URBAN
COUNTIES
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UCC Summary
Governor's Proposed Budget 2015-16
January 9, 2015

The Governor's Budget proposes a total budget of $113 billion that provides more funding for education and health care coverage, holds college tuition flat and delivers on Proposition 1 and 2 by investing in long overdue water projects. At the same time the Governor's Budget proposes to continue to deal with states other long term liabilities – debt, infrastructure, retiree health care and climate change.

Key proposals include:
- Paying local governments $533 million in mandate payments.
- Investment in Medi-Cal of $150 million to help counties with the implementation of the Affordable Care Act.
- Restoration of the 7% across the board cut to IHSS, dependent on a new MCO tax.
- Caution regarding the CCI program and the possibility of winding down in future years.
- Continued funding of SB 678 for county probation.
- Redevelopment dissolution changes.
- $7 million for deferred maintenance at California fairs.
- Addressing poverty and income equality through workforce investment.

Program and State Department Proposals

Environmental Protection – Cap and Trade
The Governor's budget proposes to continue implementation of the Cap and Trade Expenditure Plan adopted in the 2014 Budget with an additional $1 billion of Cap and Trade Revenues. One quarter of the investments will be specifically targeted to benefit disadvantaged communities. The Administration will work with the Legislature and stakeholders to develop a midterm reduction target for 2030 that is consistent with the 2050 objective for stabilizing climate change.

The Governor's plan includes reduction in a number of key areas:

- Decarbonizing Electricity – Significantly increase the state's share of renewable energy, while maintain system reliability and operability.
- Energy Efficiency for Existing Buildings – Significantly improve the energy efficiency of the existing building stock.
- Cleaner Transportation Fuels and Reduced Vehicle Miles Traveled – Significantly reduce the use of petroleum-based transportation fuels and the number of vehicle miles

traveled statewide. Health active transportation alternatives including transit, walkable, bikeable communities, and high speed rail, will receive at least 50 percent of the future Cap and Trade revenues.
- Water and Space Heating – Significantly increase the use of cleaner fuels for water and space heating in our buildings.
- Resilience – Implement climate adaptation strategies. The effects of climate change have already begun in the state, and under the best-case scenarios for reducing global carbon emissions, additional climate impacts are inevitable. State agencies need to work with local governments to make both the built and natural environments more secure and resilient.

Health and Human Services

2011 Realignment Funding

In an effort to provide services more efficiently and effectively, 2011 Realignment shifted responsibility and dedicated funding for public safety services to local governments. In addition, community mental health programs previously funded in 1991-92 State-Local Realignment are now funded by revenue dedicated for 2011 Realignment.

2011 Realignment is funded through two sources; a state special fund sales tax of 1.0625 cents totaling $6.6 billion and $546 million in Vehicle License Fees.

The Administration, in consultation with county partners and stakeholders, is continuing to develop an allocation for funds in the 2011 Realignment Behavioral Health Services Growth Special Account. From 2013-14 revenues, the Account has $60.0 million. The first priority for growth funds is federal entitlement programs: Medi-Cal Specialty Mental Health, including those required by Early Periodic Screening, Diagnosis, and Treatment, and Drug Medi-Cal.

Existing laws also requires DHCS, in collaboration with stakeholders, to create a Performance Outcomes System to track outcomes of Medi-Cal Specialty Mental Health Services for children and youth. DHCS continues to work with stakeholders to identify key components of the system and finalize the outcome measures that will be prioritized for data collection.

ACA Implementation

The Governor's Budget notes that in 2013, California implemented significant portions of the Affordable Care Act. Covered California, the new insurance marketplace, has provided affordable health insurance, including plans subsidized with federally funded tax subsidies and products for small businesses with coverage that started January 1, 2014.

In addition, the Medi-Cal program was expanded in two ways:
- The mandatory expansion simplified eligibility, enrollment, and retention rules, making it easier to get on and stay on the program.
- The optional expansion extended eligibility to adults without children and parent and caretaker relatives with incomes up to 138 percent of the federal poverty level.

With these reforms, an estimated 3.3 million additional people will enroll in Medi-Cal and 2 million people will enroll in Covered California by the end of 2015-16. The budget assumes net costs of $14.3 billion in 2015-16 for the optional Medi-Cal expansion.

AB 85 (2013) – County Responsibilities

Under the ACA, county costs and responsibilities for indigent health care are expected to decrease as more individuals gain access to health care coverage. The state-based Medi-Cal expansion will result in indigent care costs previously paid by counties shifting to the state.

AB 85 (2013) modifies 1991 Realignment Local Revenue Fund (LRF) distributions to capture and redirect savings counties will experience from the implementation of federal health care reform effective January 1, 2014. County savings are estimated to be $724.9 million in 2014-15 and $698.2 million in 2015-16, and these savings will be redirected to counties for CalWORKs expenditures. The estimates for 2015-16 will be updated in the May Revision using updated data from the counties.

