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First Look

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2015-16 Budget Creates a State EITC While Investing in Education, Health Coverage, and Child Care and Preschool, but Leaves Some Key Supports Diminished

On June 24, Governor Jerry Brown signed the 2015-16 state budget package. This budget calls for $115 billion in spending from the General Fund for the fiscal year beginning July 1 and makes several significant advances. It creates California's first-ever state Earned Income Tax Credit (EITC) as an "add on" to the successful federal EITC. The budget also expands comprehensive public health care coverage to undocumented immigrant children from low-income families.

The 2015-16 budget package also allocates billions of dollars as required by voter-approved ballot measures. The budget includes $68.4 billion for K-12 schools, community colleges, and the state preschool program as part of the minimum funding guarantee under Proposition 98 of 1988, a significant increase from the post-recession low point of $47.3 billion in 2011-12. Under Proposition 2, the rainy day fund measure approved by voters in 2014, the new state budget sets aside $3.7 billion in 2015-16 for paying down budgetary debt and building the state's reserve.

Other advances include funding for more than 16,000 additional subsidized child care and preschool slots; a boost in spending for adult education and career technical education; greater support for services for children in the child welfare system; and the creation of a debt amnesty program for people with overdue court-ordered fines. The 2015-16 budget package also holds tuition levels flat at CSU and UC, while providing both with modest funding increases. The advances reflected in the 2015-16 state budget add to those made in recent years, including new revenues provided by Proposition 30's temporary tax increases and the expansion of Medi-Cal as part of federal health care reform.

At the same time, however, the state's economic gains remain uneven, and the budget package leaves much undone in rebuilding critical safety net services battered by cuts during and after the Great Recession. The budget fails to significantly strengthen the state's welfare-to-work program, maintains cash assistance for low-income seniors and people with disabilities at recession-era lows, and leaves in place previous cuts to Medi-Cal payment rates and benefits. Despite its advances, the 2015-16 budget lacks a strategy for reinvesting in vital supports for millions of Californians not sharing in the state's prosperity.

The following sections summarize key provisions of the 2015-16 budget agreement. Please check the Budget Center's website (calbudgetcenter.org) for our latest commentary and analysis.

Budget Package Includes a Refundable Tax Credit for Low-Income Workers

The 2015-16 budget package establishes a refundable state Earned Income Tax Credit (EITC) beginning in tax year 2015, making California the 26th state in the nation (and 27th jurisdiction, counting the District of Columbia) with such a credit. Unlike most other state EITCs, California's new credit will reach only a portion of workers who are eligible for the federal EITC. Specifically, the state credit will be available to households with annual earnings below about $7,000 to $14,000, depending on family size. Additionally, only workers with earnings subject to wage withholding will qualify for the credit; those with self-employment income alone will not be eligible. According to the Administration, about 2 million Californians are expected to benefit from the state credit – roughly one-fifth the number who benefit from the federal credit. Nevertheless, California's EITC will substantially increase the incomes of very-low-earning households. For example, it will raise by *over one-third* the incomes of two-child households earning less than about $7,000. In fact, the state and federal credits combined will boost these families' incomes by nearly *75 percent*.

California's EITC includes another feature that sets it apart from other state EITCs: policymakers must specify in each year's state budget how large a credit to provide. Specifically, they must set the state credit at a particular percentage of the federal EITC. This percentage, referred to as the "adjustment factor," will determine the size of the credit for workers with earnings below certain levels that are specified in state statute. If policymakers do not specify the adjustment factor in the budget, then no state EITC will be provided that year. The 2015-16 budget sets the state EITC adjustment factor at 85 percent. Additionally, the state credit will only be provided in years in which the budget provides resources to the Franchise Tax Board (FTB) to oversee administration of the state EITC and audit tax returns that claim the credit.

The 2015-16 budget agreement also includes $22.0 million for the FTB to implement the credit and conduct public outreach efforts to promote it. A robust outreach effort will be critical to the state EITC's success because the credit targets workers whose earnings are so low that they likely do not have to file state taxes and may not be familiar with how filing works. The budget agreement includes supplemental report language requiring the FTB to provide an update on their implementation efforts by January 10, 2016.

