



# CALIFORNIA SENATE REPUBLICANS

## Highlights and Analysis of the 2019-20 Budget

SENATE REPUBLICAN  
FISCAL OFFICE

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# Executive Summary

**Overview: Positive Steps Along with Missed Opportunities.** The 2019-20 budget package reflects record highs for spending, revenues, and reserves. Prior to lawmakers' decisions on new spending commitments, the budget reflected nearly a \$22 billion surplus. The budget takes some significant steps to protect against wildfires, promote housing, improve schools and college opportunities, reduce debt, and build reserves. However, despite the massive surplus, the budget also enacts more than \$2 billion in unnecessary tax increases that will further raise the cost of living for Californians. In addition, the budget could have done more to fix longstanding problems with existing programs, such as those that serve people with developmental disabilities. Instead, the majority party chose to approve new program expansions that will contribute to unsustainable "baseline" spending growth and raise the real prospect of deficits within a couple years, even without a recession.

**Revenues Continue Rapid Rise.** General Fund tax revenues are budgeted for a new record high of nearly \$146 billion in 2019-20, which is 6 percent above the enacted 2018-19 budget. Part of this sharp increase is attributable to the effects of federal tax reform. The record revenues, which do not include the gas and car taxes approved in 2017, indicate that the state does not need to continue to raise taxes to take care of issues that are a priority for Californians.

**New Tax Increases Authorized Despite Record Surplus.** The budget makes several tax changes that increase the tax burden on Californians by more than \$2 billion, despite the state's surplus, primarily through tax increases on small businesses that could be passed on to consumers. In a state where the high cost of living helps create the nation's highest poverty rate, increasing taxes with an existing surplus adds insult to injury.

**Dramatic Spending Increase Over Past Decade.** Spending in the new budget would reach \$215 billion from all state funds in 2019-20. This includes General Fund spending of nearly \$148 billion, an increase of about \$9 billion (6.6 percent) over the enacted 2018-19 budget. Compared to the low point during the recession nearly a decade ago, General Fund spending shows an increase of \$61 billion (71 percent). Adding federal funds pushes the total budget to more than \$321 billion.

**Longstanding Problems Still Not Fixed.** Despite new spending in this and recent budgets, the Governor and legislative Democrats have not fixed longstanding challenges with core programs like developmental services, access to justice through the courts, and Medi-Cal. Instead of fully fixing these well-known problems, Democrats decided instead to spend more on new ideas like health care subsidies for families making up to \$150,000 per year, and a Medi-Cal entitlement expansion for undocumented adults ages 19 through 25.

**Questionable Suspension "Trigger" for Some Spending.** In order to reduce future spending to align with projected lower revenue growth, the budget package includes an ill-advised "trigger" to suspend \$1.7 billion in spending on various programs, including payment rates for Medi-Cal and developmental services. There would likely be substantial pressure to continue much of this spending, but the trigger artificially makes long-term budget projections appear balanced.

**Surpluses Now, Deficits Likely to Follow.** Budget deliberations began in January with nearly a \$22 billion point-in-time surplus before lawmakers considered additional spending decisions. Despite this massive surplus, billions in new program spending in recent years, plus several billion more in expansions this year, mean that operating deficits could return by 2020-21. Considering that state tax revenues are at record highs, this is cause for concern, particularly in light of a potential recession that could reduce revenues by \$20 billion in a single year.

**Record Reserves Would Include School Funds.** The state's Rainy Day Fund would grow to \$16.5 billion by the end of 2019-20. An Education reserve fund authorized by Proposition 2 would be triggered for the first time by the constitutional formula and would reach a balance of \$377 million. Combined with a discretionary reserve of \$1.4 billion and a Safety Net reserve of \$900 million, total reserves would exceed \$19 billion, or 13 percent of General Fund revenues.

**Earned Income Tax Credit Expansion.** The budget expands the state's Earned Income Tax Credit, including a \$1,000 supplement to families with a child under six years of age.

**Funds for Homelessness and Housing.** The budget adds \$1.75 billion in one-time funds for various state programs that promote planning and infrastructure, as well as financing tools and tax credits intended to spur production across the state. Overall, the budget includes \$8.3 billion across multiple departments and programs to help address housing and homelessness throughout the state.

**Budget Short on Housing Policy Reforms.** While the budget throws money at the housing crisis through tax credits and additional financing options, it does not include broader policy changes that deal with the underlying cause of expensive housing. These include restrictive environmental reviews, extensive and cost-prohibitive zoning restrictions, and a host of excessive fees, which have raised the costs of building and slowed down the production of housing units.

**Expanded State Efforts for Emergency Response, Prevention, and Recovery.** The budget includes over \$300 million in new General Fund resources for emergency response and recovery across various programs, including those operated by the Office of Emergency Services and the Department of Forestry and Fire Protection (CalFire). The budget package also establishes a new government entity to oversee efforts by utilities to prevent wildfires.

**Disaster Relief for Local Communities.** The budget includes \$56 million General Fund to support recovery efforts across the state for areas devastated by the recent wildfires and mudslides. Examples include \$10.8 million to support the city of Paradise and \$2 million to support the Butte County Fire Department.

**Expanding Special Education.** The budget provides \$646 million in new, ongoing Proposition 98 funding for special education. This includes grants to districts based on the number of children ages three to four years with exceptional needs, as well as funds to bring local educational agencies to the statewide base rate for special education funding.

**Kindergarten Facilities Grants.** The budget includes \$300 million one-time non-Proposition 98 General Fund for the Full-Day Kindergarten Facilities Grant program to construct new or retrofit existing facilities to support full-day kindergarten programs.

**Early Education Expansion.** The budget package makes several augmentations and policy changes toward implementing Governor Newsom's Universal Preschool plan, including removing a current requirement that parents must be working or in school to qualify for full-day preschool. The budget also spends taxpayer funds to benefit special interests' efforts to organize child care providers.

**Eliminating Tuition for a Second Year of Community College.** The budget provides \$43 million Proposition 98 General Fund to waive tuition for first-time, full-time community college students for a second academic year.

**Increasing University Enrollment Growth.** The budget includes \$135 million for new undergraduate resident enrollment growth across the University of California and California State University systems,

including \$49 million for another 4,860 students at the University of California and \$85 million to increase enrollment at the California State University by 10,000 students.

**Expanding Financial Aid.** The number of competitive Cal Grant awards would increase by more than 15,000, and students with dependent children would be eligible for larger awards. The budget also opens eligibility for Cal Grants to undocumented students.

**No Reforms to Covered California, Just Subsidies.** The 2019-20 budget appropriates \$429 million General Fund to Covered California to provide premium assistance subsidies during the 2020 health coverage year. Of this amount, \$345 million will be allocated for households with incomes between 400 percent and 600 percent of federal poverty level (\$100,000 to \$150,000 for a family of four). The administration expects to spend another \$1 billion on subsidies in 2021 and 2022 before eliminating the subsidies in 2023.

**Health Insurance Mandate Tax on Californians.** The budget imposes an ongoing state individual mandate on all Californians to maintain “minimum essential health care coverage” or face a tax penalty of \$695 per year for adults or 2.5 percent of income over the state’s tax filing threshold, whichever is greater. The administration projects more than \$1 billion in tax penalty revenues over three years through 2022-23. Data shows that lower-income families are most likely to end up paying the tax, which will subsidize higher-income families in Covered California, thus creating a “reverse Robin Hood” situation: the state will take money from the poor to help those who are better off.

**State-Only Medi-Cal for Undocumented Adults under 26.** The budget launches an expansion of full-scope Medi-Cal coverage to an estimated 90,000 income-eligible young adults ages 19 through 25 who are residing in the state illegally. The initial cost of \$74 million will grow to more than \$220 million General Fund annually in future years.

**Tax on Managed Care Organizations.** The budget imposes a new three-and-a-half-year managed care organization (MCO) provider tax -- from July 1, 2019 until December 31, 2022 -- to be assessed on all commercial and Medi-Cal managed care health plans. If approved by the federal government, this tax will result in a General Fund benefit of up to \$2 billion annually, which the majority party could spend anywhere in the budget, including potentially expanding Medi-Cal further to an estimated 1.1 million undocumented adults who are 26 years of age or older.

**In-Home Supportive Services (IHSS) Increases.** The budget adds more than \$650 million General Fund for IHSS, including restoration of a previous 7 percent reduction in hours and rebasing the county-state cost split to raise the state’s share. Unfortunately, the budget also includes a non-fiscal policy change that interferes in the local bargaining process.

**Significant Increases to CalWORKs Grants and Eligibility.** The budget raises CalWORKs grant levels significantly by \$355 million for a partial year in 2019-20, which will rise to \$455 million annually, and expands program eligibility by loosening asset test limits and other rules.

**More Needed for Developmental Services.** Following the release of a report showing a \$1.2 billion General Fund shortfall in paying sufficient rates to providers of developmental services, the budget approves an increase of \$125 million in 2019-20 and potentially \$250 million thereafter. Some providers would be left out entirely. Senate Republicans and many community advocates have called for more funds for an across-the-board increase as a temporary measure. The budget also fails to restore recessionary benefit cuts and misses an opportunity to use developmental center properties to benefit community services.

**Next Generation 9-1-1 Modernization Funded.** The 2019-20 budget includes \$50 million General Fund (one time) to supplement existing revenues that support the state's legacy 9-1-1 system and to allow the upgrade to Next Generation 9-1-1 to continue. Starting January 1, 2020, the expanded 9-1-1 tax will generate about \$110 million per year in additional revenue for these purposes.

**Funding for New Judgeships.** Following nearly two decades of judicial officer shortages, increasing caseloads, and delayed civil proceedings, the budget includes \$30 million General Fund to increase the number of judgeships in the state by 25, a positive step although much less than needed.

**Continuation of Armed Prohibited Persons System (APPS).** The budget includes \$17.5 million General Fund to permanently shift the Department of Justice's APPS program away from the special funds that have been supporting it, but which have been significantly depleted, and to provide 26 new positions for APPS enforcement. The budget also includes \$3 million General Fund (one time) for a four-county pilot program to assist local sheriffs with their APPS enforcement efforts.

**Curbing Offender Drug Use in Prisons and Communities.** The budget includes \$71 million for a substance use disorder treatment program at all state prisons intended to address offender needs at all stages of their recovery. The program will integrate cognitive behavioral therapy and medication assisted treatment before attempting to transition offenders to community-based aftercare in an attempt to help convicted felons break the cycle of addiction.

**Reducing Pension Debts for the State and Schools.** The budget provides \$3 billion over four fiscal years to reduce the state's unfunded pension liability. For local school districts, the budget includes more than \$3 billion over two years to reduce districts' unfunded pension liabilities and to reduce their employer pension contribution rates.

**Paid Family Leave Expansion and Task Force.** The budget includes an expansion of the state's paid family leave program, which currently provides 6 weeks of paid leave to bond with a new child or care for a sick family member. The budget extends paid family leave from 6 to 8 weeks.

**More Money for the Troubled Department of Motor Vehicles (DMV).** The budget includes an additional \$242 million to support more than 2,000 positions to continue DMV operations, including the issuance of Real IDs, at existing service levels and to fund various technology and operations improvements, including accepting credit cards as a form of payment at DMV offices.

**Additional Voting Equipment Funds, Reduced Match for Counties.** The budget provides \$87 million General Fund (with counties required to provide either no matching funds or 25 percent matching funds) for the continued replacement of voting equipment across the state.

# Tax Revenues

## Key Points

- **Revenues Surpass Expectations Now but Slower Growth Projected.** Revenues in the enacted budget reflect higher expectations compared to January, but growth would slow significantly in the near future.
- **New Tax Increases Approved Despite Record Surplus.** The budget makes several tax changes that increase the tax burden on Californians by \$2.1 billion, despite the current surplus from existing revenues.
- **Earned Income Tax Credit Expansion Funded With Tax Increases.** The budget expands the state's Earned Income Tax Credit, including a \$1,000 supplement to families with a child under six years of age.
- **Sales Tax Exemption.** The budget includes projected revenue loss of \$17.5 million in 2019-20 as a result of providing a sales tax exemption for diapers and personal products.

**Revenues Surpass Expectations for Now...** General Fund tax revenues would set a new record high of \$146 billion, which is 6 percent above the 2018 Budget Act. These record revenues (which do not include gas taxes) indicate that the state does not need to raise taxes further on Californians to take care of priority issues.

Compared to the Governor's January budget proposal, General Fund tax revenues are projected to be higher by \$1.9 billion in 2018-19 and \$1.6 billion in 2019-20. Following a monthly shortfall in January personal income taxes, April showed stronger-than-expected personal income tax returns as well as stronger corporate income taxes. The enacted budget also assumes \$500 million in one-time tax revenues resulting from high-profile initial stock offerings by California-based companies such as Lyft and Uber.

**...But Slower Growth Projected.** Citing slowing global economic conditions and other risks, the budget forecast anticipates slowing revenue growth in future years. While revenue in 2019-20 is forecasted to grow by 3.1 percent, growth in 2022-23 would slow to only 1.7 percent. California taxes are notoriously difficult to forecast, given the state's reliance on a relative handful of high-income taxpayers. The top 1 percent of earners contribute nearly half of all state General Fund tax revenues. Changes to the stock market or housing market performance could significantly affect these forecasts.

**Unnecessary New Taxes Despite Surpluses.** Despite the record-setting taxes from existing sources, the budget adds higher costs on Californians through various new business taxes, a health insurance mandate tax, and a 9-1-1 tax. These proposals are now projected to reach more than \$2 billion combined, as follows:

- **Business Taxes.** \$1.7 billion from various taxes on businesses.
- **Health Insurance Mandate Tax.** More than \$300 million annually to create a state health insurance mandate penalty tax, which will primarily hurt lower-income families.
- **9-1-1 Tax.** Potentially \$140 million by increasing and broadening taxes paid on certain mobile and cell phone communications.

The business taxes are discussed in the paragraph below, while the health mandate tax and the 9-1-1 tax are discussed in the *Health and Public Safety* sections, respectively. Given the state's massive surplus and that Californians already pay among the highest taxes in the country, there is no reason to

raise taxes again, particularly when gas taxes just rose again in July 2019. Priorities like tax credits for working families should be funded through existing resources.

**Governor and Democrats Add New Taxes on Businesses.** The budget includes a number of tax increases on businesses for a net tax increase of \$1.7 billion in 2019-20. Although the Governor and Democrats tout these tax increases as “conforming” with recent federal tax law changes, the reality is that several of the provisions do not conform. The choice of tax provisions to modify and include was driven by the desire to increase revenue. The argument that the tax changes should merely conform to federal policy has rarely been followed by Sacramento Democrats, who have consistently refused to implement such federal tax policies as health savings accounts that would actually save Californians money. Significant components of these tax changes include the following:

- \$1.3 billion in higher taxes as a result of limiting non-corporate business losses
- \$280 million in lower taxes due to increasing flexibility for small business accounting rules.
- \$240 million in higher taxes as a result of changing like-kind exchange rules.
- \$200 million in higher taxes as a result of eliminating net-operating loss carrybacks (\$360 million in additional revenue in 2018-19).

**Earned Income Tax Credit Expansion.** The budget expands the state’s Earned Income Tax Credit (EITC) program with several eligibility and benefit changes, resulting in a significant decrease in General Fund revenue of approximately \$1 billion (up from \$400 million currently). The budget includes the following EITC eligibility and benefit changes:

- Increases the credit by \$1,000 annually for families with a child under the age of six.
- Expands the program to include full-time employees making \$15 per hour, which would add 400,000 families onto the program.
- Modifies the benefit formula to provide additional money to participants at the higher end of the qualified income range.

Senate Republicans support the recent expansions of the earned income tax credit as a means to provide relief to working California families struggling in this high-cost state. The concern remains, however, that nearly tripling the cost of the program when recession concerns are looming could make it difficult to balance priorities when the state’s revenue begins to decline.

**Sales Tax Exemptions.** The budget includes a sales tax exemption for diapers and menstrual products, reducing revenues by \$17.5 million in 2019-20 and \$35 million in 2020-21. Local sales taxes would also decrease, bringing total revenue losses to \$38 million in 2019-20 and \$76 million in 2020-21. The exemption would expire December 31, 2021.



# Expenditures

## Key Points

- **Discretionary Spending Includes Significant One-Time and Ongoing Uses.** Major new spending items include one-time debt reduction for the state and local schools but also billions in ongoing spending increases.
- **Longstanding Problems Still Not Fixed.** Despite record spending, the majority party has chosen not to fully fix longstanding problems like poor access to health care or services for the disabled.
- **Some Spending Subject to Suspension “Trigger.”** The budget includes a questionable suspension “trigger” for \$1.7 billion in spending on various programs as of December 31, 2021, to make the longer-term budget appear balanced.
- **Surpluses Appear Short-Lived.** The budget process started with a one-time budget surplus of \$21.5 billion, prior to spending decisions, but break-even budgets or deficits are likely to return soon, even without a recession.

**Record General Fund Spending.** Total General Fund spending would reach a record of nearly \$148 billion in 2019-20, an increase of \$9.1 billion (6.6 percent) compared to the Budget Act of 2018. Compared to a low point of \$86 billion in 2011-12 following the recession, General Fund expenditures would be higher by over \$61 billion, or 71 percent.

**Other Spending Also Rises.** While the General Fund typically dominates budget discussions, federal and other funds play a much more significant role today than in past decades. Total spending from state funds would reach \$215 billion in 2019-20, about a 6.8 percent increase from the enacted 2018-19 budget. As shown in the table below, the General Fund now accounts for only about 46 percent of total spending. State “special” funds, such as the gas tax, account for 21 percent of the total budget, while federal funds now make up 33 percent.

<b>2019-20 All Fund Expenditures by Agency</b>					
(Dollars in Millions)					
<b>Agency</b>	<b>General Fund</b>	<b>Other State Funds</b>	<b>Federal Funds</b>	<b>Total Funds</b>	<b>Agency as Percent of Total Funds</b>
Legislative & Executive	\$2,786	\$1,985	\$1,383	\$6,154	1.9%
Courts	2,550	1,898	7	\$4,454	1.4%
Business, Consumer Services, Housing	1,438	2,034	247	3,719	1.2%
Transportation	304	15,128	5,553	20,986	6.5%
Natural Resources	3,680	2,864	291	6,835	2.1%
Environmental Protection	193	4,059	369	4,620	1.4%
Health and Human Services	41,929	25,188	77,681	144,799	45.0%
Corrections and Rehabilitation	12,783	3,006	100	15,888	4.9%
Education - Prop. 98	58,309	1,803	8,326	68,437	21.3%
Higher Education	17,502	2,504	5,477	25,483	7.9%
Labor and Workforce Development	137	811	6,478	7,427	2.3%
Government Operations	1,286	355	25	1,666	0.5%
General Government	4,884	6,025	366	11,275	3.5%
<b>Total Expenditures</b>	<b>\$147,781</b>	<b>\$67,660</b>	<b>\$106,303</b>	<b>\$321,743</b>	<b>100.0%</b>
<b>Percent of Total</b>	<b>45.9%</b>	<b>21.0%</b>	<b>33.0%</b>		

**Major One-Time and On-Going Items.** Some General Fund spending changes are driven by constitutional formulas, such as those governing the Rainy Day Fund (Proposition 2) or education spending (Proposition 98) and by enrollment changes in programs like Medi-Cal. In some cases, lower enrollment or other changes can reduce program spending, such as a decrease of more than \$3 billion seen in Health and Human Services from the 2018 Budget Act to the revised 2018-19 spending estimate. In terms of discretionary spending, the budget spends significant amounts in the following broad categories:

- \$5.1 billion to reduce the state’s debts and unfunded pension liabilities.
- \$3.2 billion over two years to pay down local school district pension liabilities and to offset pension contributions.
- \$3.1 billion for one-time spending on housing programs and kindergarten facilities.
- \$2.1 billion for discretionary reserves.
- \$1.7 billion to reverse recession-era budget gimmicks.
- \$3.1 billion initially for significant on-going spending actions, which is likely to grow by several hundred million dollars or more in future years. These augmentations include:
  - \$655 million for the In-Home Supportive Services Program to rebase the state-county share and to increase hours.
  - \$600 million to expand the Earned Income Tax Credit.
  - \$448 million combined for the University of California and the California State University enrollment and base spending increases.
  - \$429 million for health premium subsidies through Covered California.
  - \$371 million for Corrections officers’ compensation increases.
  - \$355 million to increase CalWORKs grants.
  - \$125 million for developmental services provider rates (\$250 million for a full year).
  - \$74 million to expand Medi-Cal access to undocumented adults up to age 26 (rising to \$220 million annually when phased in).

