded liabilities associated with state-level pension plans; and
- Prefunding other retirement benefits, such as retiree health care.

The Governor's proposed budget estimates $2.4 billion in Proposition 2 transfers – $1.2 billion to the BSA and $1.2 billion to repaying loans from special funds ($965 million) and making so-called "settle-up" payments owed to schools and community colleges ($256 million). Prior to the passage of Proposition 2, the BSA had grown to $1.6 billion. The addition of $1.2 billion in Proposition 2 transfers would bring the rainy day fund balance to $2.8 billion by the close of 2015-16.

Governor Proposes Plan for Reducing Unfunded Liability for Retiree Health Care

The Governor's proposed budget includes a plan to reduce the state's unfunded liability for retiree health care. This liability results from the state not setting aside enough funds to pay for the health benefits accrued by current and future retired state workers. The state currently faces a $72 billion unfunded liability for the costs of these benefits, a liability that will grow substantially over time if not addressed. While details are not provided, the Governor's proposed budget aims to eliminate the unfunded liability by 2044-45, calling for "the state and its employees to share equally in the prefunding of retiree health benefits." The Administration notes that it will "seek to phase in this critical, cost-sharing agreement as labor contracts come up for renewal."

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 2015-16 Proposition 98 funding level of $65.7 billion for K-14 education programs, $2.6 billion above the revised 2014-15 minimum funding level. Because changes in state General Fund revenue tend to affect the Proposition 98 guarantee, the Proposition 98 funding levels included in the Governor's proposed budget reflect increases in 2013-14 and 2014-15 estimated revenue compared to the levels that had been assumed in the 2014-15 budget agreement. Based on these revised revenue estimates, the Governor's proposed budget assumes a 2014-15 Proposition 98 funding level of $63.2 billion, $2.3 billion more than the level assumed in the 2014-15 budget agreement, and a $58.7 billion 2013-14 Proposition 98 funding level, $371 million above the level assumed in the 2014-15 budget agreement.

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

- **Provides $4.0 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 increases LCFF funding by $4.0 billion to fund grants for K-12 school districts and charter schools in 2015-16. Increasing LCFF funding may reduce the amount of time it takes to fully implement the LCFF, which depends on funding that is sufficient for all districts to reach a target base grant.

- **Provides $1.1 billion in one-time funding to reduce mandate debt the state owes to schools.** Under the Governor's proposal, this one-time funding would be distributed statewide on a per pupil basis to school districts, charter schools, and county offices of education (COEs) to support implementation of the Common Core State Standards, English Language Development Standards, and California's Next Generation Science Standards, and to support new responsibilities required under the LCFF. However, to the extent any educational entities have existing mandate reimbursement claims, the Governor's proposal would reduce those claims by the amount of funding they receive for standards implementation and new LCFF-related responsibilities. Mandate debt reflects the cost of state-mandated services that school districts, charter schools, and COEs provided in prior years, but for which they have not yet been reimbursed. The state owed K-12 education $5.3 billion for unpaid mandate reimbursement claims as of April 1, 2014, according to the State Controller's Office.
- **Pays the remaining $897.2 million in previously deferred payments owed to schools.** The 2014-15 budget agreement included a provision that earmarked any higher-than-anticipated Proposition 98 spending in 2013-14 or 2014-15 for repayment of previously deferred payments to school districts, which reached $9.5 billion at the end of 2011-12. Because the Governor's proposed budget assumes an increase of $2.7 billion in the Proposition 98 minimum funding level in 2013-14 and 2014-15 combined, $897.2 million of this increased spending must be used to repay the remaining amount of previously deferred payments owed to school districts.
- **Allocates $320.1 million from Proposition 39 revenues to K-12 school districts for energy efficiency project grants.** The proposed spending plan also allocates $5.3 million from Proposition 39 revenues to the California Conservation Corps to provide continued technical assistance to school districts. Proposition 39, approved by voters in 2012, increased state corporation tax revenue by requiring multistate corporations to use the "single sales factor" method of apportionment in calculating their taxable income.
- **Retires the state's remaining $273.4 million funding obligation for the Emergency Repair Program.** The Governor's proposed budget allocates Proposition 98 funding to eliminate the state's remaining obligation 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.
- **Adds $100 million in one-time funding to support Internet connectivity and infrastructure.** The 2014-15 budget agreement allocated $26.7 million in one-time funding to assess school districts' Internet connectivity and to provide grants to districts with the greatest need. The

Governor's proposal would provide additional one-time Proposition 98 funding to further upgrade Internet infrastructure.