AB 85 established two new subaccounts within the LRF beginning in 2013-14: (1) the Family Support Subaccount, which receives sales tax funds redirected from the Health Subaccount, as noted above, and then redistributes to counties in lieu of General Fund for the CalWORKs program, and (2) the Child Poverty and Family Supplemental Support Subaccount, which receives base and growth revenues dedicated solely towards funding increases to CalWORKs grant levels.

Based on current revenue estimates, the Child Poverty and Family Supplemental Support Subaccount is projected to receive $170.3 million in base and growth funds in 2014-15, plus an additional $67.1 million in carryover funding from the prior fiscal year. Of the total amount available ($237.4 million), $241.1 million will be used to fund the 5-percent increase to CalWORKs grant levels that took effect on March 1, 2014 and the additional 5-percent grant increase scheduled to become effective April 1, 2015. The remaining $23.3 million will be carried over to 2015-16 to help fund the full-year costs of both grant increases, estimated to be $340.5 million. Including the carryover funding, total deposits to the Child Poverty and Family Supplemental Support Subaccount in 2015-16 are projected to be $267.2 million. The Budget includes $73.3 million General Fund to provide the remaining funding needed for the full-year costs of the grant increases.

CalWORKS

The CalWORKs program, California's version of the federal Temporary Assistance for Needy Families (TANF) program, provides temporary cash assistance to low-income families with children to meet basic needs. It also provides welfare-to-work services so that families may become self-sufficient. Eligibility requirements and benefit levels are established by the state. Counties have flexibility in program design, services, and funding to meet local needs.

Maximum Aid Payment Levels

The 2014 Budget Act increases Maximum Aid Payment levels by 5 percent, effective April 1, 2015. This increase, combined with the prior 5 percent increase in 2014 is estimated to cost approximately $340.5 million in 2015-16. The increase will be funded by 1991-92 Realignment growth funds deposited in the Child Poverty and Family Supplemental Support Subaccount, as well as a $73.3 million General Fund augmentation. Subsequent grant increases will be based on analysis of revenue and caseload estimates in future years.

Coordinated Care Initiative

Under the Coordinated Care Initiative (CCI), persons eligible for both Medicaid and Medi-Cal (dual eligibles) receive medical, behavioral health, long-term supports and services, and home and community-based services coordinated through a single health plan. These changes are being pursued through a federal demonstration project known as Cal MediConnect. The CCI is also enrolling all dual eligibles in managed care plans for their Medi-Cal benefits and integrating long-term services and supports for Medi-Cal-only beneficiaries. The CCI was intended to operate in eight counties: Alameda, Los Angeles, Orange, Riverside, San Bernardino, San Diego, San Mateo and Santa Clara.

The following changes have occurred since enactment of the 2012 Budget Act and the creation of the program:

- More than 100,000 participants were exempted, including Medicare Special Needs Plans and certain categories of Medi-Cal beneficiaries based on age or health condition.
- Passive enrollment was delayed until 2014, and Alameda County will no longer participate in the demonstration due to concerns regarding one of the health plan's readiness. Six counties have begun passive enrollment and the seventh, Orange County, will begin in July 2015.
- Medicare and Medicaid savings were intended to be shared 50-50 with the federal government; however, the federal government reduced the amount of savings California was allowed to retain to approximately 25-30 percent.
- To help pay for implementation, the federal government allowed a 4-percent tax on managed care organizations through June 30, 2016, which is attributed to the state's participation in the demonstration. However, recent guidance from the federal government indicates the tax is inconsistent with federal Medicaid regulations and will not be allowed to continue.
- As of November 1, 2014, approximately 69 percent of eligible participants have opted out of the demonstration compared to initial projections of approximately 33 percent. That percentage is around 80 percent for In-Home Supportive Services (IHSS) beneficiaries, and participation varies widely by county.
- Due to revised Federal Fair Labor Standards Act regulations, IHSS providers are entitled to overtime compensation. Because the CCI established a Maintenance-of-Effort (MOE) funding formula for the IHSS program, the state's IHSS costs have significantly increased due to the CCI. This arrangement changed the fiscal exposure for counties from a share of non-federal costs to a cost cap based in 2011-12 expenditure levels plus annual growth of 3.5 percent. The cost cap applies to all 58 counties, not just the seven counties implementing the CCI. This funding change, together with the federal government's change in overtime regulations, has significantly increased the state's costs.

Under the current law, the Director of Finance is required to annually send to the Legislature a determination of whether the CCI is cost-effective. If the CCI is not cost-effective, the program would automatically cease operation. Although the Budget projects net General Fund savings for the CCI of $176.1 million in 2015-16, these savings are primarily from the tax on managed care organizations. Without the tax revenue, the CCI would have a General Fund cost of $398.8 million in 2015-16. The most recent analysis also shows that the initiative could result in net costs to the state in 2016-17 and beyond due to the factors outlined above. If these factors are not improved by January 2016, the CCI would cease operating effective January 2017.