**Longstanding Problems Still Not Fixed.** Despite the massive new spending in this and recent budgets, the Governor and legislative Democrats have not committed to fixing longstanding challenges with priority programs. For example, as discussed further under the *Developmental Services* section, a recent study showed that services for the disabled are being shortchanged by \$1.2 billion General Fund per year. The budget provides only an annualized \$250 million for rate increases, which would potentially be suspended at the end of 2021. The state also has long-recognized problems with access to actual care for Medi-Cal enrollees and a shortage of judges in courts, which delays access to justice. Instead of fixing these problems, Democrats decided to spend more on new ideas like Covered California subsidies for families making \$150,000 per year, and a Medi-Cal entitlement expansion for undocumented adults ages 19 through 25.

**Suspension “Trigger” for Some Spending.** In order to potentially curtail future spending to align with lower revenue growth, the budget package includes suspension “triggers” for \$1.7 billion in program spending, summarized in the table on the next page. Spending for these programs would automatically trigger off as of December 31, 2021, unless revenue projections made during the 2021-22 budget process indicate the state could sustain all of these programs without other reductions. The Governor’s current forecast assumes that these funds will in fact be suspended, unless revenues rise above their current record levels.

<b>Programs with Suspension Triggers</b>		
<i>Dollars in Millions</i>		
<b>Policy Area</b>	<b>Program</b>	<b>Annual Spending</b>
Health	Prop. 56 Medi-Cal Provider Rate Increases	\$861
Human Services	In-Home Supportive Services: 7 Percent Restoration	358
Develop. Services	Provider Payment Rate Increases	253
Health	Medi-Cal Optional Benefits	41
Human Services	Family Urgent Response System	30
Develop. Services	Uniform Holiday Schedule	30
Human Services	Senior Nutrition Program	26
Health	HIV and Other Disease Prevention Efforts	15
Human Services	Emergency Child Care Bridge Program - Foster Youth	10
Education	Summer Financial Aid for UC and CSU	10
Health	Medi-Cal Post-Partum Mental Health	9
Health	Public Health Nursing Early Intervention	8
Human Services	Foster Youth Transitional Housing	8
Human Services	Foster Family Rate Increase	7
Human Services	"No Wrong Door" Aging Program	5
Health	Medi-Cal Opioid Screening	3
<b>Total</b>		<b>\$1,673</b>

Suspending payment rates for Medi-Cal and developmental services would amount to significant cuts to providers in those programs. Medi-Cal and Developmental Services in particular have long-recognized challenges with access to care due in part to low payment rates, which the suspensions would only make worse. The Governor and legislative Democrats did not offer a rationale for why these programs were selected for suspension. In contrast, the Governor did not include a suspension provision for state employee raises or for the brand-new expansion of full Medi-Cal benefits to undocumented adults ages 19 through 25.

**Deficits Would Return Without Suspensions.** The enacted budget reflects a budget surplus of \$21.5 billion, prior to new spending decisions, nearly the same as that estimated in the Governor's initial January proposal. However, as revenue growth slows and expenditures continue to rise, the

multiyear forecast shows break-even budgets in the three years following 2019-20. Dubiously, these forecasts assume that the suspension trigger would be pulled, stopping the underlying augmentations. As noted above, most of the funds subject to suspension are significant pieces of ongoing programs, and there will be substantial pressure to keep the funds going. Thus, the suspension trigger looks more like a gimmick to make the long-term budget appear balanced.

This outlook is particularly concerning considering that the current economy is producing record-high revenue and relatively low enrollment in state welfare programs. An economic recession would not only reduce revenue by potentially \$20 billion per year, it would also drive up enrollment and costs in welfare programs, thus squeezing the budget on both the revenue and expenditure sides.

The Governor noted that a moderate recession could reduce the state's revenue by \$70 billion over three years, resulting in combined deficits of \$40 billion over the same time. Billions of dollars in discretionary long-term spending commitments made by Sacramento Democrats over the past several years mean that the state budget will be under constant pressure each year in the future.

# Budget Reserves

## Key Points

- **Record Balance for General Fund Budget Reserves.** The state's total reserves would reach \$19 billion, or 13 percent of General Fund revenues in 2019-20.
- **Education Reserve Triggered.** Provides \$377 million to the Proposition 98 Rainy Day Fund, authorized by Proposition 2 (2014).
- **Revised View of Voluntary Reserve Deposits.** Adopts the legal view that the state's previous voluntary deposits to the Rainy Day Fund are not subject to constitutional limits.

In November 2014, California voters overwhelmingly approved Proposition 2, which establishes a constitutional limit of 10 percent of tax revenues deposited into the RDF, and limits the amounts and purposes for withdrawing funds. The 2019 Budget demonstrates again that the RDF is taking positive steps toward fiscal stability, transferring \$2.2 billion to the RDF and allocating \$2.2 billion for debt reduction, as required by Proposition 2. The total deposits would bring the RDF balance to \$16.5 billion, equal to 11.2 percent of General Fund revenues.

The chart below summarizes the RDF forecast. Notably, about 68 percent or \$9.2 billion of the combined Rainy Day deposits through 2022-23 results from the up-front 1.5 percent set-aside that Republicans negotiated in the development of Proposition 2, a stable and consistent fund source.

<b>Rainy Day Fund Forecast</b>					
<i>Dollars in Millions</i>					
	<b>2019-20</b>	<b>2020-21</b>	<b>2021-22</b>	<b>2022-23</b>	<b>Total</b>
Annual 1.5% of General Fund Revenues	\$2,189	\$2,270	\$2,328	\$2,368	\$9,155
Capital Gains Taxes in Excess of 8% of General Fund Revenues	\$2,126	\$1,443	\$747	\$375	\$4,691
<b>Rainy Day Amounts Available</b>	<b>\$4,315</b>	<b>\$3,713</b>	<b>\$3,075</b>	<b>\$2,743</b>	<b>\$13,846</b>
Debt Repayment (50%)	\$2,158	\$1,857	\$1,538	\$1,372	\$6,923
Deposit to Rainy Day Fund (50%)	\$2,158	\$1,581	\$385	\$265	\$4,387
<b>Supplemental Deposit</b>					
Amount in excess of 10 percent of GF tax proceeds (for infrastructure /deferred maintenance)		\$276	\$1,153	\$1,107	
<b>Rainy Day Fund Balance at End of Year <sup>1</sup></b>	<b>\$16,516</b>	<b>\$18,097</b>	<b>\$18,481</b>	<b>\$18,746</b>	
<p>1. Includes beginning balance from 2014-15 of \$1.6 billion, \$2.1 billion from 2015-16, \$3.7 billion from 2016-17 after second true up, \$6.7 billion from 2017-18 after second true up, and \$10.7 billion from 2018-19 after first true-up.</p> <p><b>Note:</b> Capital gains amounts are net of revenues attributable to Proposition 98. All estimates assume there are no budget shortfalls that would allow other uses of Rainy Day amounts to maintain spending.</p> <p><b>Source:</b> Department of Finance, July 2019</p>					

**Combined Reserves Reach \$19 Billion.** The state's general Rainy Day Fund, authorized by Proposition 2 in 2014, would grow to \$16.5 billion by the end of 2019-20. The Rainy Day Fund would reach the constitutional 10 percent cap in 2020-21 under the Governor's forecast (which does not count past optional deposits into the fund against the 10 percent cap).

Combined with the state's discretionary reserve of \$1.4 billion, Safety Net Reserve of \$900 million, and, for the first time, the Public School Rainy Day Fund of \$377 million (see below for additional information), total General Fund budget reserves would reach \$19.2 billion, or 13.2 percent of General Fund revenue.

**State Proposition 98 Rainy Day Fund To Take Effect.** The budget reflects, for the first time, a deposit to the Proposition 98 Rainy Day Fund authorized by Proposition 2 (2014), which would occur in 2019-20. Proposition 2 included several criteria that must all be met to trigger this reserve requirement, which is intended to smooth the effects of the state's volatile revenues on public schools. These criteria include capital gains taxes that exceed 8 percent of overall revenues, the repayment of previous school "maintenance factor" obligations, and certain measures for Proposition 98's "Test 1" and "Test 2." The 2019 Budget Act funds this reserve account with an initial deposit of \$377 million, which is set by a formula in Proposition 2. Funds in this reserve could be spent in fiscal years in which the minimum Proposition 98 funding level growth does not match enrollment and inflation.

**Revised View of Voluntary Reserve Deposits.** During the Brown administration, the state made voluntary extra deposits into the RDF in 2016-17 (\$1.5 billion), which helped raise the balance to meet the constitutional 10 percent limit more quickly. Governor Brown held the legal view that the voluntary deposits were subject to the same legal restrictions as RDF deposits required by constitutional budget formulas. The Newsom administration is adopting a different view, namely that any voluntary deposit is not subject to the constitutional limits. This means that voluntary deposits do not count against the 10 percent cap and may be withdrawn without restrictions. A Legislative Counsel opinion obtained by Assembly Republicans in September 2018 supports this revised view.

**Avoiding a Sales Tax Reduction Trigger.** Senate Republicans are concerned that the use of the safety net reserve could prevent a sales tax reduction required by current law if the Special Fund for Economic Uncertainty fund balance reaches a certain level. It is likely a sales tax reduction could be triggered in the near future if state revenues continue to rise, but the Democrats' budget maneuver, created in 2018-19 and funded at higher levels in 2019-20, deprives heavily taxed Californians of this potential tax savings.

**Expands Use for Recently Created Savings Account.** The 2018-19 budget created the "Budget Deficit Savings Account" as a means to temporarily hold supplemental deposits to the Rainy Day Fund. A September 2019 bill enables the Legislature to transfer some or all of the funds in the Account to the General Fund or to any other fund. This action revises the purpose of the unnecessary savings account, allowing resources intended to minimize a future recession to be used to support any Democratic priority, potentially including High-Speed Rail, child care provider unionization, or health care for undocumented immigrants.

# Wildfire Prevention, Response, and Recovery

## Key Points

- **Wildfire Prevention Efforts.** Prioritizes expanding the state's wildfire prevention, safety and mitigation capacity.
- **Greater Oversight of Electrical Utilities.** Creates new state entities to provide increased oversight of electrical utilities' wildfire mitigation efforts.
- **Wildfire Fund.** Establishes a Wildfire Fund intended to lessen electric utility rate increases and provide quicker compensation to victims.
- **Relief to Disaster-Impacted Local Governments.** Provides much-needed funds to support recovery efforts in disaster-stricken areas across the state.
- **Emergency Response Improvements.** Boosts funding to the Office of Emergency Services for future emergency and disaster response.
- **New Funding for Various Firefighting Activities.** Provides \$255.7 million (\$141 million ongoing) to augment the Department of Forestry and Fire Protection's (CalFire's) firefighting capabilities.

**Wildfire Prevention Efforts.** The Budget includes \$225.8 million (\$14.7 million ongoing) from various funding sources to carry out the requirements of SB 901 (Dodd, Chapter 626, Statutes of 2018), implement forest health and wildfire prevention efforts, and create a new program within the California Conservation Corps (CCC). Funding for the continued implementation of SB 901 includes \$210 million (\$6.4 million ongoing) from the Greenhouse Gas Reduction Fund (GGRF) to support a number of CalFire's programs for forest health and fire prevention efforts. These include projects that 1) protect the state's water supply against wildfires, 2) thin overly dense forests through prescribed fires to reduce fuel loads, and 3) facilitate the removal of dead, dying, or diseased trees.

The budget also provides \$11.3 million from various funds (\$3.9 million ongoing) to prepare state agencies for the administrative impacts of implementing wildfire policies. The California Air Resources Board, Department of Fish and Wildlife, and State Water Resources Control Board will use funds to implement new requirements for prescribed fire monitoring and review timber harvest plan exemptions. Additionally, the budget includes \$4.5 million General Fund (\$4.4 million ongoing) to the CCC to develop and implement a new Forestry Corps program that will dedicate four crews to forest health and hazardous fuel reduction projects in areas of high fire risk.

**Greater Oversight of Electrical Utilities.** The electrical utility component of the wildfires was not addressed by the budget but instead by a policy bill, Assembly Bill 1054 (Holden, Burke, and Mayes), and a budget trailer bill, Assembly Bill 111 (Committee on Budget). AB 111 increases the oversight of electrical utility wildfire mitigation efforts by creating a new Wildfire Safety Division (Division), initially housed within the California Public Utilities Commission (CPUC). By July 1, 2021, this division transfers to a stand-alone department called the Office of Energy Infrastructure Safety (Office) under the Natural Resources Agency. AB 111 also creates the California Wildfire Safety Advisory Board (Advisory Board). AB 111 appropriates \$50 million in ratepayer funds to support these entities.

The Division is tasked with oversight and enforcement of electrical corporations' compliance with wildfire safety. In consultation with the Advisory Board, the Division will develop performance metrics that will inform the development of electrical corporations' wildfire mitigation plans and be used to evaluate compliance. The Division will also review safety requirements for electrical transmission and distribution infrastructure and make recommendations to the CPUC to mitigate wildfire risk. A Division, and later stand-alone Office, focused on electrical utility safety is a step in the right direction to reduce

the risk of wildfires ignited by electrical infrastructure. The CPUC's oversight of safety has been largely nonexistent, instead focusing on setting rates and implementing various climate-related energy policies. To the extent these new entities are successful at reducing utility caused wildfires, human tragedies as well as costs related to emergency response, insurance claims, utility liabilities, and property losses will all decrease.

**Wildfire Fund.** AB 111 also creates the nine-member California Catastrophe Response Council (Council) tasked with appointing the Wildfire Fund Administrator (Administrator) and overseeing operations of the Wildfire Fund created by AB 1054. Pursuant to AB 1054, the Wildfire Fund will be either a "liquidity fund" funded only by ratepayers (\$10.5 billion) or an "insurance fund" funded by both the ratepayers (\$10.5 billion) and utility shareholders (\$10.5 billion). Because the obligation of an electrical corporation to reimburse the insurance fund is capped and reimbursement of the liquidity fund is not, it is likely utilities will choose to participate in the insurance fund rather than the liquidity fund.

Under either fund, a surcharge on ratepayers that would otherwise end next year will instead be continued for an additional 16 years to pay debt service on bonds that will be issued to fund the ratepayer contribution to the Wildfire Fund. Extending this surcharge on ratepayers is one of the most contentious provisions of this package. To the extent the package improves the financial stability of the electrical corporations, preventing further increases to the cost of borrowing for infrastructure improvements, ratepayers would benefit by paying less for those improvements. Additionally, the fund is expected to provide sufficient cash to more quickly compensate wildfire victims.

With such complex policy changes, it is uncertain all intended results will materialize. There is also risk of unintended consequences. Senate Republicans are committed to closely monitoring the implementation, progress, and outcomes of all efforts related to wildfires and will continue to advocate for policies that increase public safety in a fiscally responsible manner.

**Disaster Relief for Local Governments.** The budget includes nearly \$56 million in one-time General Fund to support recovery efforts across the state for areas devastated by the recent wildfires and mudslides. This amount includes the following:

- \$23.5 million to rebuild camps and infrastructure destroyed by the Woolsey and Tubbs Fires.
- \$15 million for additional relief to local governments most affected by the 2017 and 2018 wildfires.
- \$10 million to support the community of Paradise in its recovery.
- \$2 million to support the Butte County Fire Department.
- \$2 million one-time General Fund for the State Water Resources Control Board to support planning costs to help communities recover from wildfires.
- \$1.5 million to provide flood relief to the city of Sebastopol.
- \$800,000 for the Paradise sewer project.
- \$530,000 to offset property tax loss for K-14 schools.

Also, in February this year, the state enacted AB 72 (Committee on Budget) to amend the Budget Act of 2018 and provide \$31.3 million in property tax relief to both Lake and Butte counties for losses incurred due to wildfires. The budget package then added \$518,000 to this amount for local agencies in Los Angeles, Mendocino, Napa, Orange, San Diego, Solano, Tuolumne, and Ventura counties that lacked time to completely calculate the effects.



The full effects of the wildfires are likely not yet known, and recovery will take sustained effort and resources over multiple years. Senate Republicans applaud the inclusion of funds for these hard-hit communities, and will continue to advocate for additional resources as needed in the future.

**Funding for Emergency Response and Recovery Improves State’s Readiness Posture.** The budget provides \$115 million in mostly General Fund resources (\$95 million one-time, \$20 million ongoing) to the Office of Emergency Services (OES) to better prepare for the increased magnitude, frequency, and complexity of disasters. This funding includes:

- \$75 million (one time) for infrastructure investments to support vulnerable populations that are particularly sensitive to preemptive power shutdowns implemented by utility companies. Most of this funding will be used to purchase and install backup generators in community warming/cooling centers, hospitals, and similar facilities.
- \$20 million (one time) to reimburse state agencies for disaster response costs that are not covered under the California Disaster Assistance Act and for which those agencies are not budgeted.
- \$20 million (ongoing) for OES and various other state departments to be better prepared to continue their regular functions while also responding to developing or ongoing disasters when tasked to do so.

## **CalFire**

**Enhanced Fire Protection.** The budget authorizes \$67.5 million General Fund (\$56.9 million ongoing) for CalFire and the California Conservation Corps (CCC) to support the following:

- **Additional Fire Engines.** \$40 million General Fund to purchase 13 new fire engines for CalFire’s fleet, as well as 131 positions to staff those engines. This would bring the total size of the fleet to 356 fire engines. The new engines would be operated on a year-round basis, bringing the total number of fire engines operated on a year-round basis to 65 engines. Providing new engines to operate on a year-round basis will reduce future Emergency Fund costs because CalFire will not need to depend on local governments and out-of-state agencies to rent additional fire engines during peak fire season. The fire engines will be placed in areas with the highest risk of wildfires and aid in defensible space and fuel reduction projects.
- **Increased Staffing.** Nearly \$15 million General Fund to increase CalFire’s fire response staffing. Funding will support 34 heavy equipment operator positions to assist in the operation of CalFire’s 58 bulldozers and accelerate replacements of damaged equipment.
- **CCC Crews Dedicated to CalFire.** \$13 million General Fund to add five CCC crews dedicated to CalFire for fire response and prevention activities. This includes converting four existing CCC reimbursement crews into teams dedicated full-time to CalFire work and creating one new crew dedicated to CalFire work. The total number of CCC crews dedicated to CalFire will increase to twelve. For more information on CCC crew expansion, please see the section on Wildfires.

**Resources to Boost Aviation Fleet.** The budget provides \$127.2 million General Fund (\$63.5 million ongoing) for resources to add the following enhancements to CalFire’s aviation fleet:

- **C-130 Air Tankers and Related Capital Outlay.** \$13.1 million General Fund to support six positions to implement the first year of a plan to accept seven used C-130 air tankers from the federal government to replace CalFire’s existing fleet of aircraft, with the first air tanker scheduled to be received in 2020-21. While bolstering CalFire’s aviation fleet is supportable, and the state will receive the aircraft for free, the department’s costs will increase over the next

several years for operating and maintenance costs. CalFire estimates annual costs will rise steadily over the next five years, reaching \$50 million in increased annual costs by 2023-24. In addition, the proposed 2019-20 funding level includes \$1.7 million for the first phase of three capital outlay projects to construct barracks to accommodate the new larger flight crews needed to operate the C-130 aircraft. These three projects, along with a fourth barracks project expected to be initiated next year, are estimated to cost a total of \$26 million over several years.