- **Provides a 1.58 percent cost-of-living adjustment (COLA) for non-LCFF programs.** The Governor's proposed budget funds a 1.58 percent COLA ($71.1 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 proposes to use the increases in LCFF grants proposed for school districts and charter schools to fund the COLA for non-LCFF programs.
- **Recommends designing a new program for financing school facilities.** The Administration notes that currently no bond funds remain in the state's core school facilities new construction and modernization programs. The proposed budget suggests designing a new program that "is focused on districts with the greatest need, while providing substantial new flexibility for local districts to raise the necessary resources for school facilities needs."

California's community colleges (CCCs) help prepare approximately 2.3 million students to transfer to four-year institutions as well as obtain training and skills for immediate employment. The Governor's proposed budget pays off certain outstanding obligations to the CCCs and increases funding for CCC operating expenses and general-purpose apportionments. Specifically, the Governor's proposed budget:

- **Provides $379 million in one-time funding to reduce mandate debt the state owes to community colleges.** Under the Governor's proposal this one-time funding could be used by CCCs to address deferred maintenance, instructional equipment, and other one-time costs. However, to the extent CCCs have existing mandate reimbursement claims, the Governor's proposal would reduce those claims by the amount of funding they receive for deferred maintenance, instructional equipment, or other one-time costs. Mandate debt reflects the cost of state-mandated services that CCCs provided in prior years, but for which they have not yet been reimbursed. The state owed community colleges $538.9 million for unpaid mandate reimbursement claims as of April 1, 2014, according to the State Controller's Office.
- **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.
- **Increases base allocation funding by $125 million to pay for CCC operating expenses.** The Governor's budget proposal allocates additional funding to pay for increased costs related to facilities, retirement benefits, professional development, converting part-time faculty members to full-time status, and other CCC expenses.

- **Increases apportionment funding by $106.9 million.** The proposed increase in apportionments – which provide general purpose funding for CCCs – represents a 2 percent increase (23,000) in full-time equivalent enrollment.
- **Pays the remaining $94.5 million in previously deferred payments owed to CCCs.** The 2014-15 budget agreement included a provision that earmarked any higher-than-anticipated Proposition 98 funding in 2013-14 or 2014-15 for repayment of previously deferred payments to CCCs, which reached $961.0 million at the end of 2011-12. Because the Governor's proposed budget assumes an increase of $2.7 billion in the Proposition 98 minimum funding level in 2013-14 and 2014-15 combined, $94.5 million of this increased funding must be used to repay the remaining amount of previously deferred payments owed to CCCs.
- **Provides $92.4 million to fund a 1.58 percent COLA.**
- **Provides $49 million to increase the funding rate for noncredit courses.** The budget proposal funds a provision, included in the 2014-15 budget agreement, that increased the funding rate for certain CCC workforce-related noncredit courses to equal the rate provided for credit courses beginning in 2015-16.
- **Provides $48 million in one-time funding for the Career Technical Education Pathways Program.** The budget proposal allocates one-time Proposition 98 funding for CCCs to develop, enhance, and expand career technical education programs.
- **Allocates $39.6 million from Proposition 39 revenues to community college districts for energy efficiency project grants.** The proposed spending plan also allocates $3 million from Proposition 39 revenues to the Workforce Investment Board to continue implementation of the job-training program.

Governor's Proposal Supports Adult Education and Career Training Programs

The Governor's proposed budget allocates both state and federal dollars to adult education and workforce training programs. This budget invests $1.2 billion in these programs, including nearly $400 million in federal funds through the Workforce Investment Act. A large share of these federal dollars will be allocated to California's 49 local workforce investment boards.