The Administration remains committed to implementing the CCI to the extent it can continue to generate program savings. Over the course of the next year, the Administration will seek ways to improve participation, extend an allowable managed care tax, and lower state costs.

IHSS

The IHSS program provides domestic and related services such as housework, transportation, and personal care services to eligible low-income aged, blind, and disabled persons. The Budget includes $8.2 billion ($2.5 billion General Fund) for the IHSS program in 2015-16, a 14.4 percent increase over the revised 2014-15 level. Average monthly caseload in this program is estimated to be 463,000 recipients in 2015-16, a 0.3 percent decrease from the 2014 Budget Act projection.

Overtime

Implementation of the U.S. Department of Labor regulations that require overtime pay for domestic workers effective January 1, 2015, is estimated to cost $403.5 million ($182.6 million General Fund) in 2014-15 and $707.6 million ($314.3 million General Fund) annually thereafter. SB 855 and SB 873, limit providers to a 66-hour workweek, less the current 7 percent reduction in service hours (or a 61 hour workweek). IHSS providers who work for multiple recipients will be paid for their travel time between recipients, up to 7 hours per week. In late December 2014, a federal district court ruled that a portion of the regulations exceeded the Department of Labor's authority and delayed the implementation of the regulations. Under state law, the state's implementation of overtime is also delayed pending further action by the federal court.

Restoration of Across the Board Reduction

The Budget proposes to restore the current 7 percent across the board reduction in service hours with proceeds from the new tax on managed care organizations effective July 1, 2015. The cost to restore the 7 percent reduction is estimated to be $483.1 million in 2015-16.

Managed Care Organization Tax

SB 78 (2013) authorized a tax on the operating revenue of Medi-Cal managed care plans based on the state sales tax rate. Nearly half of this revenue is used for the non-federal share of supplemental payments to Medi-Cal managed care plans. The remainder of the revenue is used to fund increased capitation rates. The Budget includes a General Fund offset from the tax of $803 million in 2014-15 and $1.1 billion in 2015-16.

The Governor's Budget notes that the federal government recently released guidance indicating that this tax is likely impermissible under Medicaid regulations.

The Administration is proposing a new managed care tax that complies with federal law. The new revenue will offset the same amount of General Fund expenditures as the current tax, as well as fund a restoration of the 7-percent across the board reduction to authorized IHSS hours of services. The Administration will be pursuing the new managed care tax early in 2015.

Medi-Cal

The Governor's Budget notes that Medi-Cal, California's Medicaid program is administered by the Department of Health Care Services (DHCS). Medi-Cal is a public health insurance program that provides comprehensive health care services at no or low cost for low-income individuals.

Since 2012-13, total Medi-Cal benefit costs grew 10 percent annually (approximately $1.5 billion per year) to $81.3 billion in 2014-15 because of combination of health care cost inflation, program expansions, and caseload growth. Medi-Cal General Fund spending is projected to increase 4.3 percent from $17.8 billion in 2014-15 to $18.6 billion in 2015-16.

The Budget assumes that caseload will increase approximately 2.1 percent from 2014-15 to 2015-16 (from 11.9 million to 12.2 million) largely because of the continued implementation of federal health care reform. Federal health care reform will increase the program's caseload of federal health reform. Federal health reform will increase the program's caseload by an estimated 1 million in 2014-15 and 1.1 million in 2015-16. With these trends, approximately 32 percent of the state's total population will be enrolled in Medi-Cal. Caseload has increased from 7.9 million in 2012-13 to 12.2 million in 2015-16.

The Governor's Budget provides the following major changes to the Medi-Cal Program:

- <u>County Medi-Cal Administration ($150 million)</u> – County workers conduct Medi-Cal eligibility work on behalf of the state. Medi-Cal caseload has grown significantly since implementation of the Affordable Care Act, and the system built to automate eligibility work is still not completely functional. As a result, counties require additional resources for administration of the program. The Budget includes an additional $150 million ($48.8 million General Fund) in 2014-15 for these purposes. The Administration will continue to monitor county workload to determine if additional resources are also warranted in 2015-16. In the interim, the Budget continues the increase of $240 million ($78 General Fund) in 2015-16 that counties received the last two years. Once the eligibility system stabilizes, the state will conduct time studies to inform a new Medi-Cal county administration budgeting methodology.

- <u>Behavioral Health Treatment</u> – In July 2014, the federal government required behavioral health treatment services be covered under the Early Periodic Screening, Diagnosis and Treatment (EPSDT) requirements for services delivered on or after July 1, 2014. The Budget includes costs of $190 million in 2014-15 and $320 million in 2015-16 for behavioral health treatment services for individuals with Autism Spectrum Disorder up to 21 years of age. SB 870 (2014), requires DHCS to implement behavioral health treatment services, including Applied Behavioral Analysis, to the extent required by the federal government.