- **C-130 Contract-Training Platform.** \$3.8 million General Fund over the next three years to fund an Exclusive Use (EU) C-130 Contract-Training Platform to support CalFire's Large Air Tanker (LAT) C-130 Program. This aircraft is required to support first year operations to train the flight crews, mechanics, and support personnel necessary to staff and safely operate the seven C-130's allocated through the John S. McCain National Defense Authorization Act (NDAA) of 2019. Resources for first-year operations and training are critical in meeting CalFire's goals and objectives established in the 2018 Strategic Fire Plan.
- **Helicopter Replacements Continue.** \$109.5 million General Fund, including \$95.7 million one-time General Fund, to continue the replacement of CalFire's Vietnam War-era helicopters with new state-of-the-art helicopters. The replacement of the outdated helicopters is supportable; however, the price tag per helicopter has significantly increased from the initial \$12 million estimates in 2018. These helicopters now cost a little over \$24 million each, double the initial assessment. To continue to replace all 12 existing helicopters would cost \$295 million. Last year, it was estimated that the costs for new staffing, aviation equipment, and ongoing operations and maintenance would add \$70 million in cost pressure on the General Fund through 2023-24. Furthermore, the costs for capital outlay improvements to house the larger helicopters will result in an additional \$27 million General Fund.

**Employee Wellness.** The budget provides \$6.6 million from various funding sources and \$9.3 million ongoing to expand two employee wellness programs. First, the budget expands an existing health and wellness pilot program to a statewide program. The health and wellness pilot program involves conducting voluntary wellness screenings to test for health conditions common to firefighters, such as heart disease and certain types of cancer. Second, the budget increases staffing for CalFire's Employee Support Services program that provides mental health support to CalFire employees and family members. This funding will allow CalFire to offer more services to firefighters at the location of major fires and provide additional education and information related to post-traumatic stress disorder.

**Investments in Technology.** The budget package includes \$24.7 million General Fund (\$7.6 million ongoing) to allow CalFire to engage in an innovative solutions procurement process, referred to as the Innovation Procurement Sprint, to combat the state's wildfire crisis as directed by Executive Order N-04-19. The funding would also support staff to review data gathered on remote sensing equipment and satellites and the operation of 100 additional cameras to join an existing network of wildfire detection cameras.

**Mobile Equipment Replacement.** Also authorized in the budget is \$3 million General Fund to continue on an ongoing basis a one-time 2018-19 funding augmentation to CalFire's budget for replacement of mobile equipment, such as bulldozers and fire engines. Funding would be used to replace other mobile equipment that has experienced additional wear from the extended fire seasons in recent years.

**Additional Funding.** The budget's wildfire efforts also include \$5 million from the General Fund to support defensible space assistance grant programs, and \$20 million from the GGRF in local assistance to support training for land use planning, fire outreach programs, and fire prevention and preparedness plans. Further, a September bill (AB 109) amended the Budget Act of 2019-2020 to augment CalFire's budget by \$15.7 million from the General Fund and the GGRF to update fire protection funding for contract counties.

# Housing and Homelessness

## Key Points

- **Lack of Broader Reform Means Production Will Fall Short.** The budget does little to address the root cause of California's housing shortage: the high cost to build.
- **Mortgage Relief Delayed.** The budget would continue to delay relief to struggling homeowners owed assistance from the National Mortgage Settlement of 2012.
- **Minor Housing Policy Changes.** Minor policy changes, such as streamlined reviews for navigation centers, are adopted but are unlikely to generate significant production.
- **Infrastructure Funds, Financing, and Planning Grants.** The budget provides \$1.75 billion for infrastructure projects, financing options, loans, tax credits, and local government planning grants intended to spur production.
- **Significant One-Time Money, Expanded Activities for Homelessness Program.** Provides \$650 million General Fund for local services and supports to reduce homelessness, expands eligible activities, and revises the allocation of grant funds.
- **Excess State Property for Housing Development.** Includes \$3.4 million to facilitate privately built affordable housing demonstration projects on state excess properties.

**Budget Short on Housing Reforms.** While the budget throws money at the housing crisis through tax credits and additional financing options, it does not include broader policy changes that deal with the underlying cause of expensive housing. These include restrictive environmental reviews, extensive and cost-prohibitive zoning restrictions, and a host of excessive fees, which have raised the costs of building and slowed down the production of housing units.

California needs to build 200,000 new units of housing a year for the next ten years simply to keep pace with demand. In contrast to this need, the actual number of homes built in California has seen a decline in recent years. For 2018, the state added 77,000 completed housing units, down 8,297 units from 2017 (10 percent decrease), and down 12,457 units from 2016 (14 percent decrease), a trend that will likely continue in 2019 as the budget does little to address the core causes of insufficient production. In addition to providing subsidies for developers to build affordable housing, the state needs a comprehensive solution to reduce the cost of building, which would spread the public dollars further and produce more units for the same money.

**Mortgage Relief Funds Delayed Through Unneeded Investment Scheme.** The state Supreme Court recently upheld previous court rulings and directed the Newsom administration to spend \$331 million in mortgage settlement funds to assist homeowners. These funds originated from a settlement agreement for a 2012 lawsuit over unfair lending practices. Sacramento Democrats previously diverted the funds for purposes outside the settlement agreement, prompting housing advocates to bring a lawsuit against California, and Senate Republicans have advocated for the funds' return to homeowners since 2015.

However, the budget continues to delay relief as the Newsom administration intends to set up a yet-to-be-determined investment scheme and to spend only the investment profits, not the actual settlement funds, to help struggling homeowners. Delays of potentially two years will result from the time needed to set up an investment trust and generate profits, which are unlikely to exceed \$25 million per year, a tiny amount compared to the state's \$215 billion budget. Also, a potential recession could eliminate any profits, and thus homeowner assistance, for years to come. It is unclear why the Administration is complicating the issue through this ill-conceived plan instead of simply spending the \$331 million to

directly assist homeowners. Also, given the uncertainties that remain in the plan, this latest action may still not be consistent with the settlement agreement.

**Minor Policy Changes.** The budget also includes a number of minor housing policy changes, which are unlikely to generate significant production, as follows:

- **Navigation Centers.** Streamlining the environmental review process under the California Environmental Quality Act (CEQA) for navigation centers that link homeless individuals to permanent housing and services. During the subcommittee process, Legislative Democrats rejected the Governor's proposal to include the streamlined process for emergency shelters. Senate Republicans agree that CEQA reforms are necessary. The state has provided exemptions through individual policy bills for selected sports arenas--why should housing be considered less important? Arguably, CEQA reform is needed for a broader range of projects than just navigation centers.
- **Local Incentives.** Awarding bonus points for certain competitive state-funded grant programs including Affordable Housing and Sustainable Communities program, the Transformative Climate Communities program, and the Infill Infrastructure Grant program to local jurisdictions that adopt pro-housing policies that facilitate the planning, approval, or construction of housing.
- **Legal Enforcement.** Authorizing judicial remedies against jurisdictions that are deemed out of compliance with the state's housing element law, providing authority for courts to impose fines, redirect funds, and enforce housing element compliance after certain due process steps have been followed.

**Housing Plan Focuses on Infrastructure and Planning Over Production.** The budget includes \$1.75 billion for various state programs that provide funding for planning and infrastructure, as well as financing tools and tax credits intended to spur production across the state.

Following are notable housing programs and the funding included in the 2019 Budget Act:

- **Infill Grants.** \$500 million for the Infill Infrastructure Grant program, which provides funding to local governments that have parcels project-ready but for specific housing-related infrastructure such as water, sewer, roads, and public parks. The program would include a \$90 million carve-out for small counties with a population of less than 250,000.
- **Tax Credits.** \$500 million to expand the Low-Income Housing Tax Credit Program, which provides tax credits for new construction projects that receive the federal four percent tax credit, with up to \$200 million reserved to finance low-income units within mixed-income developments.
- **Development Loans.** \$500 million for the California Housing Finance Agency's Mixed-Loan Program, which provides competitive long-term financing for newly constructed multifamily housing projects restricting units between 30 percent and 120 percent of county Area Median Income.
- **Planning Assistance.** \$250 million to provide local and regional planning assistance for the next Regional Housing Needs Assessment cycle. The funding will be used for local jurisdictions to meet the workload demands of the planning process.

**Homelessness.** The 2019-20 budget adds nearly \$800 million General Fund to help local agencies combat homelessness across the state, as follows:

- **Homeless Housing, Assistance, and Prevention Program.** Provides \$650 million General Fund (with an eight percent carve-out for homeless youth) through a new program called the Homeless Housing, Assistance, and Prevention Program. Eligible uses include hotel/motel

conversions, traditional and non-traditional supportive housing, rapid re-housing, or jobs programs, among other activities. Specific allocations are:

- \$190 million for Continuums of Care (CoCs), which are regional organizations made up of representatives from public and private entities that are designed to support and promote communitywide services with the goal of ending homelessness.
- \$275 million for larger cities with a population greater than 300,000.
- \$175 million for counties.
- **CalWorks Housing Support Program.** \$95 million to assist homeless families in obtaining permanent housing through housing identification, rent and moving subsidies, and case management.
- **CalWorks Homeless Assistance Program.** \$25.5 million to provide a once-every-12 months payment to meet the costs of temporary shelter while seeking permanent housing. The 2019 Budget provides a typical family with up to \$85 per night for 16 cumulative days of temporary shelter.
- **Housing for a Healthy California.** Provides \$10 million in federal funding for the Housing for a Healthy California program. The housing program is for Medi-Cal recipients experiencing homelessness and would fund rental assistance tied to services.
- **Homeless Youth and Exploitation Program.** Provides \$7 million to establish and expand access to a range of housing options that meet the needs of homeless youth, including crisis intervention and stabilization services.
- **Domestic Violence Shelters, Services, Housing.** Provides \$76 million to entities for supportive services, crisis management, and housing stability for victims of domestic violence.

**Use of Excess State Property.** The budget includes \$3.4 million General Fund for the Department of Housing and Community Development to contract with outside real estate consultants to conduct site assessments of identified excess state surplus property and evaluate potential housing developments. State departments are creating an inventory of all state-owned excess property and identifying those parcels where housing development would be feasible, with the long-term goal of enticing developers to build demonstration projects on the property. This is a creative solution that could use these extra properties to take a small step toward addressing the state's long-term housing problem.

**Eviction Prevention Funding Chooses Sides.** The budget authorizes \$20 million for nonprofit legal aid organizations to provide free legal services to renters involved in landlord-tenant disputes. The funding will be used to provide training, advice and representation to renters in an effort to promote stable housing by reducing evictions. According to national data, 80 percent of single-family rentals are owned by individuals who rent out one or two homes, not corporations. California's policies are in many ways already slanted heavily in favor of tenants. This new funding chooses sides against mom-and-pop landlords and seems to assume that the only acceptable outcome in a landlord-tenant dispute is for the tenant to avoid eviction.

**Housing Funds from Existing Programs.** The 2019 Budget Act includes \$1.2 billion from recent housing legislation that provides an ongoing source of funding for affordable housing and emergency shelter construction, as follows:

- \$526 million for the Veterans and Affordable Housing Bond Act of 2018 (SB 3), which requires programs funded with bond proceeds to give preference to projects where all construction workers will be paid at least the general prevailing wage rate.

- \$400 million for the No Place Like Home program, approved in November 2018, which dedicates \$2 billion in bond funds to provide supportive multifamily housing for individuals experiencing mental illness who are homeless or at risk of homelessness.
- \$277 million from SB 2 (Atkins), the Building Homes and Jobs Act, which established a \$75 tax on real estate transaction documents to help pay for affordable housing.

**Significant Investment in Fighting Homelessness and Increasing Housing.** Once the 2019-20 budget's new programs are added to existing state resources, the overall budget includes \$8.3 billion across multiple departments and programs to address housing and homelessness throughout the state. The chart on the following page provides the 2019-20 proposed funding and program details, as follows:

**2019-20 Affordable Housing and Homelessness Funding**  
(Dollars in Millions)

<i>Department</i>	<i>Program</i>	<i>Amount</i>
Department of Housing and Community Development	Building Homes and Jobs Fund Programs (SB 2)	\$277
	Federal Funds	\$228
	Housing for Veterans Funds	\$75
	Infill Infrastructure Grant Program of 2019	\$500
	Local Government Planning Support Grants Program	\$250
	No Place Like Home Program	\$400
	Office of Migrant Services	\$6
	Various	\$28
	Veterans and Affordable Housing Bond Act Programs (SB 3)	\$701 <sup>1/</sup>
California Housing Finance Agency <sup>2/</sup>	Mixed-Income Loan Program	\$500
	Multifamily Conduit Lending	\$300
	Multifamily Lending	\$120
	Single Family Down Payment Assistance (SB 3)	\$113
	Single Family First Mortgage Lending	\$2,000
	Special Needs Housing Program	\$20 <sup>3/</sup>
Homeless Coordinating and Financing Council	Homeless Housing, Assistance, and Prevention Program	\$650
Strategic Growth Council	Affordable Housing and Sustainable Communities	\$448 <sup>4/</sup>
Tax Credit Allocation Committee	Farmworker Housing Assistance Tax Credits	\$1
	Low Income Housing Tax Credits (Federal)	\$299 <sup>5/</sup>
	Low Income Housing Tax Credits (State)	\$500
Department of Veterans Affairs	CalVet Farm and Home Loan Program (SB 3)	\$220
Department of Social Services	Bringing Families Home Program	\$25
	CalWORKS Housing Support Program	\$95
	CalWORKS Homeless Assistance Program	\$25
	CalWORKS Family Stabilization, Housing Component	4 <sup>6/</sup>
	Housing and Disability Advocacy Program	25
Department of Health Care Services	Behavioral Health Counselors in Emergency Departments	20
	Project for Assistance in the Transition from Homelessness	9
	Whole Person Care Pilots - Housing Investment	120
	Whole Person Care Pilots Program, Health Homes Program, Mental Health Services Act Community Services and Supports, California Community Transitions Program	N/A <sup>7/</sup>
Department of Public Health	HIV Care Program	\$5
	Housing Opportunities for Persons with AIDS (HOPWA)	\$4
	Housing Plus Program	\$1
Office of Statewide Health Planning and Development	Mental Health Workforce Development	\$50
	Workforce Education and Training Five-Year Plan	\$60
Mental Health Services Oversight and Accountability Commission	Mental Health Youth Drop-In Centers	\$15
California Department of Corrections and Rehabilitation	Integrated Services for Mentally-Ill Parolees	\$4
	Specialized Treatment of Optimized Programming, Parolee Service Center, Day Reporting Center, Female Offender Treatment and Employment Program, Proposition 47 Grant Program	N/A <sup>7/</sup>
Judicial Council	Legal Aid for Renters in Landlord-Tenant Disputes	\$20
Office of Emergency Services	Domestic Violence Shelters and Services	\$54
	Domestic Violence Housing First Program	\$22
	Homeless Youth and Exploitation Program	\$7
	Specialized Emergency Housing	\$10
	Transitional Housing Program	\$19
	Youth Emergency Telephone Network	\$1
California Community Colleges	Basic Needs Funding - Student Hunger and Homelessness Programs	\$4 <sup>8/</sup>
	Rapid Rehousing	\$9
California State University	Basic Needs Funding - Student Hunger and Homelessness Programs	\$15 <sup>8/</sup>
	Rapid Rehousing	\$7
University of California	Basic Needs Funding - Student Hunger and Homelessness Programs	\$15 <sup>8/</sup>
	Rapid Rehousing	\$4
<b>Total</b>		<b>\$8,285</b>

<sup>1/</sup> The total budgeted amount of SB 3 funds is \$526 million. This amount includes awards funded from programs that receive continuous funding.

<sup>2/</sup> Amounts are based on lending activities from 2018-19 trends.

<sup>3/</sup> This amount represents a voluntary allocation of Proposition 63 funds from 16 participating counties.

<sup>4/</sup> The Affordable Housing and Sustainable Communities program amount reflects 20 percent of projected Cap and Trade revenues. The Transformative Climate Communities program (\$60 million for 2019-20) funds various activities, including housing as an eligible capital component; however, the investment in housing will not be determined until awards are made.

<sup>5/</sup> This amount represents the 9 percent tax credits allocated in 2019 and an estimated figure for 4 percent credits to be awarded in 2019 based on 2016-2018 averages. This figure does not include the approximately \$4 billion of tax-exempt bond debt allocation that is available for award from the California Debt Limit Allocation Committee.

<sup>6/</sup> This amount represents an estimate of the portion of the program associated with housing and homelessness activities.

<sup>7/</sup> The state provides a number of wrap-around supportive services through these programs, including housing support and application assistance, which cannot be separated from the Department of Health Care Services' and Department of Corrections and Rehabilitation's general budgets.

<sup>8/</sup> This program supports basic needs partnerships for low-income students facing housing or food insecurity.

# Health

## Key Points

- **Democrats' Mandate-and-Tax "Solution" for Health Care.** Californians must now buy health insurance or pay \$695 a year in additional taxes.
- **No Reforms, Just Higher Costs at Covered California.** Rather than expanding insurance choices to lower costs, the budget subsidizes households making up to \$150,000.
- **Medi-Cal for Undocumented Young Adults.** Income-eligible young adults ages 19-25 who reside in California illegally would have full Medi-Cal benefits.
- **Biased Commission to Study Single-Payer.** The budget provides \$5 million to set up a 13-member commission that will be handpicked by the Governor and legislative Democrats to "research" single-payer health systems.
- **Revised Managed Care Tax.** A September bill authorizes a revised, 3.5-year managed care tax that seeks to free up \$2 billion in General Fund resources for Democratic priorities.

**Health Insurance Mandate Tax on Those Who Cannot Afford It.** This budget continues the Democrats' punishment of California's working class and millennials with another regressive tax. The budget imposes an ongoing state individual mandate on all Californians to maintain "minimum essential health care coverage" or face a tax penalty of \$695 per year for adults (half that amount for children) or 2.5 percent of income over the state's tax filing threshold, whichever is greater. This amount will be adjusted annually for inflation. The administration projects more than \$1 billion in tax penalty revenues over three years through 2022-23.

According to the Public Policy Institute of California, when the federal mandate tax was in effect, the majority of penalties were assessed against taxpayers earning less than \$50,000 annually. Specifically, they found that taxpayers with incomes below \$25,000 accounted for about 45 percent of tax returns subject to the penalty, while those with incomes between \$25,000 and \$50,000 accounted for another 37 percent. This tax is yet another example of Democrat policies making California unaffordable. In this case, families with incomes below \$50,000 will be taxed in order to provide subsidies of more than \$1,000 annually to those making up to \$150,000 per year, an example of "reverse Robin Hood."

**No Reforms to Covered California, Just High Costs and Subsidies.** In recognition that California's version of the Affordable Care Act (ACA) has failed to reduce health care costs as promised by the Democrats who wrote and enacted the ACA, the 2019-20 budget appropriates \$429 million General Fund to Covered California to provide advanceable premium assistance subsidies during the 2020 health coverage year. Of this amount, \$345 million will be allocated for households with incomes between 400 percent and 600 percent of federal poverty level (\$100,000 to \$150,000 for a family of four). The administration expects to spend another \$1 billion on subsidies in 2021 and 2022 before eliminating the subsidies altogether in 2023. While this will bring some temporary relief to some Californians, this action ignores much-needed health care reforms to expand affordable coverage choices at Covered California.

**State-Only Medi-Cal for All Low-Income Undocumented Persons under 26.** The Governor's budget includes \$74.3 million General Fund to expand full-scope (but state-only funded) Medi-Cal coverage to an estimated 90,000 income-eligible young adults ages 19 through 25 who are residing in the state illegally. This will grow to more than \$220 million General Fund annually in future fiscal years. This expansion is in addition to the 250,000 low-income undocumented children (18 and under) currently enrolled in the Medi-Cal program. Before implementation can begin, the Department of Health Care



Services must conduct a provider network analysis to see if health plans and providers can handle this increase in new Medi-Cal enrollees.