The remaining funds – all state dollars – would be allocated primarily to a number of programs, including adult education and Career Technical Education (CTE). Specifically, the proposed budget:

- **Provides $500 million in Proposition 98 funding for a new block grant to support adult education.** This block grant would support a variety of programs, including citizenship courses, education programs for adults with disabilities, and CTE and apprenticeship programs. In the block grant's first year, dollars would be provided to K-12 school districts directly in the amount needed for districts to maintain their adult education programs. In following years, dollars would be provided through regional "allocation boards" that would be responsible for administering the block grant funds.

- **Provides $250 million in Proposition 98 funding annually for three years for the Career Technical Education (CTE) Incentive Grant Program.** This temporary program would operate in addition to the existing Career Pathways Trust Program, which provides grants to CTE programs. This new competitive grant program would require any school district, county office of education, or charter school receiving funding to match the grant dollar-for-dollar. The goal of this new program is to create "new and expanded high-quality CTE programs."

Administration Continues Modest Funding Increases for CSU and UC, Contingent on Tuition Remaining Flat

The Governor's proposed budget continues a multiyear plan, included in the 2013-14 budget agreement, that modestly increases General Fund spending for the California State University (CSU) and the University of California (UC) with the expectation that this additional funding will be used to avoid tuition and fee hikes. For 2015-16, the Governor proposes General Fund increases of $119.5 million each for CSU and UC. The 2014-15 budget agreement increased General Fund spending by $142.2 million each for CSU and UC. Yet, even with the 2014-15 increases and the proposed 2015-16 increases, General Fund spending for CSU and UC would still be significantly lower than in 2007-08, after adjusting for inflation. In recent years, direct General Fund spending on a per student basis at both CSU and UC has been at or near the lowest point in more than 30 years. Further, tuition and fees have increased dramatically in recent decades, more than tripling at CSU and more than quadrupling at UC since 1990-91, after adjusting for inflation.

In late 2014, UC President Janet Napolitano and the UC Board of Regents approved a plan that would increase UC tuition and fees for California residents by up to 5 percent annually for the next five years, unless the state provides additional funds beyond the levels proposed in the Governor's multiyear plan. CSU has not proposed to increase tuition and fees. However, it also has signaled a need for additional state funding by recently approving a 2015-16 budget proposal that both assumes significantly more state funding than provided in the Governor's multiyear plan and reduces enrollment targets for 2015-16. Additionally, CSU has raised the possibility of reducing freshman admissions in fall 2015 unless additional state funds are provided.

Under the Governor's proposal:

- **The increase in General Fund support for UC in 2015-16 ($119.5 million) is contingent on the University:**
  - Reversing the recent decision to raise tuition and instead maintain it at current levels.
  - Not increasing out-of-state enrollment in 2015-16.
  - Taking actions to control costs. (The Governor expects the UC Regents to form a committee to develop proposals to "reduce the University's cost structure.")
- **CSU is expected to use its greater General Fund support in 2015-16 ($119.5 million) to avoid any increase in tuition and fees.**
- **CSU would receive $25 million to encourage more timely degree completion.** This is part of the Awards for Innovation in Higher Education program that was included in the 2014-15 budget agreement. The awards are 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.
- **CSU and UC each would receive $25 million for deferred maintenance in 2015-16.**
- **The Middle Class Scholarship (MCS) Program would receive an increase of $45 million for the second year of implementation.** The MCS Program provides scholarships to eligible California resident undergraduates at CSU or UC whose families have annual household incomes up to $150,000. In 2014-15, more than 95,000 students will receive Middle Class Scholarships. Upon full implementation of the MCS Program, participating students will be eligible for awards that, combined with other publicly funded student financial aid, will cover up to 40 percent of mandatory systemwide tuition and fees. Full implementation of the MCS Program is expected in 2017-18.

Proposal Provides a COLA for Child Care and Preschool, Yet Funding Remains Well Below Pre-Recession Levels

California's subsidized 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 repeatedly cut child care and preschool programs to help close budget shortfalls during and following the Great Recession. The 2014-15 budget agreement approved last June reversed this trend by making a modest reinvestment in the system, but current funding levels remain substantially lower – with nearly 97,000 fewer child care and preschool slots – than in 2007-08.