Budget Agreement Increases Services for Undocumented Immigrants, Including Health Coverage for Children

The 2015-16 budget package includes new policies and funding targeted toward many of the undocumented immigrants who live, work, and pay taxes in California. Specifically, the budget agreement:

- **Expands eligibility for comprehensive Medi-Cal coverage to undocumented immigrant children and youth.** Currently, undocumented immigrants generally are prohibited from signing up for comprehensive – or "full-scope" – health care coverage through Medi-Cal, California's Medicaid program for low-income residents. Instead, undocumented immigrants may receive only emergency and pregnancy-related services (known as "restricted-scope" Medi-Cal). The budget package expands eligibility for Medi-Cal by allowing undocumented immigrants who are age 18 or younger to sign up for full-scope coverage so long as they are otherwise eligible for the program. (Those age 19 or older generally would continue to qualify only for restricted-scope benefits.) This change, which will take effect on May 1, 2016, is projected to benefit 170,000 children and youth in California. The General Fund cost of this expansion is projected to be $40 million in 2015-16, rising to approximately $132 million in 2016-17.
- **Sets aside $26.6 million to fund increased state costs for Medi-Cal and certain other services if the courts uphold President Obama's recent executive actions on immigration.** The President's new policies – which are on hold due to litigation – would allow several million undocumented immigrants throughout the nation to apply to temporarily remain in the US and work legally without fear of deportation. (This is known as "deferred action.") Under California law, individuals who obtain this federal status may enroll in certain programs, such as Medi-Cal. Moreover, undocumented immigrant parents who qualify for deferred action may decide to sign up their eligible children for certain services that the family had previously avoided or had not been aware of. Based on these factors, the 2015-16 budget projects increased General Fund costs of $26.6 million for Medi-Cal and certain other services beginning in October 2015, assuming that the federal courts uphold the President's executive actions on immigration.
- **Includes $15 million to assist undocumented immigrants in applying for deferred action under the President's new policies, help other immigrants apply for citizenship, and support education and outreach efforts targeted toward immigrants.** The Department of Social Services will oversee this program, which will provide grants to nonprofit organizations with extensive experience in immigration law and policy.

Legislature Accepts Governor's Revenue Projection for 2015-16 Budget Agreement

The 2015-16 budget agreement between the Governor and the Legislature accepts the revenue projection that was included in the Governor's May Revision in lieu of the nonpartisan Legislative Analyst's Office's (LAO) revenue projection, which the Legislature had used in its original version of the budget package. For 2015-16, the budget agreement anticipates $115 billion in General Fund revenues, excluding a $1.85 billion transfer to the Budget Stabilization Account (BSA), the state's rainy day fund. This transfer is required by Proposition 2, which California voters approved in November 2014. On the expenditures side of the 2015-16 budget, Proposition 2 also requires that an equal amount – that is, $1.85 billion – be allocated to paying down budgetary debt.

Before accounting for the transfer to the BSA, the budget agreement's revenue figure is about $3 billion below the LAO's pre-transfer revenue projection. While the Governor's and the LAO's projections have been similar in recent years, the LAO's projections have been closer to actual revenues collected.

Due to Higher Revenues, the Budget Agreement Increases Funding 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. (This section discusses K-12 education and community colleges. State preschool is discussed in the early care and education section on page 10.) The 2015-16 budget agreement assumes Proposition 98 funding levels of $58.9 billion in 2013-14, $66.3 billion in 2014-15, and $68.4 billion in 2015-16. This represents a net increase – over this three-year period – of $6.1 billion above the levels assumed in the Governor's January budget proposal. Because changes in state General Fund revenues tend to affect the Proposition 98 guarantee, the Proposition 98 funding levels included in the budget agreement largely reflect increases in revenue estimates assumed in the Governor's May Revision. The budget agreement also assumes a $5.4 billion payment in 2014-15 to reduce the $6.2 billion maintenance factor obligation to schools and community colleges – the amount the state must restore for prior-year reductions to the Proposition 98 funding level – leaving an outstanding maintenance factor obligation of $772 million at the end of 2015-16. In addition, consistent with the Governor's January budget proposal and May Revision, and as required by the 2014-15 budget agreement, the budget package eliminates $897.2 million in outstanding debt owed to K-12 schools.

Within K-12 education, the 2015-16 budget agreement:

- **Provides $6.0 billion – $181.3 million below the Governor's May Revision – 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.
- **Provides $3.2 billion to reduce mandate debt the state owes to schools, $440.3 million less than proposed by the Governor.** The budget agreement adopts the Governor's January proposal to distribute this one-time funding statewide on a per pupil basis to school districts, charter schools, and county offices of education (COEs). 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.
- **Provides $500.0 million in one-time funding for professional development and educator effectiveness programs.** The budget agreement includes a legislative proposal to provide $490 million to school districts, charter schools, and COEs to be used between 2015-16 and 2017-18 for new teacher and administrator support and mentoring, professional development services for teachers who school districts have identified as needing improvement, and other programs that promote educator quality and effectiveness. School districts, charter schools, and COEs would receive these funds based on their number of certificated staff and must provide a report to the California Department of Education no later than July 1, 2018 that details how the dollars were spent. The budget agreement also provides $10 million to the K-12 High-Speed Network for professional development and technical assistance related to high-speed, high-bandwidth Internet connectivity.
- **Provides $273.4 million to eliminate the state's remaining obligation to schools under the *Williams v. California* settlement agreement.**
- **Provides $39.9 million for a 1.02 percent cost-of-living adjustment (COLA) for certain non-LCFF programs.**
- **Does not include legislative proposals to provide $25 million for after school programs and $25 million to equalize funding for the Home-to-School Transportation program.**

California's community colleges (CCCs) help prepare approximately 2.3 million full-time students to transfer to four-year institutions as well as obtain training and skills for immediate employment. The 2015-16 budget agreement eliminates $94.5 million in outstanding state obligations to the CCCs and increases funding for CCC operating expenses and general-purpose apportionments.