With the state continuing to underpay Medi-Cal providers and facing a growing healthcare workforce shortage, and with access to care for all 13.2 million beneficiaries already lacking in many parts of the state, Senate Republicans warn that adding 90,000 new beneficiaries at this time would exacerbate Medi-Cal's problems. An argument commonly made by proponents of eligibility expansions like this is that the uninsured already seek care in emergency rooms, so coverage would allow them to find better, nonemergency locations for care. However, data since the implementation of the Affordable Care Act indicates otherwise – emergency room use actually went up following Medicaid coverage expansions. Thus, the \$220 million in annual cost for the expansion could instead be used for higher priorities, such as restoring benefit cuts or improving access to care for existing enrollees.

**No Realignment Funds for County Rural Health Board.** Yielding to opposition by the counties over the public health impact, the budget does not decrease the amount of realignment funds allocated directly to counties for local health programs. However, the budget does withhold realignment funds to the County Medical Services Program (CMSP) Board, which oversees county indigent care programs on behalf of 35 rural counties, until their reserves decrease to a balance of two-years-worth of annual expenditures. This action will result in \$45 million in General Fund savings in 2019-20 and similar amounts annually thereafter during roughly 10-year period when the CMSP Board will not receive any new realignment funds.

**Temporary Restoration of Optional Medi-Cal Benefits.** When facing sizable General Fund deficits in 2009, the Legislature eliminated several optional Medi-Cal benefits. While most of these benefits have since been restored, the audiology, optical, podiatry, incontinence creams/washes, and speech therapy benefits had not. The 2019 Budget Act appropriates \$17.4 million in 2019-20 and \$40.5 million in 2020-21 to restore, for two years only, these optional benefits within in Medi-Cal. While Senate Republicans support the restoration, the limited term nature raises concerns. The state could easily pay for permanent restoration if the budget did not expand eligibility to undocumented adults.

**A New Single-Payer Commission.** The budget includes \$5 million for the "Healthy California for All Commission" to research a "transition to a unified financing system" including single-payer health care options. The commission, comprised of 13 members picked by the Governor and legislative leadership, will analyze California's existing health care delivery system and provide key design options for a single-payer financing system. The commission would also research further expansions of full scope Medi-Cal, including to all undocumented adults. It is highly unlikely that a commission of single-payer advocates will produce an honest assessment of single-payer systems. Unless this commission looks at how single-payer limits choice of doctors and health plans, rations care, and creates long waiting lists, then this commission is a waste of time and money.

**Like Jerry Brown Before, the Governor Permits a Raid on Tobacco Tax Funds.** Despite the Governor's pledge in January to use the Proposition 56 tobacco tax funds as the voters intended—to increase access to care in Medi-Cal—the budget includes a December 31, 2021 "suspension" on all proposed tobacco tax fund enhancements in Medi-Cal. This suspension will allow Governor Newsom to raid the entire fund for other budgetary purposes after 2021. For 2019-20, the budget appropriates \$1.2 billion in tobacco tax funds for supplemental payments to certain Medi-Cal providers, a loan repayment program to encourage providers to serve Medi-Cal beneficiaries, and a new Value Based Payment program to reward providers in Medi-Cal managed care plans with incentive payments for meeting certain performance goals.

**Concerns from 340B Entities on Governor's Prescription Drug Plan.** On his first day in office, Governor Newsom signed an executive order to transition all pharmacy services within the Medi-Cal

program from managed care into a carved-out fee-for-service benefit statewide. While the enacted budget does not score any savings or costs in 2019-20 from undertaking this action, the administration estimates future savings of hundreds of millions each year by negotiating better drug prices for all Medi-Cal beneficiaries rather than relying on managed care plans. While this is dependent on the strength of the state's brokering skills and in properly resetting the managed care rates to exclude pharmaceuticals, it also depends on the state collecting the drug rebates that are currently received by hospitals and clinics in the federal 340B Drug Pricing Program. Without the rebate savings under 340B, many of these hospitals and clinics will face daunting fiscal situations. With these concerns in mind, the budget includes a requirement for the administration to work in collaboration with 340B entities to mitigate any negative impacts from the executive order.

**Another Managed Care Tax to Fuel Democrat Spending.** Despite record-high General Fund revenues, the Democrats passed a September bill to authorize a revised three-and-a-half-year managed care organization (MCO) provider tax -- from July 1, 2019 until December 31, 2022 -- to be assessed on all commercial full-service health plans and on all Medi-Cal managed care plans. The tax and associated federal revenue is contingent on federal approval. Newsom administration officials indicated informally that they do not expect the Trump administration to approve the tax but that they plan to file a lawsuit in an effort to win approval. If the federal government does approve the MCO tax, this action will free up about \$2 billion annually for the Democrats to use on their priorities anywhere in the state budget, such as expanded Medi-Cal for undocumented adults aged 26 or older.

**One-Time Health Workforce Investments.** The budget allocates \$85 million in one-time General Fund and \$25 million in Mental Health Services Act (Proposition 63) for mental health workforce development, scholarships to former foster youth working in the mental health field, and fellowships for psychiatrists. The budget also includes an additional \$120 million in one-time tobacco tax revenue (Proposition 56) to an existing loan repayment program designed to attract more Medi-Cal providers and \$2 million in one-time General Fund for pediatric residencies.

**Other Health Investments.** The budget appropriates \$37 million to issue grants to local health jurisdictions and tribal communities for the prevention and control of infectious diseases, \$15 million to establish sickle cell disease centers in seven counties, \$15 million for asthma prevention and environmental remediation services, and \$2 million to support the Valley Fever Institute at Kern Medical Center.

# Human Services

## Key Points

- **CalWORKs Grant Increases.** The 2019-20 budget includes \$355 million General Fund to increase CalWORKs grants to 48 to 50 percent of federal poverty level depending on family size. This cost will rise to \$455 million General Fund in 2020-21.
- **Increasing the CalWORKs Asset Test.** The 2019-20 budget revises the CalWORKs asset limit upwards from \$2,250 to \$10,000 and raises the motor vehicle exemption from \$9,800 to \$25,000. This change would apply both to new applicants to CalWORKs as well as current recipients.
- **Revised In-Home Supportive Services (IHSS) Cost-Sharing Agreement.** The budget includes a revised cost-sharing agreement between the state and counties for the IHSS program.

## CalWORKs

**Enrollment Declines.** The 2019-20 budget estimates a historical low of 361,000 average monthly CalWORKs cases. The recent decline in cases is primarily attributed to the strong economy and low unemployment rate.

**Grant Increases.** The budget provides \$355 million General Fund (\$455 million for a full year) for grant increases. These adjustments are part of a multi-year plan initiated by the Legislature in the 2018-19 budget to raise CalWORKs grant levels to at least 50 percent of the federal poverty level for “assistance units plus one.” An “assistance unit” refers to a family or similar group that is on aid in the CalWORKs system, such as a mother and two kids. Because children continue on aid even after adults time-out of aid at 48 months or are sanctioned, the Legislature’s plan is to aid the assistance unit plus one in recognition of the fact that over half of the current CalWORKs caseload has an unaided adult.

**CalWORKs Asset Test.** The final budget raises the asset test from \$2,250 to \$10,000 and the motor vehicle exemption from \$9,800 to \$25,000. Earlier in the budget hearing process, both houses eliminated the asset test completely, but final budget negotiations resulted in raising the dollar limit instead. Raising the limit will cost the state approximately \$7.5 million General Fund in 2019-20, \$27.8 million General Fund in 2020-21, and \$30 million in 2021-22 and ongoing.

**CalWORKs Child Care 12-Month Eligibility and Full-Time Authorization.** The final budget included a Governor’s May Revision proposal to extend 12-month eligibility to CalWORKs Stage One childcare and a requirement that childcare be full-time for welfare-to-work participants, unless indicated otherwise by the CalWORKs recipient. This budget action will cost the state \$60.6 million General Fund in 2019-20 and \$74.2 million General Fund ongoing.

**Adjustment of the Earned Income Disregard and Income Reporting Requirements.** The budget increased the threshold when CalWORKs recipients would have to voluntarily report income so that their cash aid would be adjusted. The budget also increases the earned income disregard to \$500 and 50 percent of income starting on June 1, 2020. There will be subsequent adjustments in future fiscal years. The Budget Act includes \$6.8 million in 2019-20 for these purposes.

## In-Home Supportive Services (IHSS)

**Rapid Enrollment and Cost Growth in IHSS.** The IHSS program is a Medi-Cal benefit that provides personal care and domestic services to 564,000 aged, blind, or disabled Californians. In over 70 percent of cases, recipients choose family members to be their paid service providers, which

suggests that in many cases the state is paying family members for tasks that they would perform anyway, outside of any program. It continues to be one of the state's fastest growing programs, both in terms of caseload and program cost, with costs more than doubling (a 126 percent increase) compared to ten years ago, despite only a 15 percent increase in program enrollment.

The 2019-20 budget includes \$12.7 billion (\$4.3 billion General Fund) for the IHSS program, a 13 percent increase from the 2018 Budget Act. This includes \$358 million General Fund to restore a previous 7-percent reduction to IHSS hours. This increase would be suspended on December 31, 2021, unless budget projections at that time indicate that General Fund revenues will exceed expenditures by enough to continue all programs slated for suspension.

**Changes to County Share of IHSS Costs.** The budget makes several changes to counties' share of IHSS costs and the maintenance of effort (MOE) requirement, including:

- Rebasing the county MOE to \$1.56 billion, which increases state General Fund costs by \$297 million in 2019-20, rising to \$615 million by 2022-23.
- Adjusting the inflation factor of the MOE from a projected 7 percent to 4 percent annually.
- Once the state minimum wage reaches \$15 per hour, future county negotiated increases to salary or benefits are split 65 percent/35 percent between the county and the state. There is no state participation cap, meaning that the state will be financially responsible for decisions made by local governments.
- Penalizing counties 1 percent of their 2018-19 MOE amount, under specified conditions, for not reaching a collective bargaining agreement with the IHSS provider unions.
- Ending the redirection of specified 1991 County Realignment funds to support IHSS. These funds are now available for indigent health care services or county mental health programs.

The changes to the IHSS MOE do not eliminate recessionary risk to the counties, as sales tax growth is still subject to economic factors, but the significant General Fund investment means less risk overall for the counties in covering program costs. The 1 percent withholding penalty on counties, which targets those that fail to reach a collective bargaining agreement with IHSS providers, is less burdensome than the Senate and Assembly respective Budget Committees' earlier proposals, but it still represents unnecessary interference by the state in county labor negotiations.

## **Foster Care**

**Payments for Caregivers Upon Placement of Foster Youth.** Approximately 70 percent of foster youth are placed with an immediate or extended member. Often the placement is on an emergency basis, in which the caregiver has not applied or been approved yet to be a foster care provider. State law requires a caregiver to be an approved foster care provider before receiving a stipend, but applications are taking an average of 180 days to be approved, leaving caregivers without the means to properly care for the foster youth. The 2019-20 budget approves \$26 million from the General Fund and federal block grant for counties to provide payment to foster caregivers immediately upon placement of the foster youth.

**Foster Parent Recruitment, Retention, and Support.** The 2019-20 Budget includes \$22 million to continue this program to recruit and retain foster parents. The program was set to sunset this budget year, but counties and advocates requested an extension of funding to assist with the delayed rollout of the Continuum of Care reforms. Counties can use funds at their discretion for activities that recruit new foster parents or retain current ones.

**Family Urgent Response System.** The budget includes \$15 million in 2019-20 and \$30 million annually to establish a statewide foster crisis hotline and local mobile crisis teams. However, these funds would be suspended December 31, 2021, unless overall General Fund revenues are projected at that time to exceed expenditures enough to pay for all suspended programs.

**Foster Youth Transitional Housing.** The budget authorizes \$13 million General Fund in 2019-20 and \$8 million ongoing to provide housing assistance to current or former foster youth. These funds are part of the group of programs that would be suspended December 31, 2021, unless certain General Fund revenue projections are met at that time.

### **Programs for Seniors**

**“No Wrong Door” Model.** The 2019-20 Budget includes \$5 million to facilitate the development of a “No Wrong Door” model for California’s aging population. Funds will be used to coordinate centers where any aging Californian, regardless of program eligibility, can go to be connected with services and supports. This funding would sunset December 31, 2021, unless certain General Fund revenue conditions are met.

**Senior Nutrition Funding.** The 2019-20 budget includes \$25.8 million General Fund annually to expand capacity for senior nutrition programs such as Meals on Wheels and congregate meals at senior centers. This funding would sunset December 31, 2021, unless certain General Fund revenue conditions are met.

**Dignity at Home Fall Prevention.** The 2019-20 budget includes \$5 million one-time General Fund available to the California Department of Aging to fund a program to help older adults and others at risk of falling make home modifications and take steps to reduce the risk of falls in the home.

**Multipurpose Senior Services Program (MSSP) Medi-Cal Rate Adjustment.** The 2019-20 budget includes \$14.8 million General Fund to be spent over three years for a supplemental rate increase for local MSSP sites. MSSP sites serve older Californians that would otherwise qualify for nursing home care but live independently.

### **Immigration**

**Immigration Related Pilot Projects.** The budget carves out \$5 million from existing immigration funding to provide mental health screenings and evaluations related to legal defense, and develop a family reunification navigator pilot to link undocumented minors with services in the community.

**Rapid Response Reserve Fund.** The Budget approved \$25 million General Fund in 2019-20 to assist qualified community-based organizations and nonprofit entities in providing services during immigration emergent situations when federal funding is not available.

# Developmental Services

## Key Points

- **Temporary Rate Increases for Most Providers.** Increases payment rates for most providers from January 2020 through December 2021.
- **Suspension of the Uniform Holiday Schedule.** Suspends the recession-era Uniform Holiday Schedule until 2021.
- **Fails to Restore Social Recreation and Camp Benefits.** The final budget rescinds committee actions to restore recessionary cuts to social recreation and camp services.
- **Developmental Center Plans Fall Short.** Fails to guarantee future financial support for the disabled community in plans for closed developmental center properties.
- **Consumer Protection and Regional Center Transparency Measures.** Includes several consumer protection and regional center transparency measures.

**Provider Rate Increases Help, But More Resources Needed.** On March 15, 2019, the Department of Developmental Services (DDS) provided the Legislature with a payment rate study required by 2016 legislation (AB X2 1, Thurmond). The rate study revealed that community services are underfunded by \$1.8 billion total funds (\$1.2 billion General Fund).

The budget provides \$380 million total funds annualized (\$250 million General Fund) to provide rate increases for most providers, though the increases would not take effect until January 1, 2020. Also, these increases would sunset on December 31, 2021, unless overall General Fund revenues are projected at that time to exceed expenditures by a certain amount. Most providers will receive rate increases ranging from 2 percent to 8.2 percent, but some providers will not receive any increases. The specific service codes not receiving increases were identified by the rate study as not needing increases. However, many providers have submitted public comment to DDS expressing their concerns with the methodology and data used to determine that these specified service codes do not need increases.

While the \$380 million in rate increases is a much-needed improvement, Senate Republicans issued a caucus-wide letter advocating for \$490 million to provide an 8 percent, across-the-board rate increase as a transition to implementation of the entire rate study. Also, both houses of the legislature proposed trailer bill language to require DDS to implement the rate study by a specified date, but the final budget package rejected this language. Instead, the budget package only requires DDS to hold "stakeholder meetings" over the summer. Thus, although this budget takes significant steps forward, the rate increases fall short of the need today and could expire in December 2021 with no guarantee that the rate study will be fully implemented.

**Recessionary Cuts Still Not Fully Restored.** Despite the dramatic rise in state revenues since the Great Recession, the budget package still fails to fully restore recessionary cuts to DDS programs:

- **Uniform Holiday Schedule Suspended, Not Repealed.** The Uniform Holiday Schedule is a set of 14 unpaid holidays for regional centers and DDS providers. During the Great Recession, the budget adopted the policy solely as a budget savings tool, but it is burdensome to both DDS providers who go without payment and consumers who are unable to access services. The budget appropriates \$50 million (\$30 million General Fund) to suspend the Uniform Holiday Schedule until December 2021, unless overall General Fund revenues exceed expenditures by a certain amount. Senate Republicans advocated for the full repeal of the Uniform Holiday Schedule, but the budget at least provides some additional relief to consumers and providers.

- **Social Recreation and Camp Benefits.** For the second year in a row, Budget subcommittees in both houses reversed the recession-era cuts to social recreation and camp benefits. However, the Budget Conference Committee, which finalizes the budget after negotiations with the Governor, rescinded those earlier actions. Restoring these programs has been a priority request from the DDS advocate community and would cost a mere \$15 million General Fund annually. The budget package spends hundreds of millions of General Fund dollars on new expansions of other, non-DDS programs, but fails to provide this modest amount to restore a key benefit to disabled consumers.

**Consumer Protection and Regional Center Transparency.** The budget includes several provisions to increase transparency and accountability at the regional centers. As the main administrators of DDS services, the regional centers play a critical role in the success of the DDS system. Policies such as providing consumers with a standardized info packet upon intake, and posting assessment policies and service guidelines to regional center websites, will improve outcomes for consumers.

**Missed Opportunity for Developmental Center Properties.** Sonoma Developmental Center saw its last resident move out in December 2018, but the future of the property is still unknown. The budget includes \$43.7 million General Fund over three years for operations, partial decommissioning, and land use planning costs related to the closure. The budget declares the roughly 750 acres of land outside the core developed campus (about 180 acres) would be preserved as public parkland and open space. Senate Republicans and advocates for the developmentally disabled community called for the state to use the decommissioned Sonoma property to generate revenues for reinvestment in housing opportunities and other community services for disabled residents. However, the enacted budget package predetermines use for the majority of the property and does not include assurances that the disposition will provide a direct financial benefit to the disabled community. This is a significant missed opportunity: this highly valuable property served disabled residents since the 1890s and could provide substantial funds that are still badly needed for community housing or services. Instead, the majority party placed the interests of the disabled community behind those of local special interests.

Fairview Developmental Center, located in Orange County, still houses 29 residents but is expected to be vacant by June 2020. The budget includes \$2.2 million General Fund to begin a site assessment on the 114-acre property to determine its condition and potential future uses. The Fairview property is the final center to fully close, and thus it will provide the last opportunity for the state to use a developmental center to generate substantial revenue for the disabled community.

## K-12 Education

### Key Points

- **Special Education.** Provides more than \$600 million to increase special education funding and improves the allocation of funds by bringing all local educational agencies to the statewide base rate for special education funding.
- **Kindergarten Facilities Grants.** Provides \$300 million in one-time General Fund for the Full-Day Kindergarten Facilities Grant program.
- **Early Education Expansion.** Includes several investments to increase access to child care for low-income families. The budget expands eligibility for subsidized preschool, lays the groundwork for the creation of a "cradle-to-career" database, uses taxpayer money to accelerate unions' efforts to organize child care providers, and provides funds to promote more "qualified" child care providers.

**Proposition 98 Funding Hits a Record High.** The chart below displays Proposition 98 funding for K-14 education, which is expected to reach an all-time high in 2019-20 of \$81.1 billion, roughly \$3 billion above the revised 2018-19 Budget Act level, and \$5.6 billion above the revised 2017-18 level. Average per-pupil spending is expected to be \$12,007,<sup>1</sup> which is \$4,989 or 71 percent above the 2011-12 funding level, following the recession.