- <u>Provider Rates</u> – AB 97 (2011) reduced most Medi-Cal provider rates by up to 10 percent. The 2014 Budget Act assumed retroactive recoupment of rate reductions for some services in fee-for-service Medi-Cal and prospective savings from rate reductions in fee-for-service and managed care. The 2014 Budget Act also exempted additional providers, including high-cost prescription drugs, specialty physician services, various distinct-part nursing facilities and nonprofit pediatric dental surgery centers. The Budget reflects an estimated $130 million annual General Fund cost for these exemptions.

- <u>Limited Benefit Programs</u> – Several state health programs including the Medi-Cal Access Program, California Children's Services, the Genetically Handicapped Persons Program, and Every Woman Counts currently provide health services that do not qualify as comprehensive coverage. The Governor's Budget proposes to require individuals in these programs to seek comprehensive coverage offered through Covered California or Medi-Cal in order to maintain eligibility for these programs.

- Annual Open Enrollment – The Budget proposes to institute an annual 90-day time period when certain non-disabled Medi-Cal beneficiaries enrolled in managed care plans can change their health plan, similar to the Covered California open enrollment period. This proposal supports continuity of care and enables increased care management and does not impact the ability of individuals to apply for and be enrolled in Medi-Cal coverage at any time throughout the year. This change results in General Fund savings of $1.6 million in 2015-16.

Mental Health and Substance Use Disorder Services

The Governor's Budget notes that California expanded the mental health and substance use disorder benefits available to those eligible for Medi-Cal. The Budget continues to reflect the costs of the expansion of benefits.

DHCS is seeking a waiver from the federal Centers for Medicare and Medicaid Services to provide better coordination of care and continuum of care for substance use disorder treatment services, including residential treatment services which would be unavailable for most beneficiaries absent a waiver. The waiver will allow state and county officials more authority to select quality providers to provide substance abuse treatment, assessments, and case management.

Due to concerns about program integrity in the Drug Medi-Cal program, DHCS took steps to eliminate fraud and abuse in the program, including temporarily suspending the certification of hundreds of facilities providing drug treatment inconsistent with program goals, and referring many drug treatment providers to the Department of Justice for potential criminal prosecution. DHCS is still in the process of statewide recertification of active providers, and plans on completing those efforts by November 2015. The Budget extends the 21 positions and $2.2 million ($1.1 million General Fund) provided in the 2014 Budget Act to continue the current recertification efforts and implement on-site monitoring of provider operations to further fraud prevention efforts.

State Hospitals

The Department of State Hospitals (DSH) administers the state mental health hospital system, the Forensic Conditional Release Program, the Sex Offender Commitment Program, and the evaluation and treatment of judicially and civilly committed patients.

Not Guilty by reason of Insanity Involuntary Medication Authorization

The Budget includes $3.2 million General Fund and 14.4 limited-term positions to support a new involuntary medication authorization process for the Not Guilty by Reason of Insanity commitments in the state hospitals. In response to a recent court decision (Greenshields), the Department proposes to use the same process for these patients as the Department uses for Mentally Disordered Offender and Sexually Violent Predator involuntary medication orders.

Incompetent to Stand Trial Waitlist

The incompetent to stand trial (IST) waitlist continues to increase despite DSH adding 196 IST beds system wide since 2013 and implementing several measures to more efficiently place and move patients within the system. In addition, based on the success of the Restoration of

Competency program in San Bernardino County, DSH is working to expand the Restoration of Competency program by 55 beds as directed in the 2014 Budget Act. Despite these efforts, DSH currently has over 400 IST patients waiting to be admitted, up from approximately 150 in 2012. The waitlist for admissions into the Department of Developmental Services' Secure Treatment Program in Porterville is also growing. The current waitlist is approximately 59 consumers, some of whom have been waiting close to a year.

DSH and the Department of Developmental Services continue to ascertain why the number of referrals is increasing. In the meantime, both departments have received increased pressure from the judicial system on the admissions of IST defendants. These pressures have resulted in a multitude of court orders, ongoing litigation, and the potential for being ordered to pay for the costs of housing defendants in jail, as well as being ordered to increase capacity.

In addition to adding capacity in the state system, DHS is also exploring options to increase capacity through partnerships with local governments and the private sector. These options include:

- Collaborating with counties to establish contract-based treatment programs located within secure county or private facilities.
- Releasing a Request for Information to community-based mental health treatment providers/facilities in response to Chapter 734, Statutes of 2014 (AB 2190), which allowed for IST commitments to be placed in the community for treatment before the previous 180-day prohibition.

Social Services

The Department of Social Services (DSS) services, aids and protects needy and vulnerable children and adults in ways that strengthen and preserve families, encourage personal responsibilities, and foster independence. The Department's major programs include CalWORKs, CalFresh, In-Home Supportive Services (IHSS), Supplemental Security Income/State Supplementary Payment (SSI/SSP), Child Welfare Services, Community Care Licensing, and Disability Determination.