Specifically, the budget agreement:

- **Provides $604.0 million to reduce mandate debt the state owes to community colleges, $22.0 million less than the Governor's May Revision.** The budget agreement adopts the Governor's May Revision proposal to distribute this one-time funding statewide on a per full-time-equivalent student basis. Mandate debt reflects the cost of state-mandated services that CCCs provided in prior years, but for which they have not yet been reimbursed.
- **Increases base allocation funding by $266.7 million to pay for CCC operating expenses.** The budget agreement provides this additional funding for any educational or operational purpose, including professional development, facility maintenance, and payment of retirement benefits.
- **Increases funding by more than $200 million for "student success programs" at the CCCs.** The budget agreement provides $100 million to increase funding for orientation, assessment, placement, counseling, and other education planning services, and targets $85 million toward underrepresented student groups to close achievement gaps as identified in local student equity plans. The budget agreement also provides $33.7 million for Extended Opportunity Programs and Services to provide support services for disadvantaged students and $15 million for professional development and technical assistance programs to improve CCCs' performance regarding student outcomes.
- **Increases apportionment funding by $156.5 million to increase statewide full-time equivalent students (FTES) by 3 percent.**
- **Provides $148.0 million in one-time funding for deferred maintenance and instructional equipment.** The budget agreement provides one-time Proposition 98 funding that CCCs can use to reduce their backlog of deferred maintenance or to purchase instructional equipment.
- **Provides $70 million in one-time funding for basic skills initiatives.** The budget agreement provides $60 million to establish the Basic Skills and Student Outcomes Transformation Program to help CCCs improve the delivery of basic skills instruction for underprepared students. The budget agreement also provides $10 million for a Basic Skills Partnership Pilot Program to provide incentives to CCCs, high schools, and the California State University (CSU) to coordinate in providing basic skills instruction to incoming CSU students.
- **Provides $62.3 million to increase the number of full-time faculty at CCCs, $12.7 million less than the Governor's May Revision.** The budget agreement allocates this funding based on full-time-equivalent enrollment to all CCC districts, but districts with relatively low proportions of full-time faculty would be required to increase their full-time faculty more than districts with higher proportions.
- **Provides $61.0 million to fund a 1.02 percent COLA for apportionments, which provide general purpose funding for CCCs.** The budget agreement also includes an increase of $2.5

million to provide a 1.02 percent COLA for Disabled Student Programs and Services, Extended Opportunity Programs and Services, Special Services for CalWORKs Recipients, and the Child Care Tax Bailout program.

- **Provides $49.5 million to increase the funding rate for noncredit courses.** The budget agreement funds a provision, included in the 2014-15 budget agreement, that increased 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 beginning in 2015-16.

Budget Package Boosts Funding for Adult Education and Career Training Programs

The 2015-16 budget agreement provides nearly $1.5 billion to adult education and career training programs. The spending plan adopts the Governor's proposals to provide $500 million to establish a new adult education block grant and $900 million – total between 2015-16 and 2017-18 – for a new competitive grant program to support career training. Specifically, the budget agreement:

- **Provides $500.0 million in Proposition 98 funding for a new block grant to support adult education.** The Adult Education Block Grant Program will be administered by the CCC Chancellor and the Superintendent of Public Instruction, who will approve consortia of adult education providers that may consist of any combination of CCC districts, school districts, and/or COEs. These consortia will coordinate services regionally and must use block grant funds to support specific adult education programs, including workforce preparation for immigrants, education programs for adults with disabilities, and career technical education (CTE) programs. In 2015-16, up to $375 million of the $500 million in block grant funds is earmarked for school districts and COEs to match the amounts they have been required to spend on adult education since 2012-13, due to a maintenance-of-effort provision included in the state's Local Control Funding Formula. If total adult education spending by school districts and COEs exceeds $375 million in 2015-16, their allocations will be prorated. The remainder of the $500 million will be allocated to regional consortia based on each region's adult education needs. The consortia will allocate any dollars they receive to adult education providers based on regional consortia plans.
- **Provides $400.0 million in one-time 2015-16 Proposition 98 funding for a new CTE Incentive Grant Program.** The budget agreement adopts the Governor's proposal to provide additional one-time funding of $300 million in 2016-17 and $200 million in 2017-18 – a total of $900 million over a three-year period – to fund a new competitive CTE grant program for K-12 school districts, COEs, charter schools, and Regional Occupation Centers and Programs (ROCPs). The budget agreement also adopts the Governor's May Revision proposals to require local school