The Governor's proposed 2015-16 budget does not make any major reinvestments in the child care and development system. Instead, the Governor's proposal:

- **Provides a modest COLA for child care and preschool programs.** Policymakers suspended the statutory COLA from 2008-09 through 2014-15. The 2015-16 COLA of 1.58 percent will increase spending by $21.5 million ($9.2 million Proposition 98). For child care and preschool providers that contract directly with the state, the new funding will result in an increase in provider payment rates. For providers reimbursed with vouchers – such as those in the Alternative Payment Program – the COLA will increase the number of "slots."
- **Reflects the increase in provider payment rates approved in 2014.** The 2014-15 budget agreement updated the Regional Market Rate, which is used to provide payment for families seeking child care with the use of vouchers. This change took effect on January 1, 2015. The Governor's budget proposal reflects the full-year cost – $33.5 million – of continuing this rate increase in 2015-16. The 2014-15 budget agreement also increased the Standard Reimbursement Rate (SRR), which is used to provide payment for families seeking child care from providers that contract directly with the state. The SRR increase took effect on July 1, 2014.
- **Reflects an increase in the number of full-day preschool slots as required by legislation passed in 2014**. The 2014-15 budget agreement restored 7,500 state preschool slots with wrap-around care, with an additional 4,000 slots to be added on June 15, 2015. The Governor's budget proposal reflects the full-year cost – $33.6 million ($14.8 million Proposition 98) – to fund these 4,000 slots in 2015-16.

Proposed Budget Reflects a 5 Percent CalWORKs Grant Increase, But Levels Remain Lower Than Before Recession

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 CalWORKs 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 – effective April 2015 – that was part of the 2014-15 budget agreement, but assumes no additional grant increase in 2015-16. The CalWORKs grant increase effective this coming April is in addition to a 5 percent grant increase that took effect in March 2014. These grant increases are estimated to cost $340.5 million in

2015-16 and will primarily be paid for with special fund "growth dollars" from the 1991 "realignment" funding stream, which supports various health and human services programs. The General Fund will pay the remaining $73.3 million, which is the portion of the grant increases that exceeds revenue available from special fund growth dollars.

Despite recent years' increases, CalWORKs grants will remain below pre-recession grant levels and will fail to lift most families out of "deep poverty," which is defined as having an income that is below half the federal poverty line ($9,895 for a family of three in 2014).

Prior State Cuts to SSI/SSP Maintained in Governor's Proposal, Keeping Grants Well Below the Poverty Line

Supplemental Security Income/State Supplementary Payment (SSI/SSP) grants help 1.3 million low-income seniors and people with disabilities to purchase food, housing, and other basic necessities. Grants are funded with both federal (SSI) and state (SSP) dollars. State policymakers made deep cuts to SSI/SSP cash assistance in recent years. SSP grants for couples and for individuals were reduced to federal minimums in 2009 and 2011, respectively. In addition, the annual state COLA for SSI/SSP grants was eliminated beginning in 2010-11. (The annual *federal* COLA continues to be provided.) Due to these changes, state funding for SSI/SSP cash assistance has fallen by more than 30 percent since 2007-08, after adjusting for inflation. Moreover, the maximum SSI/SSP grant for individuals dropped below the federal poverty line in 2009 – and remains below the poverty threshold today.

The Governor's proposed budget does not increase the state's portion of SSI/SSP grants in 2015-16. Specifically, under the Governor's proposal:

- **The state's monthly SSP grant for individuals would remain at $156, down from $233 in January 2009.** The federal SSI grant for individuals – currently $733 per month – is estimated to increase to $744 in January 2016, when a federal COLA is scheduled to be provided.
- **The state's monthly SSP grant for couples would remain at $396, down from $568 in January 2009.** The federal SSI grant for couples – currently $1,100 per month – is estimated to rise to $1,116 in January 2016, when a federal COLA is scheduled to be provided.

Proposed Budget Reflects Continued Implementation of Federal Health Care Reform in California

The Governor's proposed budget reflects the continued 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 low-income 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 ($16,105 for an individual in 2014). The federal government will pay the full cost of this expansion through 2016, phasing down to a still-high 90 percent of the cost by 2020. In addition, the state simplified Medi-Cal's previously complex eligibility and enrollment rules, which has made it easier for Californians who were eligible for Medi-Cal *prior to* health care reform to sign up for coverage and stay enrolled.