The Budget includes $20.3 billion ($7.2 billion General Fund) for DSS, an increase of $244.7 million General Fund from the revised 2014-15 budget, primarily due to an increase in IHSS expenditures.

Major adjustments include:

- Interagency Child Abuse and Neglect (ICAN) Investigation Reports Grants – The Budget includes $4 million General Fund to support an optional grant program for counties to report instances of suspected child abuse or neglect to local law enforcement agencies.
- State Utility Assistance Subsidy – The Budget includes $9.2 million General Fund to provide a state-funded energy assistance subsidy for CalFresh recipients to comply with federal changes regarding the minimum energy assistance benefit that must be received by a household in order to access the standard utility allowance. This program increases household monthly food payments by an average of $62 for over 320,000 families.

Continuum of Care Reform

The Budget includes $9.6 million to begin implementing the Continuum of Care Reform. This reform effort builds upon past collaborative system improvements, including the development of preventive services to help keep children safely in their homes, kinship guardian programs to help increase long-term family care for children, extended foster care supports through age 20, and wraparound and increased mental health services to help support successful reunifications.

In 2012, in response to a desire to reduce the number of foster youth residing in congregate care for extended periods of time, the Legislature directed DSS to develop a report identifying recommendations to improve the foster care system. This report is being released concurrently with the Governor's Budget. The report contains 19 interdependent recommendations, two of which require action in the budget year: increasing the availability of home-based family care through recruitment and retention efforts, and bolstering the social worker capacity of foster family agencies to provide services in home-based family care placements. Implementation will require a multi-year effort with continuing consultation with policymakers, counties, youth and practitioners.

Supplemental Security Income/State Supplemental Payment (SSI/SSP)
The federal SSI program provides a monthly cash benefit to eligible aged, blind, and disabled persons who meet the program's income and resource requirements. In California, the SSI payment is augmented with an SSP grant.

The Budget includes $2.8 billion General Fund for the SSI/SSP program. This represents a 1 percent increase ($29 million) over the revised 2014-15 budget. The average monthly caseload in this program is estimated to be 1.3 million recipients in 2015-16, a slight increase over the 2014-15 projected level. The SSI/SSP caseload consists of 71 percent disabled persons, 27 percent aged and 2 percent blind.

Effective January 2015, maximum SSI/SSP grant levels are $881 per month for individuals and $1,483 per month for couples. SSA applies an annual cost of living adjustment to the SSI portion of the grant equivalent to the year over year increase in the Consumer Price Index (CPI). The current CPI growth factors are 1.7 percent for 2015 and a projected 1.5 percent for 2016. Maximum SSI/SSP monthly grant levels will increase by $11 and $16 for individuals and couples, respectively effective January 2016. CAPI benefits are equivalent to SSI/SSP benefits, less $10 per month for individuals and $20 per month for couples.

Local Government - Mandates
The Governor's Budget continues the suspension of most mandates not related to law enforcement or property taxes. Major changes include the following

Local Government Repayment - $533 million
The 2014 Budget Act made a $10 million repayment on pre-2004 mandate debt owed to counties cities, and special districts. For the remaining $800 million pre-2004 mandate debt, the 2014 Budget Act includes a trigger mechanism that will be used if, at the May Revision, revenues exceed the 2014 May Revision. Current estimates indicate that the trigger mechanism will result in a $533 million payment toward this mandate debt. These funds will provide local governments with general purpose revenue. It is the Administration's expectation that local governments will use these funds for core services such as public safety and improving the implementation of 2011 Realignment.

Public Records Act Mandate

The Governor's Budget notes that in June 2014, California voters approved Proposition 42 which placed the Public Records Act in the Constitution and removed the state's ongoing responsibility to fund the PRA mandate. The Governor's Budget makes a one-time payment of $9.6 million to fund the back costs local agencies accrued from 2001 to 2013 for performing this mandate. The Budget also includes $218,000 to fund the Accounting for Local Revenue Realignments mandate which involves county administration of funding changes in 2003-04.

Interagency Child Abuse and Neglect Investigation Reports Mandate (ICAN)

This mandate required certain local agencies to conduct various activities related to child abuse investigations and to provide reported child abusers due process protections. The Commission on State Mandates adopted a $90.3 million statewide cost estimate. The Governor's Budget suspends this mandate because these activities are long-established and involve the agencies core missions. The Budget creates a $4 million optional grant program, administered by DSS, as a substitute funding mechanism.

Public Safety

The Governor's proposed Budget provides an overview of the efforts the state has undertaken over the past few years related to the jail population. The Governor's Budget notes that in 2011, the U.S. Supreme Court upheld the three-judge panel's order that CDCR reduce the prison population to 137.5 percent of the prison's design capacity by June 2013. Through the implementation of various population reduction measures, the prison population is projected to be below the final population cap by February 2016.