districts to match CTE incentive grant dollars and to eliminate the Career Pathways Trust Program from the list of allowable sources for local matching funds. Funding for CTE grants would be divided into three separate pools to allow applicants to compete against one another based on their number of students in grades 7 through 12. Applicants with an average daily attendance (ADA) of more than 550 students in these grades would compete for 88 percent of the funding, applicants with ADA of more than 140 up to 550 in grades 7 through 12 would compete for 8 percent of the funds, and 4 percent of the funds would be allocated to a separate pool for applicants with less than or equal to 140 ADA. The budget agreement requires the California Department of Education and the State Board of Education to prioritize funding for applicants if they are establishing a new CTE program, serving groups of students with high dropout rates, located in areas with high unemployment rates, or serving disadvantaged students.

- **Provides $48.0 million to extend the CTE Pathways Program through 2015-16.** The budget agreement allocates one-time funding to this competitive grant program for K-12 schools, community colleges, and ROCPs to develop, enhance, and expand CTE programs.
- **Increases funding by $29.1 million for expansion of apprenticeship programs.** The budget agreement provides $14.1 million to increase funding for existing apprenticeship programs and $15 million to create apprenticeship demonstration projects that meet local labor market demands in new and emerging industries.

Budget Agreement Continues Modest Funding Increases for CSU and UC

The budget agreement largely reflects the May Revision's funding levels for the California State University (CSU) and University of California (UC), as well as new and existing performance goals. While CSU has already announced it will not increase tuition for 2015-16, the budget requires UC to hold tuition flat for California residents through 2016-17. Both institutions are expected to seek ways to reduce time-to-degree for their students.

This year's budget provides only modest funding increases even though 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. Despite having been held flat at CSU and UC since 2011-12, tuition and fees have more than tripled since 1990-91 at CSU, and more than quadrupled at UC, after adjusting for inflation.

CSU will receive an increase of $216.5 million in ongoing General Fund support over its 2014-15 level. CSU is specifically given the goal of increasing resident student enrollment by at least 10,400 full-time-equivalent students by the end of the fall 2016 semester, relative to 2014-15 enrollment.

UC will receive an increase of $119.5 million in ongoing General Fund support over its 2014-15 level. The budget also includes a provision for an additional $25 million if UC provides "sufficient evidence" by May 1, 2016, that its enrollment of resident undergraduate students will have increased by at least 5,000 over the 2014-15 level by the 2016-17 academic year. As proposed in the Governor's May Revision, UC will receive a one-time infusion of $96 million in Proposition 2 funds to help pay down its unfunded pension liability.

Spending Plan Boosts Cal Grants While Cutting Middle Class Scholarships

Relative to the May Revision, the budget agreement boosts funding for Cal Grants while cutting back the Middle Class Scholarship (MCS) Program. The MCS Program began providing scholarships to eligible California resident undergraduates in the current fiscal year, 2014-15. Based on the projected participation available in March 2015, there will be some MCS funds left unspent at the end of 2014-15. Full implementation is expected by 2017-18, at which point participating students will be eligible for awards that cover up to 40 percent of mandatory systemwide tuition and fees, when combined with other publicly funded student aid.

Specifically, the budget package:

- **Provides $39 million in Proposition 98 dollars to boost financial aid to community college students taking 12 or more units who are already receiving Cal Grant B Access Awards, which can be used for living expenses.**
- **Provides $8 million to increase the number of competitive Cal Grant awards by 3,250.** Starting in 2015-16, a total of 25,750 competitive Cal Grant A and B awards are required to be granted annually.
- **Provides $9.1 million to delay the scheduled reduction in maximum Cal Grant awards for students at accredited private nonprofit colleges.** The maximum award will remain at $9,084 through 2016-17, before declining to $8,056 in 2017-18 if not further extended.
- **Provides $1.9 million to increase the Cal Grant B Access Award by $8 per student.** This is on top of the base amount of $1,648 per student for the Access Award.
- **Cuts MCS funding by $70 million in 2015-16, leaving $82 million.** Funding for the MCS is also reduced in 2016-17, from $228 million to $116 million (a $112 million cut), and in 2017-18, from $305 million to $159 million (a $146 million cut).
- **Allows MCS funding to be further reduced by up to 33 percent in 2016-17 and in future years if specific conditions are met.**

- **Limits eligibility for the MCS to students with household asset levels at or below $150,000, beginning in 2015-16.** This asset level excludes primary residences and retirement funds, and will be adjusted for inflation beginning in 2016-17. This new criterion is in addition to the prior rule requiring students' annual household *income* not to exceed $150,000.
- **Limits MCS awards to the equivalent of four or five years of full-time attendance, depending on the recipient's course of study, starting in 2016-17.**

Budget Agreement Makes Significant Investment in Early Care and Education, but Funding Is Still Down From 2007-08