The Governor's proposed budget:

- **Shows that Medi-Cal's rapid enrollment growth is stabilizing.** The Medi-Cal caseload has increased substantially in recent years, rising from roughly 8 million in 2012-13 to nearly 12 million in 2014-15, according to the Administration's estimates. This increase is largely due to two factors: the impact of health care reform, and the state's decision to eliminate the Healthy Families Program (HFP) and shift – to Medi-Cal – the hundreds of thousands of children who previously received health care services through the HFP. However, the Governor's proposed budget shows that enrollment growth in Medi-Cal is stabilizing. Specifically, the Administration projects that Medi-Cal enrollment will rise by just 2 percent – to 12.2 million – between 2014-15 and 2015-16.
- **Suggests that undocumented immigrants who benefit from President Obama's recent actions on immigration *may* be eligible for state-funded Medi-Cal.** In November, President Obama announced a new federal policy allowing certain undocumented immigrants to apply to temporarily remain in the US without fear of deportation. (This is known as "deferred action.") California allows such immigrants to sign up for state-funded, comprehensive Medi-Cal coverage provided they meet the program's income eligibility guidelines. However, despite this longstanding state policy, the Administration acknowledges only that undocumented immigrants helped by the President's actions may "potentially" qualify for Medi-Cal and cites "a great deal of uncertainty about the scope, timing and effect of these actions."
- **Maintains a 10 percent cut to payments for certain types of doctors and other Medi-Cal providers.** The Administration began implementing this reduction in September 2013, with the cut being retroactive to 2011. The original reduction – passed by the Legislature in 2011, but delayed due to litigation – was later modified to exempt certain providers and services from the cut and/or from the retroactive recoupment of prior payments. Even with the partial rollback of

the payment reduction, the remaining cut could still discourage some providers from participating in Medi-Cal even as enrollment continues to rise.

- **Assumes $698 million will be shifted from county health care services to the state in 2015-16, as required by current law.** 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. This shift is estimated to total $725 million in 2014-15 and $698 million in 2015-16. (The size of this shift is expected to vary each year based on a number of factors.) Policymakers adopted this fund shift based on the assumption that counties will 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 are being left with sufficient funds to provide health care to Californians who will continue to lack coverage even with full implementation of health care reform.
- **Includes a plan to replace the current tax on Medi-Cal managed care plans with a new tax that meets federal guidelines.** In 2013, state policymakers established a tax on Medi-Cal managed care plans that will expire on June 30, 2016. These tax proceeds draw down federal matching dollars, and the total revenues (tax proceeds plus federal funds) are used for two purposes: to reimburse the managed care plans for the cost of the tax and to offset General Fund costs for health care services. However, the federal government has indicated that the state's current tax likely does not comply with federal Medicaid regulations. Consequently, the Administration will propose – for approval by the Legislature – a new tax that complies with federal rules.

IHSS Consumers' Hours of Care Fully Restored in Governor's Proposal

Many seniors and people with disabilities rely on the In-Home Supportive Services (IHSS) Program, which helps more than 440,000 people with low incomes remain safely in their own homes, preventing the need for more costly out-of-home care. In order to help close substantial budget shortfalls in recent years, state policymakers made a number of changes intended to reduce the state's costs for IHSS. However, several of these changes never took effect due to litigation and were subsequently repealed by the Legislature.

The Governor's proposed budget:

- **Includes a plan to roll back the current 7 percent cut to IHSS consumers' hours of care.** In recent years, the state has reduced the authorized hours of care that IHSS consumers may receive. This cut peaked at 8 percent in 2013-14 and was scaled back to 7 percent in 2014-15, with this reduction intended to be ongoing. The Governor proposes to roll back this 7 percent cut beginning in 2015-16. IHSS consumers' hours of care would be fully restored using proceeds from a new tax on managed care organizations, pending approval by the Legislature.
- **Delays the implementation of new federal labor regulations regarding home care workers.** In 2013, the federal government issued rules mandating overtime pay for home care workers – including IHSS providers – and requiring that workers be paid for time spent in transit between multiple consumers, at medical appointments, and in mandatory trainings. The 2014-15 budget agreement provided state funding to implement these changes – along with new restrictions on overtime – starting on January 1, 2015. However, a federal court recently prevented the new federal rules from going into effect. As a result, the Governor has delayed implementing these new regulations "pending further action by the federal court," according to a budget document from the state Department of Social Services.