### Proposition 98 Funding by Segment and Source

*Source: Legislative Analyst's Office*

(\$ In Millions)

	2017-18	2018-19	2019-20	Change From 2018-19	
	Final	Revised	Enacted	Amount	Percent
<b>K-12 Education</b>					
General Fund <sup>a</sup>	\$47,194	\$48,327	\$49,322	\$994	2.10%
Local property tax	19,644	20,645	21,921	1,276	6.2
Subtotals	\$66,839	\$68,973	\$71,243	\$2,270	3.30%
<b>California Community Colleges</b>					
General Fund	\$5,757	\$6,117	\$6,193	\$75	1.20%
Local property tax	2,980	3,056	3,244	188	6.2
Subtotals	\$8,737	\$9,173	\$9,437	\$264	2.90%
<b>Proposition 98 Reserve Deposit<sup>b</sup></b>	–	–	\$377	\$377	–
<b>Totals</b>	<b>\$75,576</b>	<b>\$78,146</b>	<b>\$81,056</b>	<b>\$2,910</b>	<b>3.70%</b>
General Fund	\$52,951	\$54,445	\$55,890.70	\$1,446	2.70%
Local property tax	22,625	23,701	25,166	1,464	6.2
<sup>a</sup> Includes funding for instruction provided directly by state agencies and the portion of State Preschool funded through Proposition 98.					
<sup>b</sup> Consists entirely of General Fund.					

<sup>1</sup> Per-pupil spending varies widely across the state under the Local Control Funding Formula, which provides substantially more funding to districts with high proportions of low-income students.



**Local Control Funding Formula (LCFF).** Local control funding within the Proposition 98 guarantee will total approximately \$63 billion, up from \$61 billion at 2018-19 budget enactment, and includes \$2 billion to fund the LCFF cost-of-living adjustment (COLA) at 3.26 percent. The 2019 Budget Act also includes a cap on the COLA for the LCFF continuous appropriation in future years if the COLA for LCFF and other K-14 programs exceeds growth in the Proposition 98 guarantee.

**Special Education.** \$646 million in ongoing Proposition 98 funding is provided for special education. Specifically, \$493 million funds special education concentration grants to districts based on the number of children ages three to four years with exceptional needs. \$153 million is provided to all Special Education Local Plan Areas to bring Local Educational Agencies to the statewide base rate for special education funding.

The new funding formulas are an improvement over the current system which implicitly assumes that students with disabilities, and associated special education costs, are relatively equally distributed among the general student population and across the state. Senate Republicans applaud the additional support to Local Educational Agencies that provide special education services to support better outcomes for students with disabilities.

**Kindergarten Facilities Grants.** The budget includes \$300 million one-time non-Proposition 98 General Fund for the Full-Day Kindergarten Facilities Grant program. This program provides grants to construct new or retrofit existing facilities to support full-day kindergarten programs, and funding criteria prioritizes schools converting part-day to full-day kindergarten programs. Additionally, the budget increases the state share of grant funding from 50 percent to 70 percent, allows for remaining grant funding to be used for other one-time costs to implement the full-day kindergarten program, and specifies that participation in the Full-Day Kindergarten Facilities Grant program does not impact a district's eligibility in the School Facility Program.

**Early Education Expansion.** The budget package makes several augmentations and policy changes toward implementing Governor Newsom's Universal Preschool plan, including:

- Requires the state to develop a Master Plan for early learning and care by October 1, 2020.
- Removes eligibility requirements for state preschool to allow priority access to full-day state preschool program slots to income eligible families with a need for full-day care and any remaining full-day slots are available for other eligible families irrespective of parents who are working or in school.
- Provides \$125 million for 10,000 new preschool slots, the first of three planned augmentations over the next three fiscal years. There is some concern that non-Local Educational Agencies may be unable to accommodate all 10,000 slots in 2019-20.
- Provides \$50 million General Fund for child care slots in addition to 80.5 million in Proposition 64 funds (Marijuana Taxes) for child care slots.
- Provides \$10 million to build a data system to track kids from the cradle to their career; establishes the California Cradle-to-Career Data System Work Group.
- Provides \$10 million for costs associated with implementing child care organizing. Senate Republicans would note that child care organizations do not need legislative authority to engage in collective bargaining, and the fiscal impact of collective bargaining cannot be determined at this time. Collective bargaining adds significant new and ongoing annual costs to the state budget and would likely take away resources from other important priorities, including but not limited to education, human services, and public safety.

While some research indicates short-term benefits from extending preschool to children from low-income families, the most robust research concludes that the benefits gained tend to disappear by 3<sup>rd</sup> grade and that some negative results have also been observed. California has an obligation to address the harmful effects of poverty on children, and Senate Republicans are committed to this effort. However, it may be prudent to take a more measured and varied approach which would allow for a dynamic response in the event that universal pre-school does not work as intended.

**Workforce Education.** The budget provides funding for several programs that address teacher shortages and training including:

- \$89.8 million one-time for the Golden State Teacher Grant Program, which supports grants to students enrolled in teacher preparation programs who commit to working in a high-need field at a school sites with the highest rates of non-credentialed or waiver teachers.
- \$38.1 million one-time for the Educator Workforce Investment Grant Program, which supports grants for professional development related to social emotional learning, computer sciences, restorative practices, ethnic studies, and special education.

**Assistance for District Pension Obligations.** As described under the *Debts and Liabilities* section, the budget provides over \$3 billion in non-Proposition 98 General Fund to school districts to reduce pension liabilities and offset district contributions. This includes \$1.6 billion to reduce pension liabilities for teachers (CalSTRS) and \$660 million for other school staff (CalPERS). These payments will provide long-term savings. Also, in order to provide near-term fiscal assistance, the budget provides \$850 million over two years to reduce the employer contributions that schools must make toward current pension costs, including \$606 million for teachers and \$244 million for other employees. While school districts no doubt benefit from the extra room this pension relief provides, it will be up to local decision-makers to ensure that districts do not use their savings irresponsibly or create additional long-term liabilities.

**Public School System Stabilization Account.** The 2019 Budget Act includes a first-time \$377 million General Fund deposit into the Proposition 98 Rainy Day Fund, pursuant to Proposition 2. This deposit will not trigger school district local reserve caps in 2020-21. Under existing law, a cap on local reserves would become effective once the state's Proposition 98 reserve reaches a balance of about \$2 billion.

**Outstanding Balance of Minimum Funding Obligation.** The budget authorizes \$650.6 million one-time including \$282 million General Fund and \$368 million Proposition 98 General Fund, for the purpose of reducing outstanding Proposition 98 funding owed to school districts and community colleges for the 2009-10, 2011-12, 2013-14, 2014-15 and 2016-17 fiscal years. This is a positive step that pays off state budgetary borrowing and provides additional resources to schools.

**Proposition 98 True-Up Process.** Eliminates the automatic true-up process created in 2018-19, which established a Proposition 98 true-up account to automatically adjust school funding when estimates of the prior-year guarantee change. The 2019 Budget Act additionally prohibits the state from making any downward adjustment to school funding once a fiscal year is over. Senate Republicans note that eliminating the Proposition 98 true-up process results in the rest of the state budget assuming the risk if any changes to the minimum guarantee occur after the end of the year. The state is still required to make settle-up payments if the Proposition 98 calculation increases in the prior year. This process benefits schools, but it also creates challenges in balancing the rest of the state budget during an economic downturn.

# Higher Education

## Key Points

- **Waives Second Year of Community College Tuition.** Provides \$43 million to waive tuition for first-time, full-time community college students for their second year.
- **University Enrollment Growth.** Provides an additional \$135 million toward increasing resident undergraduate enrollment at the University of California (UC) and California State University (CSU).
- **Expands Financial Aid Funding.** Makes various changes to the state's financial aid programs including expanding eligibility requirements as well as increasing award amounts and the number of awards for several Cal Grant programs.

**California Community Colleges.** The community colleges' share of Proposition 98 funding increases to \$9.4 billion in 2019-20, up by approximately \$264 million from the 2018 Revised Budget Act level.<sup>2</sup> This increase provides \$24.7 million for new full-time equivalent student resident enrollment growth (up to .55 percent) and \$230 million for a cost-of-living adjustment of 3.26 percent.

**Tuition Waiver for Second Year of Community College.** The budget package provides \$43 million Proposition 98 General Fund for the Community College Promise Program. This program waives tuition for first-time, full-time community college students without financial need, for two academic years. Although the Chancellor's Office does not know exactly how much community colleges spend on College Promise tuition waivers, it reports that 85 of the 105 participating colleges are using some or all of the funding to provide tuition waivers. Students that would utilize this program are not likely considered financially needy, as there is already a tuition waiver program (Board of Governors fee waiver) in place for low-income students. Providing a second year of tuition waivers for non-financially needy students may be viewed as a lower priority, as the funds could have been directed to other priorities, such as assisting needy students with the high cost of housing.

**Student Success Funding Formula.** Makes changes to the Student Centered Funding Formula to include capping year-to-year growth outcome funding at 10 percent of the overall formula, setting a three-year average for outcomes, and extending the hold-harmless period for an additional year.

**One-time California Community College Spending.** The budget provides several one-time appropriations for the community colleges. Some of the notable ones include:

- \$241 million to support the Strong Workforce program.
- \$50 million to hire new full-time faculty, to increase the percentage of full-time faculty toward meeting the 75 percent full-time faculty target.
- \$10 million for support of Veteran Resource Centers.
- \$9 million for support in wraparound services for homeless and "housing insecure" students.
- \$7 million for student mental health services.

**University Enrollment Growth.** The budget includes \$135 million in new enrollment growth across the UC and CSU systems. This includes \$49 million to increase resident undergraduate enrollment at the UC by 4,860 students and \$85 million to increase undergraduate enrollment at the CSU by 10,000.

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<sup>2</sup> CCC funding includes funding for adult education, which can flow to any K-14 education agency or partner, and for the K-12 component of the Strong Workforce career technical education program.

For the 2019-20 year both the UC Board of Regents and the CSU Board of Trustees announced they would not raise resident tuition.

For the UC, notable augmentations include:

- \$143 million for deferred maintenance.
- \$120 million in unrestricted base augmentation.
- \$15 million for psychiatric graduate medical education.
- \$15 million to address student hunger.
- \$10 million to sustain a portion of 2018-19 enrollment growth.
- \$5 million for student mental health services.
- \$3.5 million for rapid rehousing efforts assisting homeless and “housing insecure” students.

For the CSU, notable augmentations include:

- \$239 million for deferred maintenance.
- \$193 million for an unrestricted base augmentation.
- \$75 million for the Graduation Initiative, which launched in 2009 to address low graduation rates for six- year, four-year, and transfer students.
- \$15 million for basic needs relating to student hunger and housing insecurity.
- \$7 million for legal services to undocumented immigrant students.
- \$3.3 million to support Project Rebound, which helps program participants enroll, stay on track, graduate, and pursue a career after release from jail or prison.
- \$2 million to undertake and review a potential California State University campus in Concord, Chula Vista, Palm Desert and the County of San Mateo.
- \$2 million to undertake and review a potential California State University campus in San Joaquin County.

**Eligibility for Cal Grant Awards.** The budget package removes the statutory limitation on undocumented student participation in Cal Grant programs. It also expresses the intent of the Legislature that all forms of California state-based aid are made equally available to students exempt from paying nonresident tuition and to all other students who qualify for state-based aid in the state.

Senate Republicans believe increasing the number of Cal Grant awards should be prioritized over increasing the eligible applicant pool, as the Cal Grant program is currently oversubscribed.

**Cal Grant Awards.** The budget makes the following changes to the Cal Grant award program, administered by the California Student Aid Commission:

- Increases eligibility for Cal Grant Access awards of \$4,000 or \$6,000 to California Community College, UC and CSU students with dependent children.
- \$42 million to increase the number of competitive Cal Grant awards by 15,250 from 25,750 to 41,000.
- Establishes the Cal Grant Service Incentive Grant program. Recipients of this grant must perform a community or volunteer service of at least 100 hours per quarter or 150 hours per semester, among other requirements.

**Savings Accounts for Kids.** The budget provides \$50 million to establish two additional savings account programs for kids. \$25 million is provided to the Student Aid Commission to establish the Child Savings Account Grant program. This program will provide grants to support local governments and nonprofit organizations that sponsor or create local child savings account programs. An additional \$25 million was provided to the Scholarshare Investment Board of the State Treasurer's Office to establish the California Kids Investment and Development Savings program. This program is available for eligible low-income California children born on or after July 1, 2020.

The current Every Kid Counts college savings program, also administered by the California Student Aid Commission, just concluded its first grant cycle, and approximately \$2.9 million in grants were awarded to local entities. The creation of two additional child savings programs seems premature, and the funds allocated to them could have been used to augment additional competitive Cal Grant awards.

# Public Safety and Judiciary

## Key Points

- **New Judgeships Provide Much-Needed Relief to Trial Courts.** Includes funding for 25 new judgeships, which will help to relieve caseload backlogs in the most severely under-resourced courts.
- **Several Measures Enhance State's Disaster Preparedness Posture.** Reflects a number of disaster preparedness improvements, including upgrades to the 9-1-1 system and resources to complete construction of the Earthquake Early Warning System.
- **Armed Prohibited Persons System Gets New Funding Source.** Shifts funding for the Department of Justice's program to disarm felons and others prohibited from owning guns from special funds that were never intended for this purpose to the General Fund.
- **Integrated Treatment Plan Could Help Curb Prison Drug Use.** Provides \$71 million for a robust in-prison drug treatment program. The new, integrated approach focuses on preparing inmates to remain clean upon discharge.

## Judicial Branch

The budget provides \$4.2 billion (\$2.2 billion General Fund) to support the Judicial Branch, including approximately \$3.3 billion (\$1.8 billion General Fund) for the trial courts. These spending levels represent a 6.8 percent increase for the Branch and a 10.9 percent increase for the trial courts compared to 2018-19 budget levels.

**Funding for New Judgeships Welcomed.** The Judicial Council's Preliminary 2018 Update of the Judicial Needs Assessment indicated a need for 127 new judgeships. The enacted budget provides \$30 million to fund 25 of the 50 judgeships established in 2007 by AB 159 (Jones). These resources are long overdue and will provide much-needed relief to litigants and courts in extremely under-resourced counties like San Bernardino, Riverside, and Kern. However, with another 102 additional judgeships still needed, more remains to be done to ensure timely access to justice for all Californians.

**Pretrial Pilot Projects.** SB 10 (Hertzberg, 2018) replaced the existing money bail system with a system of pretrial risk assessment intended to eliminate pretrial detention unless the defendant presents an unacceptable likelihood of failing to appear in court. Before SB 10 could take effect, the court suspended it to allow for a vote on the November 2020 referendum seeking to halt the measure. The current bail system remains in place until then. However, if the voters uphold SB 10 in 2020, it would take immediate effect, at which time the courts would be expected to have a plan in place to determine the pretrial detention status of defendants.

The budget includes \$75 million for pilot projects in eight to ten trial courts to develop risk assessment tools and best practices that support effective pretrial decision making. These resources would pave the way for the eventual implementation of SB 10, which nearly all Senate Republicans opposed. That said, it would have been irresponsible to do nothing to prepare for the possibility that SB 10 could take effect following the 2020 general election. The funding included in the budget at least provides an opportunity for the courts to mitigate the potential negative effects of SB 10 on public safety.

**Cap on Trial Court Reserves Relaxed.** In June 2014, a one-percent cap on the trial courts' reserves took effect, meaning that each trial court could only carry over a balance equal to one percent of its current operating budget into the next fiscal year. Since the cap was imposed, trial courts have faced significant fiscal challenges, including year-end cash flow problems leading to difficulties meeting

payroll and the inability to plan long-term for needs like replacement of failing equipment. The enacted budget increases the cap on trial court reserves from one percent to three percent, restoring some flexibility for the trial courts to manage their individual operational challenges.

### **Office of Emergency Services (OES)**

**Next Generation 9-1-1 Upgrade Moves Forward with Reformulated Tax.** The enacted budget includes \$164 million for OES to maintain the state's legacy 9-1-1 system and to continue the process of upgrading to Next Generation 9-1-1. Beginning last year when Governor Brown first proposed the new tax, Senate Republicans argued that the state should use some of the multibillion-dollar General Fund surplus to help upgrade the system. Governor Newsom yielded somewhat this year and agreed to use \$10 million General Fund in 2018-19 and \$50 million General Fund in 2019-20 to support the upgrades, while delaying the tax increase until January 1, 2020. Thus, of the \$164 million appropriated for 9-1-1 purposes in 2019-20, \$50 million is from the General Fund, while the rest is from the existing telephone tax (through December 31, 2019) and the reformulated tax (beginning January 1, 2020).

Senate Republicans advocated for a plan that included a requirement for OES to report periodically on the progress of the 9-1-1 upgrade, a sunset date on the tax increase to allow for re-evaluation, and a requirement for legislative approval of future increases to the 9-1-1 tax, none of which are included in the enacted budget package. Despite these shortcomings, the crucial task of upgrading the 9-1-1 system should now move forward without delay. Senate Republicans will monitor progress and promote accountability as OES moves forward on this critical project.

**Funding to Complete Earthquake Early Warning System (EEWS) Included.** As authorized by SB 135 (Padilla, 2013) and SB 438 (Hill, 2016), both of which received unanimous support from Senate Republicans, the EEWS will provide California residents with critical seconds in which to prepare before an earthquake's most damaging shaking strikes. In some cases, this advance warning could allow actions to be taken that could be the difference between life and death. In its May 2018 final business plan for the EEWS, OES identified a need for \$32.2 million General Fund to build out the infrastructure for the system. The Budget Act of 2018 included the first-year funding (\$15.8 million) and the 2019-20 budget provides the second and final installment of \$16.3 million.

A source for the operational funding that will be needed to support the system over the long term, most recently estimated to be \$16.4 million annually, has yet to be addressed. However, the May 2018 business plan identified a number of potential revenue sources, including the General Fund, a new surcharge on residents' gas, electric, or cell phone bills, a charge on transportation and/or other industries that would benefit from the system, foundation and federal grants, or fees charged to providers who use the data generated by the system to provide services to clients. Given the recent tax increases on fuel, telecommunications, and income, many of which are reflected in this budget, Senate Republicans believe that Californians already pay enough. Therefore, ongoing funding for the EEWS should be prioritized within already existing revenues.

**Human Trafficking Grants Made Permanent.** These OES-administered grants support community-based organizations that provide shelter, food, counseling, legal aid, transportation, and other programs and services to victims of sex and/or labor trafficking. When one-time funds were about to expire at the end of 2017-18, Senate Republicans fought to continue the funding in the Budget Act of 2018. Legislative Democrats rejected the funding in the main budget bill, but thanks to continued pressure from Senate Republicans, a one-time appropriation was added back in a subsequent trailer bill. The 2019-20 budget includes \$10 million General Fund (ongoing) to fund these grants permanently. Senate Republicans continue to support this critical funding and are pleased to have facilitated making it permanent.

**Abortion Clinic Funding Added at Eleventh Hour.** In a September budget adjustment, legislative Democrats and the Governor added \$10 million General Fund to OES' budget "for the California Health Center Security Grant Program to help health centers that provide abortion services and may be the targets of violence and vandalism." There are no program criteria or requirements in the language creating the new grant program, nor did the Newsom administration or any other party provide a rationale or plan for the funds. Hence, the funds could amount to a "blank check" for abortion clinics like Planned Parenthood. This eleventh-hour action may be an attempt to replace some of the \$60 million in federal Title X funding recently forfeited by abortion providers.

### **Department of Justice (DOJ)**

**Second-Year Funding Expedites Local Law Enforcement Rape Kit Testing Progress.** The 2018-19 budget provided \$6.5 million General Fund to help address a backlog of untested sexual assault evidence kits (rape kits) among local law enforcement agencies. Several high-profile cold cases have recently been solved thanks to advancements in DNA testing, most notably the decades-old case of the East Area Rapist/Golden State Killer. Testing untested rape kits provides new DNA profiles that could help law enforcement agencies to identify and prosecute suspects, provide justice for victims, and ultimately prevent more sexual assaults. The 2019-20 budget includes \$2.9 million General Fund to continue the effort to help local law enforcement agencies test all backlogged rape kits. Senate Republicans believe this funding is important to solving not only sexual assaults, but also other crimes for which rape kit DNA profiles result in cold hits. Therefore, in addition to rape kit testing support, the state should also consider supporting local law enforcement agencies' cold hit investigation efforts.