California's child care and development system helps prepare children for school and provides affordable care so parents can find jobs and remain employed. Funding for these programs was cut dramatically during and after the Great Recession. Despite modest spending increases in recent years, funding for child care and preschool slots in the fiscal year about to end (2014-15) is still more than $1 billion lower than in 2007-08, after adjusting for inflation. The 2015-16 budget package makes a significant investment in the child care and development system, due largely to the Legislature's efforts to boost funding for these critical programs. Specifically, the spending plan:

- **Restores more than 16,000 child care and preschool "slots" cut in recent years.** The budget agreement restores funding for 6,800 Alternative Payment slots starting July, 1 2015. The estimated General Fund cost for this restoration is $52.6 million in 2015-16. The budget agreement also restores funding for 7,030 full-day preschool slots effective January 1, 2016, of which 5,830 are for local education agencies (LEAs) and 1,200 are for non-LEA providers. The estimated cost for these slots is $34.3 million ($30.9 million Proposition 98). Finally, the budget agreement includes $12.1 million in Proposition 98 funds for 2,500 additional part-day preschool slots. Priority for these slots is to be given to children with exceptional needs. Even with the addition of these more than 16,000 slots in 2015-16 – along with the roughly 13,000 slots added in 2014-15 – the total number of slots remains well below the pre-recession level.
- **Moves funding for preschool "wraparound" slots from the General Fund into Proposition 98.** Wraparound slots provide full-day care for some children who are enrolled in the state's part-day preschool program. In prior years, these wraparound slots were funded with General Fund dollars. As part of the 2015-16 budget agreement, wraparound slots provided by LEAs will be funded with Proposition 98 dollars. This creates General Fund savings of $145 million in 2015-16. Wraparound slots provided by non-LEA providers will continue to be funded through the General Fund.

- **Increases the Standard Reimbursement Rate (SRR) for child care and preschool providers.** Providers that contract with the state are reimbursed based on the SRR, which is a daily rate adjusted for factors such as a child's age or special needs. The spending plan increases the SRR by the following percentages, beginning on July 1, 2015:
  - 5 percent for preschool and child care providers at an estimated cost of $61.0 million in 2015-16 ($38.3 Proposition 98) as part of the negotiated budget plan; and
  - 1 percent for part-day preschool providers to better serve children with exceptional needs at an estimated cost of $6.0 million in Proposition 98 funding in 2015-16, as included in the Governor's May Revision.
- **Boosts the Regional Market Rate (RMR) by 4.5 percent.** As part of the 2014-15 budget agreement, policymakers updated the value of subsidized child care vouchers to reflect the 85th percentile of the 2009 RMR Survey – rather than the 2005 RMR Survey previously in use – but with the rate ceilings reduced by 10 percent. The 2015-16 budget agreement increases the rate ceilings currently in use by 4.5 percent, effective October 1, 2015. The estimated cost for this increase in the rate ceilings is $29.6 million in 2015-16.
- **Increases the payment rate for license-exempt providers.** License-exempt providers – typically family and friends – often provide care to families with variable work schedules and/or nontraditional work hours. License-exempt providers are paid a rate that is a percentage of the rate paid to licensed family child care homes (FCCHs). In 2012, policymakers reduced the license-exempt provider payment rates by one-third, from 90 percent of the rate paid to FCCHs to 60 percent. The budget agreement increases the payment rate to 65 percent of the rate paid to FCCHs beginning October 1, 2015, at a General Fund cost of $10.7 million in 2015-16.
- **Provides a COLA for child care and preschool programs.** Policymakers suspended the statutory COLA from 2008-09 through 2014-15. The 2015-16 COLA of 1.02 percent will increase spending by $14.3 million ($6.1 million Proposition 98). For child care and preschool providers that contract directly with the state, the COLA 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.
- **Funds quality improvement projects for infant and toddler care.** The budget includes one-time General Fund spending of $24.2 million for Quality Rating Improvement System (QRIS) block grants to be used and/or distributed by local or regional consortia for professional development, technical assistance, and other resources meant to improve the quality of care for infants and toddlers.
- **Reflects the increase in funding for young children with special needs that was part of the Governor's May Revision.** The spending agreement increases funding by $30 million, for a total of $119 million, in Proposition 98 funds for the Early Education Program for Infants and

Toddlers with Exceptional Needs. This program, implemented by LEAs, provides early identification and interventions for children from birth through age two who have special needs.

The 2015-16 budget reflects a significant investment in California's child care and development system. However, the spending plan does not include many legislative proposals that would have further improved access and enhanced program quality, such as boosting slots, updating income eligibility limits, and further increasing provider payment rates.

