



SUBCOMMITTEE REPORT

2016-17 BUDGET

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OVERVIEW

The Governor presented the Legislature with his May Revision on May 13, 2016, updating his original budget proposal and setting the stage for the final actions for crafting the Assembly version of the budget.

Over the course of five months and over 70 hearings, the Assembly Budget Committee has worked with the Governor's budget proposals and crafted the Assembly version of the budget that will now to be finalized at the next stages of the budget process.

The result is a **Responsible Budget for a Stronger Middle Class** which has the following key elements:

- Preparing for future economic downturns to avoid budgeting mistakes of the past
- Fighting poverty and assisting seniors and the disabled
- Investing in our future – from early education to higher education
- Cleaning our air and water
- Expanding economic development
- Investing in safer communities
- Oversight

The Assembly version of the budget is based on the Department of Finance's retrained May Revision fiscal forecast, and makes building robust reserves the number one priority, while also making responsible, targeted new budget improvements to fight poverty, improve early education, expand access to higher education, and to benefit affordable housing.

Highlights of the Assembly version of the budget are provided below, and additional details are provided throughout the rest of the Subcommittee Reports.

Preparing for future economic downturns to avoid the budgeting mistakes of the past:

The California economy remains strong, and the state's budget condition remains healthier than any point in recent decades. But economic downturns can come fast, and the impacts can cause significant havoc to the state budget.

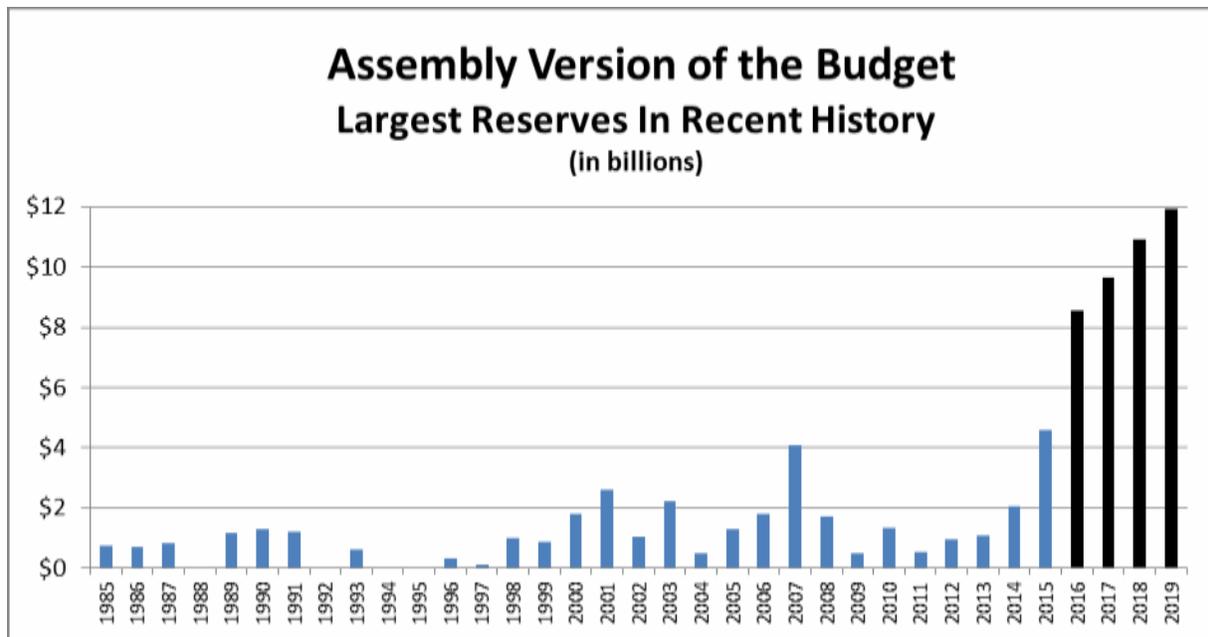
As a result, the Assembly version of the budget follows the call from the Governor and the Legislative Analyst to build robust reserves to protect against future economic downturns and to minimize future needs for cuts to critical services and education or tax increases on the middle class.

The Prop 2 Rainy Day Fund – first proposed by the Assembly Democrats – is working as proposed. Deposits into the reserve are naturally adjusting to mirror the movements of volatile revenues from capital gains. As a result, the underlying budget is protected from the volatility and billions of dollars are being saved to help with the next economic downturn.