**Funding Shift Ensures Continuation of Armed Prohibited Persons System (APPS).** The 2019-20 budget includes \$17.5 million General Fund to permanently shift the Department of Justice's APPS program away from the special funds that have been supporting it, but which have been significantly depleted. Of the \$17.5 million, \$5.6 million is new funding that will support 26 new positions for APPS enforcement. The budget also includes \$3 million General Fund (one time) for a four-county pilot program, administered by the Board of State and Community Corrections, to assist local sheriffs with their APPS enforcement efforts. Senate Republicans have long argued that the Attorney General needs to dramatically improve the effectiveness of the APPS program, which helps reduce the potential for violence committed by those known to pose higher risks, and will continue to monitor the results from the new funding and pilot program.

### **Department of Corrections and Rehabilitation (CDCR)**

The enacted budget authorizes CDCR spending of \$12.8 billion (\$12.4 billion General Fund) in 2019-20. This is yet another record high that is approximately \$604 million above Budget Act of 2018 spending levels. The spending increase is comprised mostly of the following:

- Employee compensation and benefit cost increases (\$371 million)
- Cost increases related to inmate health care (\$132 million)
- Population-related changes (\$58 million)
- Prison maintenance and repairs, including deferred maintenance (\$44 million)

**Juvenile Justice Transition Ignores Victims.** The budget includes \$1.2 million General Fund to establish an administrative team to facilitate moving the Division of Juvenile Justice (DJJ) from CDCR and establishing it as a new department, called the Department of Youth and Community Restoration



(DYCR), under the Health and Human Services Agency. The DYCR, which the budget establishes effective July 1, 2020, will use a “trauma-informed and developmentally appropriate” approach to rehabilitating juvenile offenders. The transition of authority from DJJ to DYCR will be phased in over the next year, allowing DJJ’s current day-to-day operations to continue in the interim.

Following the *Farrell* lawsuit and the juvenile justice realignment of the mid-2000s, counties now retain the vast majority of their juvenile offenders. The remaining DJJ wards have committed very serious, in many cases horrific, offenses. While the Governor’s plan to reform juvenile justice shows great deference to the needs of youthful offenders, it is less than clear how (or even if) the DYCR will balance offenders’ rehabilitative needs with the need to safeguard the public and the responsibility to honor, respect, and facilitate the healing of victims and their families. Senate Republicans believe that a justice system that ignores victims of crime provides very little real justice.

**Integrated Approach to Curbing Drug Use in Prisons and After Release Shows Promise.** The 2019-20 budget provides \$71 million General Fund, increasing to \$162 million annually beginning in 2020-21, for a multifaceted substance use disorder treatment program at all state prison facilities. The program will combine medication-assisted treatment (MAT), cognitive behavioral therapy (CBT), and personalized pre-release transition planning to break the cycle of drug addiction before returning inmates to their communities. While neither CBT nor MAT is completely new to CDCR programming, offenders with drug addictions have traditionally been left to fend for themselves upon release. In the first few hours and days, when the temptations and pressures on the outside are greatest, many offenders succumb to these stresses and fall back into their addictions. In addition to implementing a massive expansion of MAT, the new integrated program focuses significantly more attention and effort on pre-release planning to better prepare higher-risk inmates to face these post-release challenges. The trafficking of drugs and other contraband within prison facilities destabilizes the population and short-circuits rehabilitative efforts. Historically, CDCR has had little success keeping the supply of drugs and other contraband out of prisons. Perhaps this new approach that aims to curtail the demand side of the equation will be more fruitful.

# Transportation

## Key Points

- **Gas and Car Taxes Allocated—Billions Do Not Repair Roads.** The budget allocates \$4.8 billion from SB 1 gas and car taxes. Up to 76 percent of the funding could be used for roads and highways, and at least 24 percent is planned for non-road purposes (largely transit). Motorists will continue to pay about \$2.3 billion each year in taxes that do not repair roads.
- **Nation's Most Expensive Gas.** California's gas prices are the highest in the country at \$3.75 for a regular gallon of gas. The national average is \$2.78 per gallon.
- **More Money for the Troubled Department of Motor Vehicles.** The budget provides an additional \$242 million to improve operations of the Department of Motor Vehicles, nearly quadruple the Governor's January proposal, but accountability is lacking.

**Gas and Car Taxes Allocated.** The budget allocates \$4.8 billion from revenues generated by SB 1, the 2017 gas and car tax bill. Of this amount, about 60 percent is allocated to programs directly fixing streets, roads, highways, bridges, and culverts. An additional 16 percent is slated for programs that have a mixture of projects. Some projects will fix roads and some projects will address other transportation issues, such as purchasing new transit buses, installing or widening bike paths and sidewalks, and making commuter rail and station improvements. Finally, about 24 percent is planned to be spent on projects unrelated to fixing roads. This funding will largely be spent on transit and commuter rail improvements and operation expenses. In fact, ***motorists will continue pay about \$2.3 billion each year in fees and taxes that do not repair roads.*** Please see the chart on the next page for the allocation of SB 1 revenues.

**More Gas Tax Increases.** Pursuant to SB 1, the tax on gasoline increased yet again by 5.6 cent per gallon on July 1, 2019. Beginning July 1, 2020 gas taxes will increase automatically each year, as SB 1 included an annual inflation adjustment. The first inflation adjustment, which takes effect July 1, 2020, will account for inflation from November 1, 2017 to November 1, 2019. The annual adjustments thereafter will cover subsequent 12 month periods. Each of these automatic increases will add hundreds of millions of dollars annually in additional taxes to Californians' already-high cost of living.

**California Gas Prices are the Highest in the Country.** According to AAA as of July 12, 2019, California's gas prices are the highest in the country at an average price of \$3.75 for a regular gallon of gas. This is 35 percent higher than the national average of \$2.78 per gallon. Hawaii is the next closest at \$3.65 per gallon, and within the contiguous U.S., Washington is the next closest at \$3.33 per gallon. California's high gas prices continue to be driven up by high taxes on gasoline and state environmental policies that attempt to modify behavior, like the state's summer gasoline blend requirement, the Cap and Trade program, and the Low Carbon Fuel Standard.

<b>New Gas and Car Tax Spending</b>			
<i>(Dollars in Millions)</i>			
	<b>Program</b>	<b>2018-19 Appropriation</b>	<b>2019-20 Appropriation</b>
Local Allocations	Local Streets and Roads	\$1,202	\$1,225
	Transit and Intercity Rail Capital Program	\$330	\$337
	State Transit Assistance	\$405	\$457
	Local Partnership Program	\$200	\$200
	Active Transportation Program	\$100	\$100
	State Transportation Improvement Program	\$0	\$20
	Commuter Rail and Intercity Rail	\$43	\$50
	Local Planning Grants	\$25	\$25
	<b>Total:</b>	<b>\$2,305</b>	<b>\$2,414</b>
State Allocations	SHOPP/Maintenance	\$1,219	\$1,222
	Bridges and Culverts	\$400	\$400
	Congested Corridors	\$250	\$250
	Trade Corridor Enhancement	\$308	\$307
	Department of Parks and Recreation	\$79	\$79
	State Transportation Improvement Program	\$0	\$7
	Freeway Service Patrol	\$25	\$25
	Department of Food and Agriculture	\$26	\$26
	Transportation-Related CSU and UC Research	\$7	\$7
	Transportation Workforce Development Board	\$5	\$5
	<b>Total:</b>	<b>\$2,319</b>	<b>\$2,328</b>
Administration	Department of Motor Vehicles	\$8	\$18
	<b>Total:</b>	<b>\$8</b>	<b>\$18</b>
Revenue	Transportation Improvement Fee	\$1,510	\$1,550
	Gasoline Excise Tax	\$1,867	\$1,899
	Diesel Excise Tax	\$678	\$675
	Diesel Sales Tax	\$343	\$400
	General Fund Loan Repayment	\$235	\$236
	<b>Total:</b>	<b>\$4,633</b>	<b>\$4,760</b>
<i>Source: Department of Finance</i>			

### **Department of Motor Vehicles**

**More Money for the Troubled Department of Motor Vehicles (DMV).** The budget includes an additional \$242 million to support 179 new permanent positions, the continuance of 900 existing temporary positions, and up to 970 new temporary positions. The funding will also support technology upgrades to accept credit cards in DMV offices, complete a website redesign, allow customers to live chat and email DMV agents, enhance the appointment system and call center, and enable the use of a chatbot to assist customers on the website. There would be a revised management structure, establishment of mobile command vehicles, more self-service terminals deployed, and more public

outreach. The budget also includes language authorizing the Department of Finance to increase DMV's budget in the budget year with only notification required to the Legislature, not another vote.

**Beyond the Budget Year.** The budget also approved an increase of \$200 million for 2020-21 to support continued Real ID workload. The DMV estimates 22.1 million current licensed drivers and identification card holders will convert to Real IDs over the next five years. Once the current cardholders are converted, the workload should drop as those people return to their regular renewal schedule and methods. However, the DMV will need to assess workload levels and justify the need for the continued higher level of funding beyond 2020-21.

**More Money Without Accountability Unlikely to Succeed.** The budget throws a lot of money at DMV's perceived problems with no performance goals and little accountability. In addition, the funding allows DMV to embark on many efforts, including increased field staff, mobile operations, website and IT systems overhauls, increased public communication channels, and a revised management structure. The DMV's Real ID failures are unacceptable, but allowing the DMV to move forward with too many fixes at one time could be overwhelming, resulting in additional failures and more cost increases. Senate Republicans believe California motorists should get what they already pay for, a functional and efficient DMV, and will continue to pursue that on behalf of Californians.

### **California High-Speed Rail Authority**

**High-Speed Rail Project Scaled-Back.** Governor Newsom directed the California High-Speed Rail Authority (Authority) to scale back the project to a line between Merced and Bakersfield. The Governor's Office indicated that environmental work will continue for all of Phase I (San Francisco to Los Angeles) and the previous regional commitments will be fulfilled. However, absent more state money, federal dollars, or private investment, there is not enough money to build beyond the Merced-Fresno-Bakersfield line.

**Updated Cost Estimates.** The cost for the 171-mile Merced-Fresno-Bakersfield line is now at \$20.4 billion. Should building Phase I remain a consideration, the Phase I middle-cost scenario is now at \$79.1 billion and the high-cost scenario at \$99.9 billion. At this time, the Authority expects to begin service between Merced and Bakersfield in 2028.

**Project Funding.** In total, the Authority estimates \$20.5 billion to \$23.5 billion in project funding is available through 2030. This includes future Cap and Trade auction proceeds of \$500 million to \$750 million annually. With a cost of \$20.4 billion just for the Merced-Fresno-Bakersfield line, funding to build even this much smaller high-speed rail line may fall short. Even a relatively small cost increase or slightly less Cap and Trade revenue could result in a funding gap. Likewise, a decrease in federal funding, as discussed below, would almost certainly create a funding shortfall for the project. Additionally, funding anticipated between 2028 and 2030 will need to be advanced if operations are to begin in 2028. The 2019-20 budget includes \$736 million for the project. About \$1.7 billion in previously budgeted funds remains available for future years.

**Federal Funding in Danger.** After the Governor's announcement to scale-back the project, the Federal Railroad Administration (FRA) notified California of its intent to de-obligate \$928.6 million. The FRA determined the Authority has materially failed to comply with terms of the funding agreement, failed to make reasonable progress on the project, and that the project has fundamentally changed. The Authority argued that it is meeting the required commitments of the funding terms and funds should not be de-obligated. The FRA ultimately canceled the grant funding and reiterated that efforts to recover the already spent \$2.5 billion in federal funds will continue. California filed a lawsuit on

May 21, 2019, claiming the U.S. Department of Transportation lacks authority to withhold the grant funds.

**Course Correction Still Possible.** Despite what the majority party may say, it is not too late to change course on high-speed rail. Stopping the project now will save California at least \$70 billion in the long run. The investments already made could perhaps be of interest to a private company looking to build privately operated high-speed rail, or existing passenger rail could be moved from shared freight lines to dedicated lines. Billions of Cap and Trade dollars could be freed up over time to improve forest health and reduce greenhouse gas emissions. Senate Republicans will continue to advocate for a course correction that results in commonsense investments rather than the boondoggle that is California High-Speed Rail.

# Resources & Environmental Protection

## Key Points

- **Safe and Affordable Drinking Water Funding.** Provides \$133 million (\$100 million GGRF, \$33.4 million General Fund) to address safe drinking water needs throughout the state and includes additional funding for administrative costs.
- **Cap and Trade Spending.** Provides nearly \$1.4 billion in Cap and Trade expenditures from the Greenhouse Gas Reduction Fund (GGRF) for various emission reduction programs, including \$210 million to support Healthy Forests programs and wildfire prevention projects.
- **Proposition 68 Bond Funding.** Supplies over \$1 billion for water and park programs from the Proposition 68 water and parks bond.

## State Water Resources Control Board

**Using Existing Funds for Safe and Affordable Drinking Water.** For 2019-20, the budget contains \$130 million (\$100 million GGRF and \$33.4 million General Fund) to begin implementation of a Safe and Affordable Drinking Water Program.

Statutory changes enacted through a policy bill (SB 200, Monning), rather than the budget, ensure that 5 percent of annual Cap and Trade proceeds, up to \$130 million, beginning in 2020-21 through 2030, are continuously appropriated into the Safe and Affordable Drinking Water Fund (Fund). The bill also provides a General Fund backstop for the Fund, beginning in 2023-24, in the event annual revenues for this purpose are lower than \$130 million.

Governor Newsom originally proposed to raise several different taxes by potentially more than \$200 million combined to provide clean drinking water in areas where it is lacking. Senate Republicans argued that the state already had enough money with its \$22 billion surplus to address this critical need without raising taxes further on Californians. Commendably, the budget addresses this water issue without raising taxes.

**Additional Investments.** The budget authorizes one-time Proposition 68 funds of \$168.5 million for technical assistance, grants, and loans to public water systems in disadvantaged communities for infrastructure improvements to meet safe and affordable drinking water standards, including both drinking water and wastewater treatment projects. A September bill, (AB 109), provides nearly \$207 million from various funds, including continuous appropriations (\$5.2 million General Fund) and fund reversions to support the design-build phase of the Salton Sea Species Conservation Habitat Project. Specifically, the budget appropriates \$111 million in new Proposition 68 bond funds for the design-build phase of the project to commence this fiscal year and would revert \$89.6 million in funds previously provided for this purpose.

**Emergency Drinking Water Support.** The budget package provides one-time \$51 million General Fund to support drinking water emergencies for disadvantaged communities throughout the state and in the Southern Central Valley and Southern California. This funding will support critical maintenance or repair of drinking water or wastewater systems, provision of temporary water tanks for short-term solutions, planning costs for recovery from wildfires, and safe drinking water projects.

## **Cap and Trade**

**Cap and Trade Revenues Provide \$1.4 Billion Through Budget.** The Budget Act contains nearly \$1.4 billion of the state's discretionary funding from Cap and Trade revenues for various greenhouse gas (GHG) reduction programs and projects. The table provided on page 46 below summarizes how these funds are allocated by program.

The \$1.4 billion makes up the 40 percent of spending that is annually appropriated in the budget. The remaining 60 percent of Cap and Trade revenues (\$2 billion for the fiscal year 2019-20) is continuously appropriated for transit, affordable housing, sustainable communities, and High-Speed Rail. Further, the establishment of the Safe and Affordable Drinking Water Fund (SB 200, Monning), will reduce the percentage of funding available for discretionary spending to 35 percent, and increase continuously appropriated Cap and Trade revenues to 65 percent. Beginning in the 2020-21 fiscal year, the shift of continuous funding allocations will reflect the provisions in SB 200 that require 5 percent of the annual proceeds from the GGRF, up to \$130 million each year, be transferred to the Safe and Affordable Drinking Water Fund.

To date, \$9.3 billion in cap-and-trade proceeds has been appropriated to 20 state agencies that have allocated \$8.9 billion to programs. Of this amount, agencies have awarded \$7.4 billion to program recipients. Currently, \$3.4 billion in projects have been implemented and are either completed or under way across the state. These "implemented" funds have also leveraged an additional \$10.8 billion from other sources.

**Forest Health Funds Helpful, but More Needed.** Although the majority of overall Cap and Trade spending for 2019-20 continues to be directed at programs that have no clear nexus to GHG reductions (High-Speed Rail, sustainable communities, and transit), \$347 million is being directed towards sustainable forests and agricultural programs that will help reduce greenhouse gas emissions in California. Specifically, the measure contains funding for (1) \$220 million for healthy forests, fire prevention programs, and prescribed burns and thinning projects, and (2) \$127 million for methane emission reduction and grants, rebates, and loans for engine replacements and upgrades that benefit agriculture. Funding dedicated to forest management will help with the removal of dead and dying trees, promote biomass energy generation, and provide local assistance grants that improve forest maintenance and water quality.

The additional focus on forest health is a step in the right direction, but given the high potential for GHG emissions from forest fires, hundreds of millions of dollars more should be diverted to deal with the 129 million dead trees in our forests and to help avoid more catastrophic wildfires like those that occurred in recent years. This would provide substantially more GHG benefit than the High-Speed Rail project, which is a net polluter for decades to come and lack funds to ever be completed.

## 2019-20 Cap and Trade Expenditure Plan

(Dollars in Millions)

Investment Category	Department	Program	Amount
Air Toxic and Criteria Air Pollutants	Air Resources Board	AB 617 - Community Air Protection & Local Programs to Reduce Air Pollution	\$245
		AB 617 - Local Air District Implementation	\$20
		AB 617 - Technical Assistance to Community Groups	\$10
Low Carbon Transportation	Air Resources Board	Clean Vehicle Rebate Program	\$238
		Clean Trucks, Buses, & Off-Road Freight Equipment	\$182
		Enhanced Fleet Modernization Program, School Buses & Transportation Equity Projects	\$65
		Agricultural Diesel Engine Replacement & Upgrades	\$65
Healthy Forests	CAL FIRE	Healthy & Resilient Forests	\$165
		Forest Carbon Plan: Prescribed Fire & Fuel Reduction	\$35
		Wildland-Urban Interface & Other Fire Prevention Activities	\$10
		Urban Forestry	\$10
Climate Smart Agriculture	Department of Food & Agriculture	Healthy Soils	\$28
		Methane Reduction	\$34
Short-Lived Climate Pollutants	CalRecycle	Waste Diversion	\$25
	Air Resources Board	Fluorinated Gases Emission Reduction Incentive Program (SB 1013)	\$1
Integrated Climate Action: Mitigation & Resilience	Strategic Growth Council	Transformative Climate Communities	\$60
	Natural Resources Agency	Urban Greening	\$30
	Coastal Commission & SF Bay Conservation and Development Commission	Coastal Resilience	\$3
	Community Services & Development	Low-Income Weatherization	\$10
	California Conservation Corps	Energy Corps	\$6
Climate and Clean Energy Research & Technical Assistance	Strategic Growth Council	Climate Change Research	\$5
		Technical Assistance to Disadvantaged Communities	\$2
	California Environmental Protection Agency	Transition to a Carbon-Neutral Economy & Zero-Emission Vehicle Strategy	\$3
Workforce Training	Workforce Development Board	Apprenticeships for a Green Economy	\$35
Safe Drinking Water	State Water Resources Control Board	Safe Drinking Water	\$100
<b>Total</b>			<b>\$1,387</b>

Source: Department of Finance



## **Bond Spending**

**Billions in Water & Parks Bond Funding.** The budget provides \$1.3 billion in funding from the voter-approved Proposition 68 bond (2018). Proposition 68 authorized \$4 billion in new general obligation bond debt to fund parks, ocean and coastal protection, safe drinking water, groundwater management, climate preparedness and resiliency, and multi-benefit flood control projects. Allocations include, among other programs:

- \$70 million for Voluntary Settlement Agreement (VSA) projects, which provide multi-benefit water quality, supply, and watershed protection and restoration projects to implement the Delta Water Quality Control Plan.
- \$6 million for habitat restoration projects.
- \$15 million for Tijuana River pollution control.