Proposed Budget Maintains Corrections Spending Levels

Currently, California incarcerates more than 115,000 people in state prisons designed to house about 82,700 – putting the prison system at roughly 139 percent of its capacity. The state is under a federal court order to reduce its prison population to 137.5 percent of capacity by February 28, 2016. Additionally, California incarcerates approximately 15,000 people in non-state-operated facilities both in California and other states. Due to continued efforts to comply with the federal court order and to last year's passage of Proposition 47 (which reclassified some low-level crimes as misdemeanors and thereby eliminating state prison as a possible penalty), the average state prison population is expected to decline by a few thousand people in 2015-16. The prison population is projected to fall below the court ordered cap by the February 2016 deadline.

The Governor's proposed budget:

- **Includes $10.3 billion for state corrections, excluding spending on infrastructure and on corrections responsibilities transferred to counties through the 2011 realignment.** This is an almost $500 million increase from the 2014-15 spending level, despite a declining statewide crime rate and an expected decline in the prison population. Notably, the budget proposal does not include estimated savings from the implementation of Proposition 47.

- **Includes $28.2 million for recidivism reduction activities.** This allocation would support mental health and drug treatment in prisons, and community reentry facilities for people returning from prison.
- **Anticipates that three new housing units at existing state prisons will be opened in early 2016.** Construction of the housing units was authorized in the 2012 Budget Act and is expected to be completed by February 2016, increasing prison capacity by 2,376 beds and by 1,266 education and vocational programming slots. The budget proposal includes $35.6 million to operate these facilities.
- **Provides $125 million to county probation departments to reduce the number of felony probationers returned to prison or jail.** The Community Corrections Performance Incentive Grant, created in 2009, provides performance-based funding to probation departments that reduce the number of probationers returning to prison or jail.

Proposed Budget Could Limit Public Access to Courts

In recent years, state policymakers significantly reduced General Fund support for the judicial branch. This system consists of the state Supreme Court, six state appellate courts, 58 county-level trial courts, an administrative arm, and the Habeas Corpus Resource Center, which provides legal representation for defendants in federal death penalty appeals. These cuts were partially offset by using court reserves and special fund dollars. However, some trial courts were forced to implement budget reductions through courtroom closures, reduced staffing, and increased user fees, thereby severely limiting public access to court services.

The Governor's proposed budget:

- **Calls for permanently extending certain civil court fines and penalty revenue measures that were enacted in 2012.** This means that individuals who use the court system would continue to pay a share of the costs, placing a disproportionate burden on low-income individuals. A recent state Auditor report identified several ways to reduce spending at the statewide court administrative level and transfer any savings to the local trial courts. This could help shore up the already overextended court system and lessen the costs to individuals and families who have business with the courts.
- **Includes $1.6 billion General Fund and $1.9 billion other funds for the judicial branch, excluding spending on infrastructure.** This represents a $180 million increase over the 2014-15 judicial branch spending level.
- **Includes $26.9 million for a projected temporary increase in trial court workloads as a result of Proposition 47.** Approved by California voters in November 2014, Proposition 47 requires

courts to retroactively reclassify certain low-level crimes as misdemeanors, thereby increasing court caseloads during the first few years of implementation.

Governor's Proposed Budget Allocates $1 Billion in "Cap and Trade" Revenues

The Governor's proposed 2015-16 budget includes $1 billion in "cap and trade" spending on climate change, up from $872 million in 2014-15. This spending is from revenues already received or expected to be received from "cap and trade" auctions organized by the Air Resources Board. The Governor's proposed budget:

- **Allocates $800 million for "sustainable communities and clean transportation."** This includes $250 million for high-speed rail and $200 million for the Strategic Growth Council, an effort to build more sustainable communities, including the development of affordable housing.
- **Provides $110 million for energy efficiency and clean energy programs.** These programs aim to improve energy efficiency in residential and publicly owned buildings as well as promote efficiency and clean energy in the agricultural sector.
- **Allocates the remaining "cap and trade" revenue – $92 million – to water, waste, and fire prevention services.** This includes funding for wetlands and watershed restoration, fire prevention and urban forestry projects, and waste diversion.