In addition to the constitutional requirements, the Assembly version of the budget embraces the Governor’s proposal for an optional \$2 billion deposit into the Prop 2 Rainy Day Fund. And, the regular reserve will grow to \$1.8 billion, an increase of \$700 million from the budgeted reserve in 2015-16.

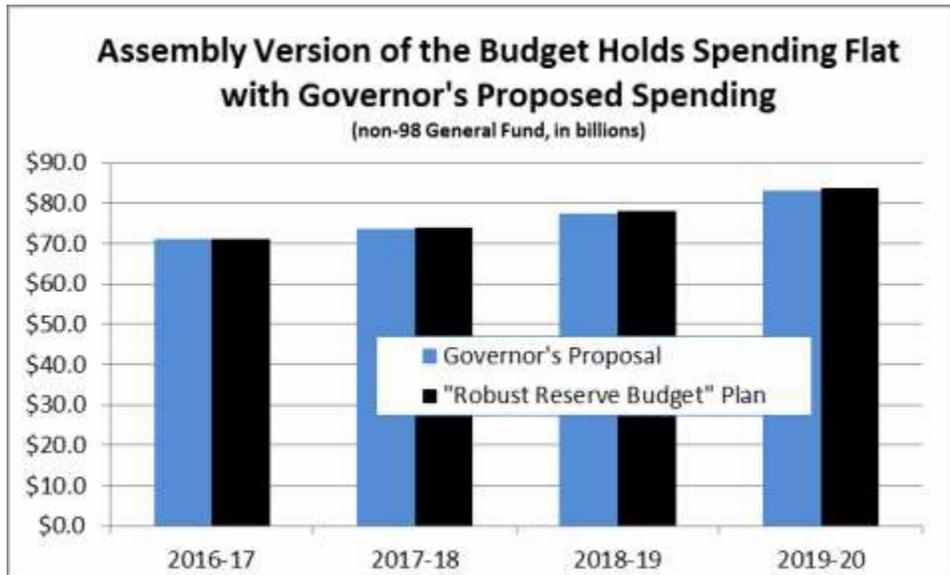
Combined, total reserves are \$8.5 billion – matching the proposed reserve in the Governor’s May Revision. Based on the Governor’s multi-year forecast – and if the voters extend the temporary Prop 30 upper income tax increases – the combined reserves will grow to nearly \$12 billion by 2019-20.

The Assembly’s version of the budget builds the largest reserves in recent history.

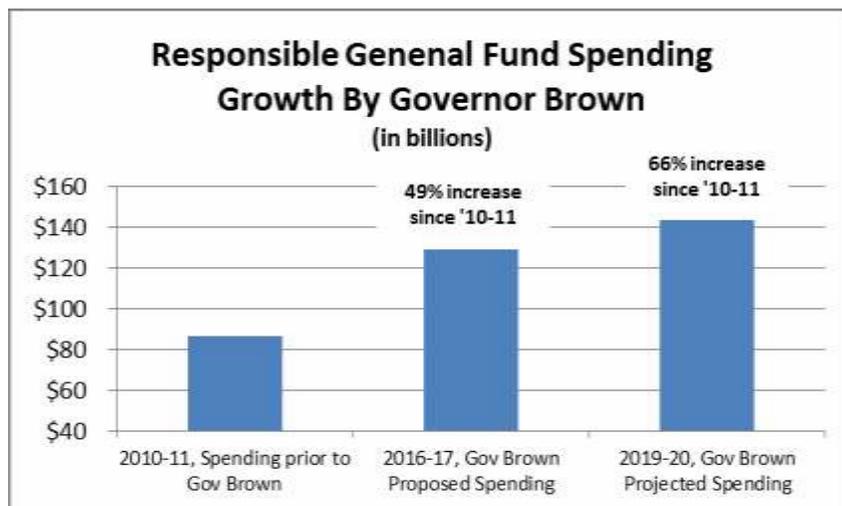


Targeted Budget Improvements

The Assembly version of the budget makes targeted improvements to the Governor’s spending proposals, but maintains multi-year spending at roughly the same level as proposed by the Governor.