## **Department of Water Resources**

**Investments in Research, Flood Control, and Water Management.** The budget includes \$9.25 million one-time General Fund to support research on Atmospheric Rivers to improve observations, forecasts, and decision support of atmospheric river precipitation events. Research on this issue is critical because Atmospheric Rivers supply half of the state's annual rainfall and 90 percent of its flooding. It is important to understand these events to improve how the state manages its water and prepares for future droughts.

The budget also includes \$117 million (\$19 million Proposition 1 and \$98 million Proposition 68) for statewide flood risk reduction and multi-benefit improvement and urban flood control projects, deferred maintenance levee projects, and ongoing levee operation and maintenance needs. The inclusion of this funding is an essential first step in developing a comprehensive framework of continuing flood infrastructure improvements, which is vital when addressing solutions to the state's deferred maintenance needs.

# Cannabis

## Key Points

- **Cannabis Tax Revenue Projections Down.** Cannabis tax revenue projections decreased by \$222.7 million total for the current and budget years compared to the Governor's Budget forecast, as business compliance remains a major challenge.
- **Questionable Uses of Proposition 64 Funds.** Provides \$198.8 million to fund Proposition 64 programs, though child care subsidies and access to recreational amenities uses are legally questionable under the proposition.

**Cannabis Tax Revenue Projections Down.** The budget includes cannabis tax revenues of \$288 million in 2018-19 and \$359 million in 2019-20. These amounts represent a combined reduction of \$222.7 million over the two-year period compared to the Governor's Budget projections. Cannabis businesses have been slower to enter the legal market than anticipated, likely because of the high initial cost to become licensed, the heavy taxes that reduce profit margins, and the high profits that can be realized by illegally exporting products out of California.

**Funding for Proposition 64 Programs.** The budget includes \$198.8 million to fund the required programs under Proposition 64 (2016, Adult Use of Marijuana Act). After funding specified prioritized activities such as regulatory administration, local equity programs, and research, the remaining funds are allocated between youth education, prevention, and treatment programs (60 percent), environmental remediation of illegal grows (20 percent), and public safety (20 percent). The funding provided in the budget includes:

- Education, prevention, and treatment of youth substance use disorders and school retention:
  - \$80.5 million to the Department of Education to subsidize child care for school-aged children of income-eligible families.
  - \$21.5 million to the Department of Health Care Services for competitive grants to develop and implement new youth substance prevention and treatment programs.
  - \$5.3 million to the California Natural Resources Agency for grants to fund youth access to natural or cultural resources, with a focus on low-income and disadvantaged communities.
  - \$12 million to the Department of Public Health for cannabis surveillance and education.
- Clean-up, remediation, and enforcement of environmental impacts of illegal cannabis grows:
  - \$23.9 million to the Department of Fish and Wildlife for clean-up, remediation, and restoration of watersheds and enforcement activities on public lands.
  - \$15.9 million to the Department of Parks and Recreation to identify illegal cannabis grows, remediate and restore illegal grow sites on state park land, and to make road and trails accessible for peace officer patrol.
- Public safety-related activities:
  - \$26 million to the Board of State and Community Corrections to fund a grant program for local health and safety programs in localities that have not imposed cannabis bans.
  - \$11.2 million to the California Highway Patrol's (CHP's) impaired driving and traffic safety grant program.
  - \$2.6 million to the CHP for training, research, and policy development related to impaired driving.

**Proposition 64 Spending Bypasses Legislature.** Proposition 64 states that cannabis tax revenues are continuously appropriated, meaning the funds are spent without any further action by the Legislature. The general categories for spending are spelled out in Proposition 64, but the Governor's Department of Finance asserts that it can select the specific activities to fund within those categories and enact them unilaterally. The Assembly asserted the Legislature could select specific activities but ultimately, the Legislature agreed to the Governor's allocations. This indicates there may be some legal uncertainty remaining around these program allocations. Any changes to Proposition 64's general spending categories prior to July 1, 2028 would need voter approval.

**Cannabis Taxes Spent as Intended by Voters?** As mentioned above, the budget uses nearly \$86 million in cannabis tax money for child care and youth access to cultural or natural resources. The use of cannabis taxes for these purposes is legally questionable under Proposition 64's requirements. Both of these expenditures are planned to come out of the allowance for youth programs "designed to educate about and to prevent substance use disorders and to prevent harm from substance use." The Administration has tried to justify the child care subsidies by asserting the children would be "occupied and engaged in a safe environment, thus discouraging potential use of cannabis." However, it is difficult to believe that kids in child care as young as five years old are at risk for marijuana use. In addition, the funds for youth access to natural or cultural resources include "recreational amenities". Also, in a legally questionable maneuver, \$15.6 million for the local cannabis equity programs is characterized as "regulatory and administrative" and taken off the top of the revenues, prior to the allocations specified in Proposition 64. This reduces the amount available for all programs. The question remains whether these components of the spending plan are what was envisioned by voters and stakeholders in Proposition 64.

# General Government

## Key Points

- **Paid Family Leave Expansion and Task Force.** Expands by two weeks the mandated paid family leave that private employers must provide, and studies further expansions.
- **Funds for Critical Voting Equipment.** Provides \$87 million to address aging voting equipment and lowers local match requirements.
- **Risk Continues for Voter Data.** Provides \$2.9 million for oversight of voter registration data coming out of the Department of Motor Vehicles, though concerns remain.
- **Census Funding Skyrockets.** Funding for the 2020 Census will reach \$187 million General Fund, including \$84 million provided in the 2019-20 budget.
- **Bureaucracy Unlikely to Fix State Computer Woes.** Includes \$56 million and 50 new state employees for the proposed Office of Digital Innovation, yet another attempt to fix the state's longstanding IT problems.
- **Generous Last-Minute "Pork" Handed Out.** Provides generous last-minute handouts, commonly referred to as "pork," which typically lack accountability and fairness.
- **Reduced Vote Requirements for Local Bond Approvals.** The budget eliminates the voter threshold requirement for Enhanced Infrastructure Financing Districts.

## Paid Family Leave

**Two-Week Expansion Partially Offset by Lowering Reserve Requirement.** California currently requires private employers to provide six weeks of paid family leave. The state levies a tax of approximately one percent of workers' salaries (up to \$125,000) and deposits the money in the Disability Insurance Fund to pay for the leave benefits. Workers who take leave collect between 60 to 70 percent of their usual salary while away from work. Currently, the entire program is funded through these paycheck contributions.

The budget package increases the mandate from six weeks to eight weeks. Initially, this expansion will be offset by lowering the reserve requirement for the Disability Insurance Fund from 45 percent to 30 percent. However, after the first two years, employee tax contributions will likely rise by one-tenth to two-tenths of a percent to pay for the extra time. For a Californian making \$50,000 a year, this is an extra \$50 to \$100 out of their paycheck annually.

**Budget Lays Groundwork for Significant Paid Family Leave Expansion.** Although the 2019-20 budget only includes a two-week expansion of paid family leave, it creates a task force to make recommendations to the Legislature on a pathway to extend paid family leave to six months per child. The budget also requires the task force to look at ways to increase the wage replacement rate to 90 percent for low-income workers, require businesses to provide job protection to workers while out on leave, and to provide recommendations on how to finance the expansion. Because any significant expansion to the program would require substantial additional funds in the range of hundreds of millions of dollars per year, Senate Republicans expressed concerns with a potential new tax increase on workers or employers.

## **Other General Government Issues**

**Infrastructure Spending Falls Short.** The 2019-20 budget includes only \$130 million General Fund for deferred maintenance and state building restoration and replacement (the budget also includes \$1 billion in new lease revenue bond authority for the Richards Boulevard Office Complex project). The Governor's 2017 California Five-Year Infrastructure Plan identifies more than \$75 billion in deferred maintenance needs across the state. Of this amount, 73 percent is in transportation, 17 percent is in water resources, 4 percent is in higher education, and 2 percent is in parks and recreation. The budget includes a relatively minor amount of General Fund given the enormity of need, providing only \$100 million in one-time funding across various program areas for deferred maintenance.

The total funding for infrastructure includes \$30.4 million in one-time General Fund, rather than borrowing, to continue replacement or rehabilitative projects for state facilities. The budget provides for the next phase of several office building projects in the Sacramento area. While using one-time General Fund resources for the state's infrastructure needs is a fiscally responsible approach, Sacramento office buildings may not be the highest priority given the state's overall challenges, including needs to address water storage and forest health.

**Additional Voting Equipment Funds, Reduced Match for Counties.** The budget provides \$87.3 million General Fund (with counties required to provide either no matching funds or 25 percent matching funds) for the continued replacement of voting equipment across the state. The 2018 Budget Act included \$134 million General Fund for counties to replace aging voting equipment. Senate Republicans are encouraged to see both a second year of funding and a reduced matching requirement (funding last year required a \$1 for \$1 match), allowing more counties to receive critical help in replacing aging systems while ensuring the integrity of the state's voting systems.

**New Motor Voter System Struggles with Registration Data Integrity.** The budget includes \$2.9 million General Fund for the Secretary of State (SOS) to continue to provide oversight of the Department of Motor Vehicles (DMV) New Motor Voter system. The funding would allow the SOS to contract with the VoteCal IT vendor to improve processes necessary to verify the integrity of voter registration information coming across from the DMV before it is included in the state's voter registration system and transmitted to counties. Senate Republicans remain concerned with the lack of accountability and ineffective efforts to verify voter information. The DMV's New Motor Voter process has led to significant errors and ultimately increases the risk of voter fraud throughout the state.

**Census Funding Benefits Community-Based Organizations.** The budget includes an additional \$84 million General Fund for continued statewide outreach and other efforts to increase participation in the 2020 Census. It is unclear with recent actions at the federal level if the census form will include a citizenship question, a main cause for concern amongst stakeholders. Combined with funding from prior years, the total budgeted for 2020 Census activities will reach \$187 million General Fund, representing a significant increase compared to 2010, when the state provided \$2 million and the Complete Count Committee raised \$10 million in private funding. There is considerable uncertainty regarding how the community-based organizations that receive funds will spend them, and given the recent contract exemptions provided for census activities, Senate Republicans remain concerned the reduced transparency could lead to less accountability during a highly contentious election in 2020.

**Arts Funding Helps Underserved Communities.** The 2019 budget includes \$36.5 million General Fund for the California Arts Council to support grant programs in underserved communities. Inclusive of the \$36.5 million, the budget includes funding for a number of specific entities, such as \$5 million for the Armenian American Museum, \$5 million for the Los Angeles Museum of the Holocaust, \$4 million for the Korean American Museum, and \$9 million for the Navy Training Center Foundation for renovations to its performing arts center.

**Doubtful Whether New Bureaucracy Can Fix State IT Problems.** The budget includes \$56 million General Fund and 50 new state employees for the Governor's Office of Digital Innovation, a new state department seeking to change the way California approaches service delivery and technology investments. The state's repeated failures in implementing IT projects should be an embarrassment to the home of Silicon Valley. However, multiple attempts to create a more effective IT oversight agency have failed, due in part to the majority party's unwillingness to provide department managers with responsibility and hold them accountable for results. Unless this attempt introduces true accountability, the new Office of Digital Innovation is likely to join previous attempts in the e-waste recycling bin.

**New State Program Increases Base Spending, Significant Expansion Plans.** The budget provides \$20 million General Fund in 2019-20 for the creation of a new state program that expands the state's AmeriCorps members (currently funded with federal and private funding) by an additional 470 positions (with a goal to increase to 10,000 eventually), including \$9.3 million General Fund to provide a new state education award. The education award would supplement the federal education award for each volunteer within the program (to reach a combined total of \$10,000 in funding that can pay for expenses or student loans). AmeriCorps State members are volunteers that provide direct service to communities across the state. Not discounting the merits of a 25-year-old federal volunteer program, Senate Republicans remain concerned whether expanding this program should be a higher priority than longstanding needs such as restoring benefits for the developmentally disabled.

**Service Delivery and Program Improvement.** The budget increases several fees (various license, renewal and daily fees) that support the Department of Alcoholic Beverage Control's (ABC) licensing and enforcement programs. The increase in annual revenues is necessary to address the current structural deficit between expenditures and revenues and to fund program enhancements, including the creation of a separate licensing division and increasing enforcement staff. The fee revenue would also support services that stakeholders have requested from ABC, such as online license application, online renewal, and the ability to pay fees electronically. The package of fee increases will increase annual revenues by almost \$20 million.

**Last-Minute "Pork" Included.** Last-minute budget negotiations between the Governor and the Democrats resulted in more than \$300 million General Fund for what is often referred to as "pork," funding provided for various specific local projects that do not have statewide significance. Projects like these should compete for grants in a transparent process against other applicant projects, but the budget instead hands the money out directly without rationale. There is also no accountability for how the funds will actually be spent. Examples of projects include \$8 million for a botanical garden and \$3 million for a local dog park. Notwithstanding the possible popularity of these projects to the local communities, Senate Republicans are concerned that the back-room deliberations that determine which entities receive funding, and which do not, lacks integrity and transparency. In addition, given the significant remaining needs to improve programs such as those for the developmentally disabled, spending over \$300 million on pork is a dubious choice.

**Voter Threshold Eliminated For Local Bond Issuance.** A September bill (AB 116) repealed the current 55 percent voter approval requirement for a local Enhanced Infrastructure Financing District (EIFD) and the two-thirds voter approval requirement for a seaport infrastructure financing district to issue bonds. This action does not affect the state budget, and a policy of this magnitude should have been heard in a more thorough policy legislation process, not a budget-related bill. Senate Republicans are concerned that removing the vote requirement for approval of long-term debt for these local entities may lead to a resurgence of questionable decisions with public funds, similar to what happened with some of the local redevelopment agency monies, reducing public transparency in local financial decisions and eroding voter trust in government.

# Employee Compensation & Retirement

## Key Points

- **Generous New Contracts Contribute to Employee Cost Increases.** Employee compensation will increase by \$1.4 billion in 2019-20 as state approves six lucrative new contracts.
- **Retirement Costs Continue to Rise.** State costs for employee and teacher pensions will reach nearly \$10.4 billion, crowding out resources from other state programs.

## Employee Compensation

**Generous New Bargaining Contracts Drive Costs Higher.** The budget reflects six new contracts with multiple bargaining units, including correctional officers, the highway patrol, engineers, and various employees represented by the Service Employees International Union. These contracts last from one to four years in duration, and they include bargained annual “general salary increases,” most commonly equal to 2.5 percent or 2.75 percent. In addition, some of the contracts provide “special salary adjustments” ranging from 1.45 percent to over 24 percent, as well as geographic salary adjustments, vacation buy-outs, and other compensation increases.

In addition to general pay increases and other compensation adjustments provided through bargained contracts, California state workers typically receive annual salary increases of up to 5 percent each year upon the anniversary of their hiring dates. The increases negotiated in bargaining agreements are *in addition* to the standard raises, meaning that individual employees could receive raises of 7.75 percent plus any “special salary adjustments” in a particular year. Unfortunately, in many cases the raises are not justified by data comparing state pay to other employers or to recruiting needs.

**State Employee Compensation Increases.** After accounting for the new contracts, the budget includes an additional \$1.4 billion (\$778 million General Fund) for employee pay raises and benefits in 2019-20. With these planned increases, the state is on pace to spend over \$12 billion (\$6.2 billion General Fund) cumulatively for increased employee compensation and benefits over the past five years. The new contracts commit the state to spending \$5.3 billion (\$2.1 billion) over the contract periods. Given the state’s persistently high debts, which still total more than \$268 billion (as summarized in the table on page 57), a more prudent course would be to limit pay increases to the standard 5 percent annual raises that employees can already earn. Adding more general salary increases or special salary adjustments only makes fiscal sense if employee unions agree to offsetting concessions elsewhere.

## Pension and Retiree Health

**Public Employee Pension Costs Continue to Rise.** The budget provides \$6.8 billion total funds (\$3.9 billion General Fund) in employer contributions to Public Employee Retirement System (PERS) for state employees’ retirement costs, including \$723 million for California State University employees. This is 9 percent more than the amount budgeted in 2018-19.

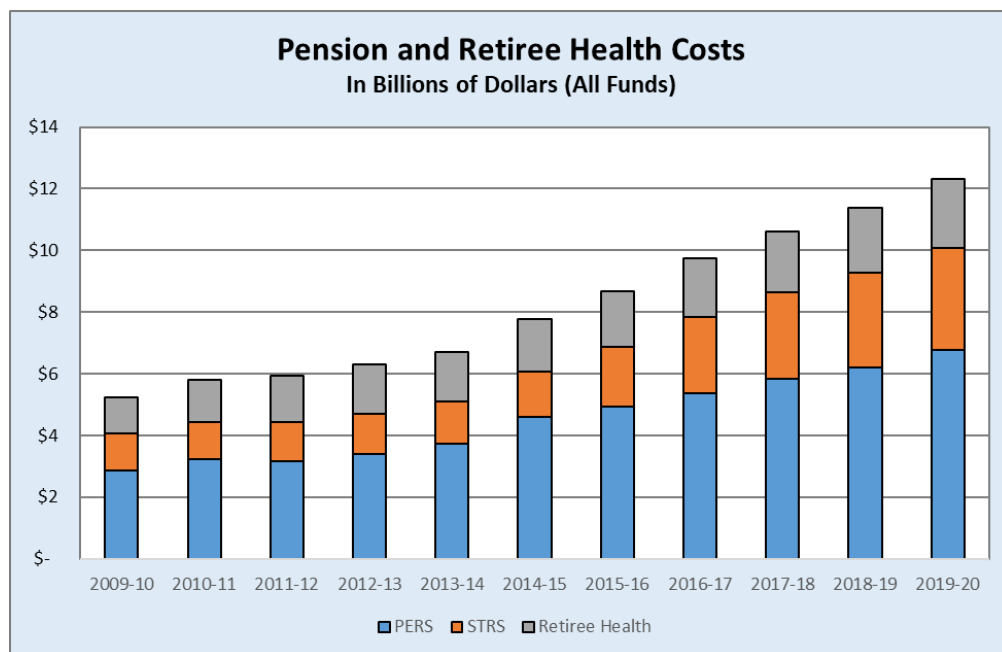
**Supplemental Pension Payments.** The General Fund budget includes a \$2.5 billion supplemental payment to PERS in 2018-19. Additional supplemental payments totaling \$500 million would be made over three years beginning in 2020-21, as described in the *Statewide Debts and Liabilities* section.

**Teacher Pension Costs Continue to Rise.** The budget provides \$3.3 billion General Fund to pay for the state’s share of State Teacher Retirement System (STRS) costs. This is an 8 percent increase

above 2018-19 spending, and it reflects the increase in the state’s contribution of 0.5 percent of teacher payroll, as authorized in 2014.

**Retiree Health Care Benefits.** The budget includes \$2.2 billion General Fund for health care benefits for state retirees, California State University retirees, and dependents. Retiree health care benefits continue to be paid out mostly on a “pay-as-you-go” approach, which has led to the creation of an \$85 billion unfunded liability. Pre-funding contributions from the state will provide \$577 million in the budget year.

**Total State Cost for Retirement Programs.** To evaluate the total effects of the budget actions described above, the graph below illustrates combined budgetary costs for employer contributions to CalPERS and CalSTRS, along with retiree health costs for the past decade.



State pension and retiree health costs combined will cost more than \$12 billion in 2019-20 and have roughly doubled since 2012-13. During that same period the state’s overall budget grew by only 52 percent, indicating that these costs are taking an increasing share of the overall budget.

The Legislature and Governor Brown enacted “funding plans” for both PERS (2012) and STRS (2014) in an effort to reduce unfunded liabilities. While these plans did help to mitigate the creation of some future liabilities, pension and retiree health liabilities still exceed \$182 billion. Without additional reforms, state programs will see larger portions of their budgets siphoned off to pay for pension and retiree health costs. However, Democrats have taken only modest steps to address this problem, while repeatedly awarding significant new raises to employees, thus increasing the challenge of addressing retiree costs.