Budget Package Increases Support for Services for Foster Youth

As part of the state's child welfare system, California's foster care system provides temporary care to children and youth who have been removed from their homes due to abuse or neglect. The 2015-16 budget further boosts spending for a number of programs that support foster youth or other children involved with the child welfare system. Specifically, the spending plan:

- **Begins implementation of the "continuum of care" reform to improve services for foster youth.** In January 2015, the Department of Social Services released a report detailing 19 steps the state can take to reduce the number of foster youth residing in group homes for extended periods of time. The 2015-16 budget begins implementation of the continuum of care reform as the first step in a multiyear process. Specifically, the spending plan provides $17.7 million General Fund to both recruit and support foster parents and relative caregivers.
- **Boosts funding for the Foster Youth Services Program.** Administered by the California Department of Education, the Foster Youth Services Program provides services intended to enhance academic achievement. The 2015-16 budget significantly boosts funding for Foster Youth Services with a more than $10 million increase in Proposition 98 funding over the 2014-15 enacted level – but provides $15 million less than the funding level in the Legislature's original version of the 2015-16 budget. Total Proposition 98 funding for the program is $25.4 million in 2015-16.
- **Increases funding for legal support for children who have experienced abuse or neglect.** Dependency counsel represent children and parents who are involved in the judicial system due to abuse and neglect. Currently, California's average caseload of 248 cases per attorney is well over the recommended caseload of 188 cases per attorney. Reducing this average caseload will shorten the amount of time children and families are involved in the judicial system. The 2015-16 budget agreement increases funding for dependency counsel services by $11 million, bringing total funding to $114.7 million in special funds. This is $22.1 million less than what was included in the Legislature's original version of the budget.

- **Funds student support services for foster youth at community colleges.** Senate Bill 1023 (Liu, Chapter 771 of 2014) established a program to support foster youth success at community colleges. The 2015-16 budget agreement provides $15 million in Proposition 98 funds from community college "student success programs" funding to implement this this law.

The 2015-16 budget agreement does not include other legislative proposals related to child welfare services, including a housing pilot program for homeless families involved with the child welfare system and housing support services for foster youth who are over the age of 18.

Spending Plan Increases Funding for CalWORKs Housing Services, but Fails to Eliminate the "Family Cap" Rule

The California Work Opportunity and Responsibility to Kids (CalWORKs) Program is a key part of the state's safety net for families with low incomes. CalWORKs provides cash assistance to families with children while helping parents overcome barriers to employment and find work. Budget cuts made during and following the Great Recession reduced benefits to families. These reductions included substantially lowering grant levels, eliminating the COLA for grants, imposing a 24-month "clock" on the amount of time parents can access the full array of welfare-to-work activities, and rolling back the maximum amount of time adults can participate in the program from five years to four years.

The 2015-16 budget agreement increases General Fund support by $15 million for the successful CalWORKs Housing Support Program, bringing total funding to $35 million in 2015-16. However, the Legislature's original version of the 2015-16 budget package boosted funding for this program by $30 million – double the increase that was included in the budget agreement.

In addition, the budget agreement does not include a number of other legislative proposals that would have provided additional support for families working toward economic security. These include, for example, repealing the Maximum Family Grant policy (often referred to as the "family cap"), reinstating the COLA effective July 1, 2019, and suspending the 24-month clock. While the 2013-14 and 2014-15 budget agreements partially reversed cuts to cash assistance, CalWORKs grant levels remain far below the deep-poverty threshold of 50 percent of the poverty line, and families currently lose cash assistance before their incomes lift them out of poverty.

Governor Calls Special Sessions to Find Funding Solutions for Health and Human Services, Transportation

As part of his budget agreement with lawmakers, Governor Brown convened two special sessions of the Legislature to address funding for certain health and human services programs and the state's transportation infrastructure. These special sessions – which began on June 19 and are likely to continue through the summer – will focus lawmakers' attention on efforts to:

- **Create a permanent source of funding to support certain and human services programs.** Currently, California uses revenues provided by a tax on certain managed care organizations (MCOs) to draw down additional federal funds for Medi-Cal – the state's Medicaid program – and offset the state's General Fund costs for Medi-Cal by roughly $1 billion per year, funds that are used to support other state priorities. However, the current MCO tax does not meet federal guidelines and must be replaced. The Governor had sought to put a revised MCO tax in place as part of the 2015-16 budget package, but an agreement with lawmakers was not reached. In convening this special session, the Governor indicated that a new MCO tax and/or alternative sources of funding are needed to:
  - Maintain the annual $1.1 billion in General Fund offset that the current MCO tax currently provides, which would allow the state to avoid making more than $1 billion in cuts to services in 2016-17 and beyond.
  - Provide ongoing funding to support the cost of rolling back a 7 percent reduction to hours of care in the In-Home Supportive Services Program. (See page 15.)
  - Increase payment rates for Medi-Cal services and for services provided to Californians with developmental disabilities.
- **Create a permanent source of funding to maintain and improve the state's transportation infrastructure.** Current taxes fail to provide sufficient annual support for California's "vast system" of state highways, local streets and roads, and bridges, according to the Governor. For example, the annual cost of repairing state highways is estimated to be $8 billion, but fuel excise tax revenues provide only $2.3 billion for this purpose. In convening a special session on transportation funding, the Governor indicated that "pay-as-you-go, permanent" revenues are needed to:
  - Maintain and repair the state's transportation infrastructure.
  - Improve key trade corridors.
  - Complement local efforts to repair and improve local transportation infrastructure.