2011 Public Safety Realignment

The Governor's Budget notes that in an effort to provide services more efficiently and effectively, 2011 Realignment shifted responsibility and dedicated funding for public safety services to local governments.

2011 Realignment is funded through two sources: sales tax totaling $6.6 billion and $546 million in VLF. The Governor's Budget includes a chart of the latest estimates for 2014-15 and 2015-16 for both base and growth. For the full chart please see the attachment. The Governor's Budget projects a total of $7.1 billion in 2015-16.

Community Corrections Performance Incentive Grant (SB 678)

In 2009, SB 678 (Leno) created the Community Corrections Performance Incentive Grant to create incentives for counties to reduce the number of felony probationers sent to state prison. This performance-based funding has been provided to county probation departments based on a percentage of state General Fund savings when county probation departments successfully reduce the number of adult felony probationers going to state prison. This funding encourages counties to provide programming that keeps offenders out of prison. In 2011-12 and 2012-13, the state allocated a combined total of $227 million to counties based on their performance in 201 and 2011 and kept 14, 289 felony probationers out of state prison.

Since this program has been so successful, the state has two goals for the program: to preserve past successes and encourage county probation departments to continue to decrease the number of individuals sent to state prison.

The Governor's Budget includes $125 million based on the formula used for the 2014-15 allocation. Since this is funded with a portion of state savings, the Department of Finance will continue to work with the Judicial Council, the Chief Probation Officers of California and CDCR on a revised formula. However, given this funding stream's importance to the success of probation departments the state must carefully examine new data elements prior to their inclusion in the formula.

<u>County Probation Funding - PRCS</u>
The Governor's Budget includes an additional $16 million General Fund for county probation departments to supervise the temporary increase in the average daily population of offenders on Post Release Community Supervision as a result of the two new population reduction measure implemented on January 1, 2015 – Proposition 47 and Proposition 36.

<u>Grants for City Police Departments</u>
The Budget proposed to continue $40 million General Fund for front line law enforcement activities.

<u>Proposition 47</u>
The Governor's Budget notes that on November 4, 2014, the voters passed Proposition 47, which requires misdemeanor rather than felony sentencing for certain property and drug crimes and permits inmates previously sentenced for these reclassified crimes to petition for resentencing. As of December 4, 2014, 132 inmates had been resentenced and released from prison. Under this proposition, it is estimated that the 2015-16 institution average daily population will be reduced by approximately 1,900 inmates.

Proposition 47 requires that state savings from the Proposition be transferred into a new fund, the Safe Neighborhoods and Schools Fund. The new fund will be used to reduce truancy, and support drop-out prevention programs in K-12 schools, increase victim services grants, and support mental health and substance use disorder treatment services. The first transfer of the state savings does not occur until 2016-17, so the Budget does not reflect any savings or appropriation to that fund.

<u>Recidivism Reduction Fund</u>
The Recidivism Reduction Fund was established by SB 105 (2013) and appropriated $315 million General Fund to CDCR to contract for additional capacity to meet the court-ordered prison population cap of 137.5 percent of design capacity. Based on spring expenditure projects, the 2014 Budget Act include $91 million Recidivism Reduction Fund for various departments to implement new programs and services aimed at reducing recidivism rates for state and local offenders. Due to delays in implementation, CDCR projects Recidivism Reduction Fund savings of $16 million in 2014-15 of which $12.6 million is attributable to community reentry facilities. There is also additional savings of $12.2 million from the original SB 105 appropriation. Overall, the 2015-16 amount available for expenditure is $28.2 million.

The Governor's Budget proposes to reappropriate $12.6 million in savings to allow CDCR to enter into contracts with community reentry facilities in 2015-16. The community-based facilities will emphasize treatment and services for offenders with co-occurring mental health and substance use disorders and provide a safer and more seamless transition from state prison to communities. The Budget proposes to utilize the remaining $15.6 million Recidivism

Reduction Fund to the expansion of substance use disorder treatment at non-reentry hub institutions.

State Penalty Fund
The State Penalty Fund was created as a depository for assessments on specified fines, penalties and forfeitures imposed and collected by the courts and counties for criminal offenses. Over the past six years, State Penalty Fund revenues have declined significantly, resulting in diminished revenue allocations and causing structural deficits within many of the special funds. Specifically, six of the eight special funds that receive penalty fund revenues are projected to have structural deficits within the next three to four years. Two of the special funds, the Peace Officers' Training fund and the Corrections Training Fund, will become insolvent in 2015-16.

To address the projected insolvency, the Governor's Budget reflects approximately $12 million in additional penalty assessment revenues resulting from the establishment of an 18-month outstanding debt amnesty program that would be administered by the courts and counties, consistent with existing delinquent debt collection programs.

The amnesty program would authorize individuals with past due court-ordered debt that was due prior to January 1, 2014, related to traffic infractions and certain misdemeanors to pay outstanding delinquent debt at a 50-percent reduction under the eligibility criteria. The Governor's Budget also notes that it will be working on a long-term solution to the solvency of these funds.