# Statewide Debts and Liabilities

## Key Points

- **Paying Down State Liabilities.** Provides \$3 billion to help reduce the state's massive unfunded pension liabilities.
- **Assisting Schools with Pension Costs.** Provides over \$3 billion to pay down local school pension liabilities and to offset near-term pension contributions.
- **Reverses Recession-Era Gimmicks.** Reverses two recession-era budget deferrals that provided one-time, artificial budget relief to the General Fund.
- **Bond Debt and Pension Liability Payments.** Makes \$10.2 billion in bond and debt payments, as well as fully retiring special fund loans and transportation loans and fees.

**Supplemental Payments for State Pensions.** State pension and retiree health liabilities exceed \$180 billion, as shown in the table on the next page. The budget provides \$3 billion General Fund over four fiscal years to pay down the unfunded pension liability, including:

- \$2.5 billion in 2018-19
- \$265 million in 2020-21
- \$200 million in 2021-22
- \$35 million in 2022-23

These payments are projected to generate savings of \$7.1 billion over the next three decades. Senate Republicans have long advocated for paying down the state's massive unfunded pension and retiree health liabilities, which represent unpaid expenses from previous budget decisions. These additional payments are commendable and overdue. However, given the massive size of the remaining liabilities, the state arguably should have used more of its \$22 billion surplus to reduce these debts.

**Paying Down School District Pension Debts.** For local school districts, the budget includes more than \$2 billion General Fund in one-time payments to reduce pension liabilities. This includes \$1.64 billion to pay down districts' unfunded teacher pension liabilities and \$660 million to pay down their unfunded liabilities for non-teacher employees, such as janitors. Reducing these liabilities, which total nearly \$69 billion statewide, will provide long-term, annual costs savings for school districts.

**Paying Current Pension Costs for Schools.** In addition to paying down unfunded liabilities, the budget provides \$850 million over two years to offset annual pension payments for schools, including:

- \$356 million in 2019-20 and \$250 million in 2020-21 to reduce schools' teacher pension contributions to the State Teachers Retirement System (STRS).
- \$144 million in 2019-20 and \$100 million in 2020-21 to reduce school contributions for other employee pensions to Public Employee Retirement System (PERS).

School district pension contributions to STRS have been increasing according to a pre-planned schedule since the state passed legislation in 2014 to address unfunded liabilities over a 32-year period. These budget actions by the state will provide dollar-for-dollar savings for local school districts in the current year, but school districts will decide for themselves how they will use the savings. If districts use freed-up funds irresponsibly, they actually could worsen their unfunded pension or health care liabilities in the long-term.

<b>State and Other Public Debts and Liabilities</b>						
<i>(Dollars in Millions)</i>	<b>At Start of 2019-20</b>	<b>Estimated Payments</b>				<b>Remaining Liabilities</b>
	<b>2019-20</b>	<b>2019-20</b>	<b>2020-21</b>	<b>2021-22</b>	<b>2022-23</b>	
<b>Budgetary Borrowing</b>						
Loans from Special Funds	\$942	\$942	-	-	-	-
Weight Fee Payments	\$873	\$873	-	-	-	-
Pre-Proposition 42 Transportation Loans	\$236	\$236	-	-	-	-
Underfunding of Proposition 98 - Settle-Up	\$391	\$391	-	-	-	-
<b>Subtotal</b>	<b>\$2,442</b>	<b>\$2,442</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>State Retirement Liabilities</b>						
State Retiree Health	\$85,595	\$260	\$305	\$315	\$325	\$84,390
State Employee Pensions <sup>1</sup>	\$59,714	\$390	\$750	\$608	\$702	\$57,264
Teachers' Pensions (state portion)	\$33,400	\$1,117	\$802	\$615	\$345	\$30,521
Judges' Pensions	\$3,299	-	-	-	-	\$3,299
Deferred payments to CalPERS <sup>2</sup>	-	-	-	-	-	-
<b>Subtotal</b>	<b>\$182,008</b>	<b>\$1,767</b>	<b>\$1,857</b>	<b>\$1,538</b>	<b>\$1,372</b>	<b>\$175,474</b>
<b>Other State Debts</b>						
Long-Term Bonds - General Obligation & Lease-Revenue	\$82,381	\$8,220	8,000	8,000	8,000	\$50,161
Suspended Local Mandates	543	-	-	-	-	\$543
Education Mandates	1,100	-	-	-	-	\$1,100
<b>Subtotal</b>	<b>\$84,024</b>	<b>\$8,220</b>	<b>8,000</b>	<b>8,000</b>	<b>8,000</b>	<b>\$51,804</b>
<b>State Total Debt</b>	<b>\$268,474</b>	<b>\$12,429</b>	<b>\$9,857</b>	<b>\$9,538</b>	<b>\$9,372</b>	<b>\$227,278</b>
<b>Other Public Debts</b>						
<b>Teachers' Pensions (Local Districts)</b>	<b>\$68,592</b>	-	-	-	-	N/A
<b>University of California Liabilities<sup>3</sup></b>						
UC Employee Pensions	10,851	-	-	-	-	N/A
UC Retiree Health	19,331	-	-	-	-	N/A
<b>UC Subtotal</b>	<b>\$30,182</b>	-	-	-	-	
<b>Total, State and Other Public</b>	<b>\$367,248</b>	<b>\$12,429</b>	<b>\$9,857</b>	<b>\$9,538</b>	<b>\$9,372</b>	

1. Balance at start of 2019-20 reflect a \$2.5 billion General Fund supplemental payment to CalPERS authorized for 2018-19.

2. The revised 2018-19 budget includes \$707 million General Fund to fully retire the CalPERS 4th quarter deferral.

3. UC liabilities technically belong to the UC system alone, not the State of California, due to UC's constitutional autonomy, but these liabilities are nonetheless included as eligible for repayment under Proposition 2.

**Reversing Recession-Era Budget Gimmicks.** During the Great Recession, the state adopted various budget gimmicks to provide one-time “savings” to help address major budget shortfalls. The 2019-20 budget reflects a “cost” of \$1.68 billion to reverse two of these gimmicks, including the one-month state payroll deferral \$973 million and the PERS fourth-quarter payment deferral of \$707 million. Reversing gimmicks is sound policy, though paying down additional pension or health liabilities would have provided more actual state savings.

**Retiring Recession-Era Borrowing.** The budget spends more than \$2 billion to retire outstanding loans from special funds (\$942 million), truck weight fees (\$873 million), and pre-Proposition 42 transportation loans (\$236 million). Combined with a portion of the required Proposition 2 debt

payments, this action fully pays off recession-era budgetary borrowing by the end of 2019-20, an overdue step for the state. However, the state still owes local governments and schools more than \$1.6 billion for various unpaid mandates.

**Local Governments Get Minor Relief for Mandates.** The budget includes \$54 million General Fund to repay local agencies for a combination of funded and suspended mandates, including \$15.1 million to fund claims of expired and repealed mandates that are dated prior to 2004. Utilizing a small portion of the state's surplus to repay local governments for state-mandated activities is a positive step, but the budget does not go far enough towards reducing the state's \$543 million suspended mandate debts to local governments, leaving those governments with less funding for critical programs and services.

**Bond and Proposition 2 Debt Payments.** The Budget Act includes \$10.2 billion to pay down the state's current debts and liabilities, including the following components:

- \$8.2 billion to pay debt service costs for the state's outstanding and planned general obligation and lease-revenue bonds in 2019-20, as required by the California Constitution and debt issuance documents. According to the State Treasurer, the state currently has outstanding general obligation bonds totaling \$72.7 billion and has authorization to issue \$35.5 billion more. Outstanding lease-revenue bonds total \$8.7 billion, and the state has authorization to issue \$6.3 billion more.
- More than \$2 billion to pay a variety of debts and liabilities as mandated by Proposition 2, including payments for state employee pension and retiree health liabilities, the state's share of teacher pension liabilities, and payments to fully retire settle-up obligations within Proposition 98.

## Appendix: List of Budget and Trailer Bills

Budget and Related Bills	
Bill	Subject (Date Chaptered)
<b>AB 74</b>	<b>Main Budget Bill (June 27, 2019)</b> Provides for the vast majority of the state's \$215 billion budget. (Some appropriations are included in other bills.)
<b>SB 75</b>	<b>Education (July 1, 2019)</b> Education omnibus trailer bill. Appropriates \$1.2 billion in funding for K-14 education programs. Notable augmentations: \$648 million for Early Education Expansion including \$300 million for Full-Day Kindergarten Facilities Grant program and remaining \$559 million toward K-12 programs including \$368.4 million in Proposition 98 "settle up" funding for outstanding Proposition 98 owed to schools for the 2009-10 fiscal year. Creates several new programs targeted toward teacher and administrator shortage and training. Provides mix of one-time and ongoing funding for a variety of K-12 programs.
<b>SB 76</b>	<b>Proposition 98 (July 1, 2019)</b> Eliminates the Proposition 98 Cost Allocation Schedule and prohibits the state from making downward adjustments to the Proposition 98 funding level once a fiscal year is over. Caps the cost-of-living adjustment for the Local Control Funding Formula continuous appropriation and provides \$282 million in Proposition 98 "settle up" funding for outstanding Proposition 98 owed to schools for the 2009-10 through 2016-17 fiscal years.
<b>SB 77</b>	<b>Higher Education (July 1, 2019)</b> Makes several augmentations to student financial aid including increasing the number of Cal Grant awards from 25,750 to 41,000, establishes a new Cal Grant B Incentive Program, eliminates residential component for eligibility for Cal Grant recipients, authorizes California College Promise Program to waive tuition and fees for a 2nd year, establishes two new child savings account programs and makes changes to the Community College Student Centered Funding formula.
<b>SB 78</b>	<b>Health I: (June 27, 2019)</b> Imposes a state individual mandate with associated tax penalty of \$695 per year, creates health insurance premium subsidies for those households with incomes of up to \$150,000 for a family of four, and temporarily restores optional Medi-Cal benefits that were eliminated during the recession.
<b>SB 79</b>	<b>Mental Health - Proposition 63 (June 27, 2019)</b> Allows county Mental Health Services Act innovation projects approved by the Mental Health Services Oversight and Accountability Commission to be completed under the terms of the commission-approved project plan rather than within the current three-year (for large counties) or five-year (small counties) reversion timeframe.
<b>SB 80</b>	<b>Human Services (June 27, 2019)</b> Rebases the County IHSS Maintenance of Effort (MOE), restructures the funding methodology for Local Child Support Agencies, increases CalWORKs grant levels, and raises the CalWORKs Asset Limit and Motor Vehicle Exemption.

<b>SB 81</b>	<b>Developmental Services (June 27, 2019)</b> Makes rate adjustments for DDS providers, provides increased transparency and accountability for regional centers, implements crisis homes for children, creates new acute crisis services for the Central Valley, suspends the Uniform Holiday Schedule, and creates guidelines pertaining to the admissions of consumers into restrictive settings.
<b>SB 82</b>	<b>General Government I (June 27, 2019)</b> Policy changes include the creation of the Office of Digital Innovation within the Governor's Operations Agency, authority for fee increases within the Department of Alcoholic Beverage Control, disposition plan for the Sonoma Developmental Center, authority for a 75/25 percent state/county matching requirement for voting equipment replacement funding, PUC President's salary authority, and other technical changes.
<b>SB 83</b>	<b>Employment (June 27, 2019)</b> Increases the state disability payroll tax on employees in future years to cover an extension of paid family leave benefits from 6 weeks to 8 weeks, requires a task force to develop a plan with an unknown funding source to expand paid family leave to six months by 2021-22, and places new burdens on janitorial employers.
<b>SB 84</b>	<b>Cal-ACCESS Replacement Project (June 27, 2019)</b> Delays implementation of a replacement filing and disclosure IT system (CAL-ACCESS) within the Secretary of State from December 2019 to February 2021.
<b>SB 85</b>	<b>Resources (June 27, 2019)</b> Establishes a fund to enhance CalFire's infrastructure improvement abilities, requires coordination among various departments to address fire behavior and public safety, expands the fee authority of the Air Resources Board, and extends the sunset of the Habitat Conservation Fund to 2030. This bill also incorporates numerous clarifications for the Surface Mining Reclamation Act, the Office of the State Fire Marshal, the use of the Greenhouse Gas Reduction Funds, and the use of unclaimed gas taxes. Further expands eligibility for the Healthy Stores Program and exempts the Independent Emissions Advisory Committee from the Bagley-Keene Act.
<b>SB 87</b>	<b>Transportation (June 27, 2019)</b> The transportation omnibus trailer bill. Significant components include, (1) a set aside of \$7.2 million for short-line rail infrastructure improvements; (2) increased access to records and confidentiality provisions for the Independent Office of Audits and Investigations, and (3) the continued use of weight fees in lieu of General Fund to service transportation bond debt.
<b>SB 90</b>	<b>Supplemental Pension Payment (June 27, 2019)</b> Appropriates more than \$7 billion dollars in General Fund to CalPERS and CalSTRS to reduce the state's unfunded liabilities and to provide school districts with pension contribution relief over the next two fiscal years.

<b>AB 91</b>	<b>Earned Income Tax Credit; Tax Increases (July 1, 2019)</b> Incorporates several provisions of the federal Tax Cuts and Jobs Act (TCJA), although not all provisions conform to the TCJA. Increases eligibility for the state's Earned Income Tax Credit program, and provides a \$1,000 supplement to families with a child under six years of age.
<b>SB 92</b>	<b>Revenue (June 27, 2019)</b> Authorizes a two-year sales and use tax exemption for diapers and personal hygiene products, establishes an appeals process within the Office of Tax Appeals for certain appeals, and provides clean-up language for AB 147 (Burke, Statutes of 2019) that provided clarification on the state's requirement to collect use tax from out-of-state retailers.
<b>SB 93</b>	<b>Supplemental Appropriations Bill (June 27, 2019)</b> Augments the Budget Act of 2018 by \$112.6 million General Fund to address CDCR's population-related budget deficiencies and for payment to Mariposa County for costs associated with a homicide trial.
<b>SB 94</b>	<b>Public Safety (June 27, 2019)</b> Phases in a reorganization of DJJ as a new department within the Health and Human Services Agency. Extends the requirement for DOJ to report on its APPS enforcement efforts indefinitely. Exempts counties in specified circumstances from an existing prohibition on leasing out certain excess jail capacity. Establishes an independent committee within the California Law Revision Commission to review the Penal Code and make recommendations to the Legislature and the Governor on possible revisions.
<b>SB 95</b>	<b>Courts (June 27, 2019)</b> Makes technical changes to statute reflecting the allocation of 25 of the 48 remaining judgeships established by AB 159 (Jones, 2007). Increases the cap on trial court budget carryovers as a percentage of the court's annual operating budget from one percent to three percent. Appropriates \$5.5 million General Fund for business intelligence and data analytics tools for the trial courts.
<b>SB 96</b>	<b>9-1-1 Tax (July 1, 2019)</b> Restructures the tax that supports the state's 9-1-1 emergency telephone number to provide additional revenues for maintaining the legacy 9-1-1 system and developing and implementing Next-Generation 9-1-1. In so doing, imposes a tax increase within the meaning of Proposition 26 (2010).
<b>AB 97</b>	<b>Cannabis (July 1, 2019)</b> Makes various modifications to the Cannabis Local Equity Program in an effort to increase participation by local jurisdictions. Extends and modifies the operation of provisional cannabis licenses. Also requires the California Department of Public Health to create an organic certification program for manufactured cannabis products.

<b>AB 101</b>	<b>Housing &amp; Homelessness (July 31, 2019)</b> Includes criteria and distribution allocation for \$650 million in homelessness funding, eligibility expansion and increased allocations within the state's Low Income Housing Tax Credit program, and program expansion criteria for the mixed-income loan program through the California Housing Finance Agency.
<b>SB 103</b>	<b>Employee Compensation #1: Correctional Officers Contract (July 12, 2019)</b> Ratifies the collective bargaining agreement between the state and Unit 6--the California Correctional Peace Officers Association (CCPOA).
<b>SB 104</b>	<b>Health II (July 9, 2019)</b> Extends eligibility for full-scope Medi-Cal benefits to income-eligible undocumented individuals aged 19 through 25 years and creates a Healthy California for All Commission to study and report on single-payer financing options.
<b>SB 105</b>	<b>Public Safety Facilities (June 27, 2019)</b> Increases the total amount of lease-revenue bond authority for CDCR's Health Care Facilities Improvement Program projects by \$49.9 million.
<b>SB 106</b>	<b>Budget Bill Jr. (July 1, 2019)</b> Appropriates \$133 million to Covered California to expand premium assistance subsidies, \$135 million to increase undergraduate enrollment at the UCs and CSUs, \$5 million to the newly created Healthy California for All Commission to study options for single-payer, \$5 million for the Master Plan for Early Learning and Care, and \$2.2 million for Early Childhood Policy Council.
<b>SB 109</b>	<b>Budget Bill Jr. #3 (Enrolled Sept. 17, 2019)</b> Makes various changes to the 2019 Budget Act. Among other changes, adds \$10 million for abortion clinics, provides \$207 million for the Salton Sea, and appropriates \$15.7 million for fire protection.
<b>AB 110</b>	<b>Budget Bill Jr. #2: Finance Augmentation (July 12, 2019)</b> Adds \$2 million to the Department of Finance budget for unspecified disaster response and relief activities.
<b>AB 111</b>	<b>Wildfire Agencies (July 12, 2019)</b> Establishes new wildfire and utility oversight entities, and provides funds to the Public Utilities Commission. Complements AB 1054 in changing utility oversight.
<b>SB 112</b>	<b>General Government (Sept. 13, 2019)</b> Makes various non-substantive changes but also includes changes not related to the budget, including revisions to policies adopted by AB 450 (Chiu, 2017) regarding employers' verification of employee immigration status.
<b>SB 113</b>	<b>Housing (Sept. 13, 2019)</b> Provides that \$331 million would be transferred from the General Fund to the National Mortgage Special Deposit Fund to provide assistance to renters and homeowners, provides \$100,000 for the Dept of Finance to study ways to implement the Trust fund, and includes technical changes to several housing statutes.

<b>AB 114</b>	<b>Education Finance (Enrolled Sept. 17, 2019)</b> August Education Omnibus. Extends the submission deadline for the Ethnic Studies Model Curriculum, adds \$57 million in General Fund appropriations to the Early Learning and Care Infrastructure and Grant Program, and makes other technical and clarifying changes to the 2019 Budget Act.
<b>AB 115</b>	<b>Managed Care Organization (MCO) Tax (Enrolled Sept. 17, 2019)</b> Enacts a managed care organization (MCO) provider tax for 3.5 fiscal years: 2019-20, 2020-21, 2021-22, and the first half of 2022-23.
<b>AB 116</b>	<b>Enhanced Infrastructure Financing Districts (Enrolled Septemebr 18, 2019)</b> Repeals the current 55 percent and the two-thirds voter approval requirement for an Enhanced Infrastructure Financing District and a seaport infrastructure financing district, respectively, to issue bonds.
<b>AB 118</b>	<b>State Employment Memoranda of Understanding (Enrolled Sept. 17, 2019)</b> Approved five contracts covering 13 bargaining units for one to four years. Unions affected are SEIU, attorneys and administrative law judges, Highway Patrol, Statewide Law Enforcement Association, and Engineers.
<b>AB 121</b>	<b>Social Services (Enrolled Sept. 17, 2019)</b> Makes clarifications to CalWORKs Stage One childcare eligibility and reappropriates \$37 million in unspent Housing and Disability Advocacy Program (HDAP) funds.
<b>SB 200</b>	<b>Drinking Water (July 24, 2019)</b> Though technically not a trailer bill, SB 200 maintains the budget action to provide up to \$130 million from the Greenhouse Gas Reduction Fund for clean drinking water annually.



# Senate Republican Fiscal Staff Assignments

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