Budget Package Leaves in Place Recession-Era Cuts to SSI/SSP Grants for Seniors and People With Disabilities

Supplemental Security Income/State Supplementary Payment (SSI/SSP) grants help 1.3 million low-income seniors and people with disabilities to pay for rent, food, and other necessities. State support for SSI/SSP grants – which are funded with both federal (SSI) and state (SSP) dollars – was reduced substantially during and following the Great Recession. State policymakers eliminated the annual state COLA and cut the SSP portion of the monthly grant from $233 to $156 for individuals and from $568 to $396 for couples – the minimum levels allowed by federal law. The Legislature's original version of the 2015-16 budget package would have increased grants for individuals by $10 per month beginning on January 1, 2016, and also would have reinstated the state COLA for SSI/SSP grants effective January 1, 2020. However, the budget agreement reached with the Governor deleted these provisions, leaving the recession-era cuts to SSI/SSP in place during 2015-16.

Budget Agreement Fails to Boost Payments for Services Provided to People With Developmental Disabilities

Californians with developmental disabilities, such as autism and cerebral palsy, are eligible for a range of supports and services under state law. Nearly all of these Californians – roughly 280,000 – live in their own communities, rather than in state-operated institutions, and receive services coordinated by 21 Regional Centers throughout the state. Payment rates for a wide array of such services have not been increased since 2006. Providers and advocates argue that this rate freeze, along with various policy changes, has reduced both the availability and quality of community-based services and supports that people with disabilities need in order to thrive. The Legislature's initial version of the 2015-16 budget package would have increased these rates by up to 5 percent, with some increases taking effect on July 1, 2015, and others on January 1, 2016. However, the budget agreement reached with the Governor deleted these provisions. One of the goals of the special legislative session on funding options for certain health and human services programs (see page 14) is to identify ongoing revenues to support a payment rate increase for services provided to Californians with developmental disabilities.

Budget Package Rolls Back 7 Percent Cut to IHSS Hours, Delays Implementing New Rules for Home Care Workers

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. The 2015-16 budget agreement:

- **Rolls back the current 7 percent cut to IHSS consumers' authorized hours of care on July 1, 2015.** The cost of restoring these hours in 2015-16 – $226 million – will be paid for with state General Fund dollars. However, in calling a special session of the Legislature to explore funding options for certain health and human services programs (see page 14), the Governor asserted that "the state's General Fund cannot afford to permanently maintain [this] restoration." One of the goals of this special session is to identify an alternative, ongoing source of revenues to fund these restored IHSS hours beginning in the 2016-17 fiscal year.
- **Continues to delay the implementation of new 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 prevented the new federal rules from taking effect and, as a result, the Governor delayed implementing the regulations in California pending a final court decision, as allowed by state law. The 2015-16 budget package assumes these rules will not be implemented for IHSS until October 1, 2015, and only if the courts ultimately uphold the legal validity of the federal regulations. (These same provisions apply to home care services that are overseen by the Department of Developmental Services and provided to people with developmental disabilities.)

Spending Plan Ends Rate Cut for Dentists in Medi-Cal, but Maintains Other Recession-Era Cuts to Health Services

In 2013, California began implementing a 10 percent cut to payments for certain providers, including dentists, who accept patients enrolled in Medi-Cal, the state's health care coverage program for Californians with low incomes. The 2015-16 budget package repeals the rate cut for *dental providers only* effective July 1, 2015, using one-time special fund dollars to offset state General Fund costs. This change comes six months after the State Auditor released a report highlighting weaknesses in Medi-Cal's dental program that limited children's access to care.

The Legislature's initial version of the 2015-16 budget package would have partially or entirely rolled back several other cuts to health and dental services that were adopted during and following the Great Recession in order to help close budget shortfalls. However, the budget agreement reached with Governor Brown deleted these provisions, leaving these recession-era cuts in place during 2015-16. The budget package:

- **Maintains the 10 percent payment cut to certain types of doctors and other Medi-Cal providers.** Providers and advocates argue that this reduction discourages providers from participating in Medi-Cal or accepting new patients, potentially hindering access to services for the more than 12 million Californians enrolled in the program. The Legislature initially proposed to roll back *half* of this payment cut for *all* providers in 2015-16. One of the goals of the special legislative session on funding options for certain health and human services programs (see page 14) is to identify ongoing revenues to support a payment rate increase for Medi-Cal providers.
- **Does not restore the full range of dental benefits for adults enrolled in Medi-Cal.** State policymakers eliminated Medi-Cal dental benefits for adults in 2009, with some dental services reinstated in 2014. The initial version of the budget package approved by the Legislature would have fully restored adult dental benefits in 2015-16.
- **Does not reinstate other Medi-Cal benefits that were eliminated in 2009.** In addition to dental services for adults, state policymakers eliminated several other Medi-Cal benefits that are not required by federal law: acupuncture, audiology, chiropractic, incontinence cream and washes, optician/optical lab, podiatry, and speech therapy. The initial version of the budget package approved by the Legislature would have reinstated these benefits, with the exception of chiropractic services, in 2015-16.
- **Does not re-establish school-based dental services.** The California Children's Dental Disease Prevention Program ceased operating after losing all General Fund support – roughly $3 million – in 2009. This program provided school-based dental services, such as sealants and fluoride rinses, to more than 300,000 primarily low-income children each year. The initial version of the budget package approved by the Legislature would have reinstated this program at cost of $3.2 million in 2015-16.

Budget Package Delays Some Decisions on Allocating "Cap and Trade" Revenues in 2015-16

California's "cap and trade" program, which raises revenues from auctions organized by the Air Resources Board, is expected to provide roughly $2 billion in 2015-16 for activities intended to address climate change. Under current state law, 60 percent of these revenues – $1.2 billion in 2015-16 – go to high-speed rail, the Affordable Housing and Sustainable Communities Program, the Low-Carbon Transit Operations Program, and the Transit and Intercity Rail Capital Program. The remaining 40 percent of these revenues – about $800 million in 2015-16 – are allocated based on annual priorities established by the Governor and the Legislature. However, state policymakers did not allocate this portion of cap-and-trade revenues as part of the 2015-16 budget package, and no specific timeline has been set for future deliberations.

Budget Agreement Requires the Governor to Develop a Comprehensive Plan for the State Prison System

The 2015-16 budget package requires the Administration to develop a long-term plan for the state prison system that includes a permanent solution to the decaying infrastructure at the California Rehabilitation Center (CRC) in Norco. As recently as 2012, the CRC – one of the state's 34 prisons – was slated to be closed by June 2016 because of its age, dilapidated condition, and high operating costs. While the Legislature contends that the CRC can be closed immediately without jeopardizing the court-ordered prison population cap, the Administration has voiced concerns about meeting future prison capacity needs. In its summary of the 2015-16 budget package, the Administration indicates that the long-term plan – which is due in January 2016 – will also address the need for durable population reduction measures and will take into account the expected increase in the prison population, limited prison capacity, and the state corrections system's rehabilitative goals.

In addition, the budget agreement includes $10.2 billion for state corrections, excluding spending on infrastructure and on corrections responsibilities transferred to counties in 2011. This spending level is $8.5 million less than the amount proposed in the Governor's May Revision, but $412.3 million more than the 2014-15 budget act level.

Spending Plan Includes More Funding for Courts and Local Law Enforcement

The budget agreement includes $3.5 billion for the judicial branch, excluding spending on infrastructure. This represents a $147.5 million increase over the 2014-15 budget act level and includes $26.9 million General Fund to reflect a projected increase in trial court workload as a result of Proposition 47 of 2014, which reclassified certain drug and property crimes as misdemeanors and allows people previously convicted of these crimes to be resentenced.

The spending plan also includes increased funding for local law enforcement. In particular, the budget agreement:

- **Provides $31 million in state General Fund support for local law enforcement.** The budget package includes three pots of money targeted toward local law enforcement in 2015-16:
  - $20 million that may be used for any purpose, but will be provided only to police departments that "agree to provide data on the number of use-of-force incidents that result in hospitalization or death," according to budget bill language.

- $6 million for initiatives "intended to strengthen the relationship between law enforcement and the communities they serve," according to budget bill language.
- $5 million for new police facilities in Avenal, Corcoran, and Lemoore.

This $31 million funding level for local law enforcement is higher than the amount included in the Legislature's initial version of the budget package ($18 million), but lower than the $40 million in unrestricted funding proposed by the Governor. Under a 2012-13 agreement between the Legislature and the Governor, state General Fund support for local law enforcement – specifically, city police departments – was supposed to last just three years, expiring in 2014-15, but the current budget agreement extends this support into a fourth year.

- **Creates a debt amnesty program to generate revenue for various state and local purposes, including local law enforcement training programs.** This new program will allow certain people with overdue court-ordered traffic fines to reduce their debt by 50 percent. The program will operate from October 1, 2015, through March 31, 2017. Additionally the program:
  - Reduces the debt further if individuals receive public assistance or if their monthly income is less than 125 percent of the federal poverty line.
  - Waives the current $300 court-imposed assessment fee and replaces it with a $50 administrative fee.
  - Reinstates participants' driver licenses if the licenses were suspended due to the outstanding debt.

  The Administration estimates that this program will generate $150 million in revenues, which will largely support various criminal justice programs, including training for local law enforcement.