Judicial Branch
The Governor's Budget notes that the Judicial Branch has growing costs related to employee retirement and health care. As a part of the 2014 Budget Act, the Administration proposed a two-year funding approach to provide the trial courts with stable funding.

The Governor's Budget provides the following adjustments:

- Trial Court Funding – Provides for an augmentation of $90.1 million General Fund to support trial court operations.
- Trial Court Trust Fund Revenues – The Budget includes an additional $19.8 million General Fund to reflect a further reduction of fines and penalty revenues in 2015-16.
- Proposition 47 – With the passage of Proposition 47, it is anticipated that trial courts will experience additional workload primarily in the early years of implementation due to the requirement that courts reclassify certain drug and theft crimes. The Budget includes $26.9 million to reflect a projected increase in trial court workload.

Redevelopment
The Administration is continuing the ongoing workload involved with winding down the state's former redevelopment agencies (RDAs). The Budget anticipates that in 2014-15 and 15-16 combined cities will receive an addition $580 million, counties $660 million, and special districts $200 million.

Dissolution Process

The Governor's Budget notes that administering the orderly dissolution of almost 400 RDAs has been complex and time-consuming. Every six months, successor agencies submit to Finance their Recognized Obligation Payment Schedules (ROPS). Finance reviews the ROPS and then the county auditors-controllers provide successor agencies with property tax allocation to pay the approved enforceable obligations. This process continues into the future until all the approved enforceable obligations are paid.

Through this process, Finance has successfully reviewed the majority of all enforceable obligations listed for payment by successor agencies and about 85 percent of all active successor agencies have complied with statutory audit findings. As a result, oversight of the dissolution process has progressed to the point where legislative changes can be considered in order to add finality to the entire dissolution process and reduce the burden on all parties involved.

The Administration will introduce legislation through the budget process to gradually transition the state away from the current detailed role in the RDA dissolution process, with the following objectives:

- Minimize the potential erosion of property tax residuals being returned to the local affected taxing entities while transitioning the state from detailed review to a streamlined process.
- Clarify and refine various provisions in statute to eliminate ambiguity.
- Maintain the expeditious wind-down of former RDA activities while adding new incentives for compliance.

The Governor's legislation will include the following process changes:

- Transition all successor agencies from a biannual ROPS process to an annual ROPS process beginning July 1, 2016 when the successor agencies transition to a countywide oversight board.
- Establish a Last and Final ROP process beginning in September 2015.

The legislation will also clarify that:

- Former tax increment caps and RDA plan expirations do not apply for the purposes of paying approved enforceable obligations.
- Reentered agreements that are not for the purpose of providing administrative support activities are not authorized or enforceable.
- Litigation expenses associated with challenging dissolution determinations are not separate enforceable obligations.
- Contractual and statutory pass-through payments end upon termination of all of the successor agency's enforceable obligations.
- Finance is exempt from the regulatory process.
- County auditor-controllers' offices shall serve as staff for countywide oversight boards.

Transportation

The Governor's Budget notes that California has a vast state transportation infrastructure and efficient operation of the vast network is vital to the state's continued economic growth and serves much of the country. The Administration has been working toward building a robust, multi-modal and sustainable transportation infrastructure by advancing high-speed rail and creating new funding programs for transit, bicycle and walking. However, the state continues to face ongoing funding challenges in the tens of billions of dollars for the maintenance and repaid of core infrastructure – state highways, roads and bridges.

Financing Challenges

The Governor's Budget notes annual maintenance and repair needs on the state's highway system are significantly more than can be funded within existing resources, with a current identified gap in the SHOPP of $6 billion annually. Efforts at converting California vehicles to sustainable fuel sources have been successful and one of the consequences of this change is reduced fuel consumption and in increase in the number of electric vehicles is lower long-term excise tax revenues. In considering new funding sources the state must focus funding on the priorities that are the state's core responsibility – maintaining and operating the state's network of highways and interstates.

The State has already started to explore new and expanded financing strategies including:

- Road Usage Charge Pilot Program – The Budget proposes five positions and $9.4 million in State Highway Account funding to implement a Road Usage Charge Pilot Program pursuant to SB 1077 (2014). The purpose of this pilot program is to explore a potential mileage-based revenue collection system or Road Usage Charge, to support maintenance and operations of California's road and highways as a possible replacement to the gasoline tax. A final report and recommendation is due no later than June 30, 2018.

- Toll Roads – The state highway system currently includes high-occupancy vehicle lanes, the access to which is limited during rush hours to only those vehicles with two or more passengers. This often leaves unused capacity in these lanes. By converting these lanes to high-occupancy toll lanes and opening these lanes to paying drivers, the state is able to better maximize capacity as well as generate additional revenues. Legislation is proposed that will restore authority for new high-occupancy toll lane projects, including conversion of existing high-occupancy vehicles lanes to toll lanes. This legislation will expand the authority of the CTC to approve those lanes.

The Governor's Budget notes that those funding strategies alone are not sufficient to address the state's ongoing maintenance and repair needs. New local-option revenues should be considered for these investments.

Water and Drought Issues

Affordable, Safe Drinking Water for Disadvantages Communities

The Governor's Budget notes that an estimated 500 public water systems in disadvantaged communities rely on sources of drinking water that fall short of state and federal safe drinking water standards. Many of these systems are located in low-income communities, both urban and rural, that already pay high rates to substandard tap water. The Administration will work with local governments, communities and dischargers on strategies to bring these systems into compliance, including governance, technical assistance, capital improvements and ongoing operations and maintenance costs.

Emergency Drought Response
The State of California has experienced three consecutive years of below-average rainfall and water levels are dangerously below average. On January 17, 2014, the Governor proclaimed a state of emergency, directed state agencies to take all necessary actions to respond to drought conditions, and called for a 20-percent reduction in water use.

In the event that existing drought conditions continue through next year, the Budget provides $115 million on a one-time basis to continue the drought response efforts.

Flood Protection
More than 7 million California residents and $580 billion in economic assets statewide are vulnerable to flood risk. The effects of climate change on the state's water runoff patterns will magnify these challenges and risks.

The Governor's Budget proposes $1.1 billion for DWR to support flood protection activities, which will appropriate all remaining Proposition 1E funds. Expenditures of these remaining bond funds will be allocated to program categories that are consistent with the resource allocation recommendations of the Central Valley Flood Protection Plan for prioritizing flood management projects.

Groundwater Management
The Sustainable Groundwater Management Act (2014), establishes a new structure for improved local management of groundwater basins. The Budget proposes $6 million General Fund for DWR to provide additional technical assistance to local agencies on the development of the groundwater sustainability plans, as well as to implement specific requirements of the groundwater legislation such as the adoption of basin boundaries and regulation on best groundwater management practices. In addition, the 2014 Water bond proposes $21.3 million for grants for projects that develop and implement groundwater plans.

Water Action Plan
The Governor's Budget notes that the Water Action Plan which was released in January 2014 is a five-year roadmap towards sustainable water management. At the core of the Plan are ten actions and associated sub-actions designed to support three goals: restoration, resilience, and reliability.

In general, local water agencies provide the vast majority of revenues that contribute to water system development, upgrades and operations. Given that, the state must invest its relatively modest water management funding wisely, directing dollars where they can address critical community needs, leverage other funding sources, and spur transformative water management practices.

The Budget proposes $1.7 billion in investments to implement the Plan.

Workforce Investment
The Governor's Budget outlines a comprehensive framework to strengthen the workforce by providing credentials valued by employers and encouraging careers that have opportunities for advancement and self-sufficiency. These proposals represent a significant step in reinvesting and reshaping California's workforce preparation systems to accomplish the following:

- Provide high-quality job-related instruction and connect students with quality career exploration and guidance.
- Produce a workforce and education framework that is highly responsive to labor market demands and focuses on current or emerging high-wage, high-skill, or high-demand jobs.
- Provide increased and more meaningful employer engagement in the workforce development system, including partnering in earn-and-learn programs, on-the-job training, and subsidized employment opportunities.
- Align various programs through coordinated regional planning efforts that can more easily incorporate business-sector input and industry-valued certificates and degrees.
- Improve alignment of workforce programs with post-secondary education, particularly the community colleges, and the continuing development of career pathways programs.
- Emphasize non-traditional apprenticeship programs in high-growth industries in emerging and transitioning occupations.
- Target education and employment services to special populations including veterans, the disabled, CalWORKs recipients, formerly incarcerated individuals, and other disadvantaged groups most in need of assistance.

Workforce Investment Act

The 2014 Budget Act included $390.8 million federal funds of which $356.3 million is allocated to 49 local workforce investment boards to target job and workforce services to youth, adults and dislocated workers; and $34.5 million for program oversight and discretionary programs. The discretionary funding is allocated to address regional workforce needs and employment barriers for special populations. Discretionary funding in 2015-16 is expected to increase and will be detailed in the May Revision after federal guidelines for the new Workforce Act are released in early 2015. Two regionally targeted programs include:

- Slingshot Regional Grants – Provides $5.2 million in 2014-15 to address regional barriers to employment through innovative workforce development, training, employer engagement and career education approaches.
- Regional Workforce Accelerator Program Grants – Provides $3.2 million in 2014-15 to partnerships for job training, support services and job placement assistance for the long-term unemployed, veterans, low-income individuals seeking jobs (including CalWORKs recipients), disconnected youth, formerly incarcerated individuals and others with barriers to employment.
- Apprenticeship Program Funding – The Budget includes an increase of $14 million for existing apprenticeship programs to support both an increase in the number of hours allocated and the rate at which schools and colleges are reimbursed. In addition, the Budget provides $15 million for new and innovative apprenticeship programs in emerging industries.