The Governor’s proposal continues the major expansion of state spending that has occurred since Governor Brown took office in 2011. Under the Governor’s May Revision proposal, General Fund spending in 2016-17 will be about 50% higher than when he took office, and is projected to grow to 66% by the time his term ends than when he took office.



These improvements are made within the framework of *the Responsible Budget for a Stronger Middle Class* in the following ways.

Fighting Poverty and assisting seniors and the disabled:

- ***Repeals the Maximum Family Grant Rule.*** The Assembly version repeals the end the backward Maximum Family Grant rule that punishes children born into poverty, and does so with no permanent General Fund costs.
- ***Increases CalWORKs Housing Services.*** The Assembly version increases funding for the Housing Support Program and the Homeless Assistance Program to stabilize housing for our most vulnerable families.
- ***Provides Modest Grant Increases.*** The Assembly version increases SSI/SSP and CalWORKs grants as proposed by the Governor.
- ***Funds Minimum Wage Increase.*** The Assembly version includes funding associated with the first step of the minimum wage increase to \$15.
- ***Continues the Earned Income Tax Credit.*** The Assembly version funds the second year of the successful CA EITC and provides \$2 million to expand outreach to serve even more Californians in the budget year.

Investing in our future—from early education to higher education:

- ***Funds Child Care and Preschool Rate Increases.*** The Assembly version provides over \$600 million primarily to increase rates for child care and preschool programs to reflect the rising costs of the state minimum wage laws.
- ***Local Control Funding Formula Increase.*** Provides over \$3 billion to further implement the LCFF
- ***Incentivizes Full Day Kindergarten.*** The Assembly version of the budget begins process of developing financial incentives for school districts to provide full day Kindergarten.
- ***Anticipates creation of “Blue Ribbon Commission on Early Care and Education.”*** The Assembly version anticipates the Speaker will establish a “Blue Ribbon Commission” including state leaders and early care and

education experts from throughout the state to develop options for improving services for children 0-3 and for implementing Universal Pre-K for all 4 Year-olds.

- **Approves Governor's Proposed Increases.** The Assembly version approves the Governor's higher education increases including, \$300 million for Community Colleges, \$277 million for CSU, and \$185 for the UC.
- **Increases CSU Funding.** The Assembly version increases CSU funding by \$101 million over the Governor's proposal to expand enrollment and to improve student services.
- **Expands CA Students, Caps Out-of-State Students at UC.** Begins multi-year process of increasing enrollment of California students while phasing in a cap on out of state students to return to a responsible balance that existed prior to the budget cuts of the Great Recession. Reduces the UC Office of the President budget to partially offset the costs of the new in-state enrollment.
- **Expands Financial Aid.** Increases Cal Grants to serve more financially needy students, funds the next step of the Middle Class Scholarship to reduce tuition by 30% for lower and middle income students, and begins the process for developing long term plans to reduce and ultimately eliminate the need for student debt to attend college.

Cleaning our air and water:

- Provides a \$3.1 billion Cap and Trade spending plan.
- \$16 million (\$10 million General Fund) to advance the human right to water.
- \$334.5 million (\$212 million GF) for drought response.
- \$465 million in Proposition 1 funds for state commitments for Klamath Agreements (\$250 million), Central Valley Project Improvement Act (\$90 million), Salton Sea (\$80 million), and San Joaquin River Settlements (\$45 million).

Expanding economic development:

- **Provides over \$1.1 billion in Affordable Housing Investments.** The Assembly version provides significant funds to address the state's critical housing needs. These include:
 - \$650 million in new funds for a variety of affordable housing purposes.
 - \$237 million embraced in the Governor's May Revision to use Prop 63 funds to address housing issues for the mentally ill.
 - \$20 million in new funds to expand housing services for families in the CalWORKs program.
 - \$200 million continued commitment of Cap and Trade funds for affordable housing purposes.

- Approves \$2.2 billion in additional infrastructure funding, including \$700 million for deferred maintenance and \$1.5 billion for state building improvements (spread over four years).

- **Investing in safer communities:**
 - Allocates \$250 million for local public safety purposes, with funds first proposed to be used to expand local jails.

 - Creates a seismic safety revolving loan program for retrofitting buildings.

- **Oversight:**
 - **Board of Equalization** – adopts an action plan to reduce administrative costs (unnecessary office leases, staffing).

 - **University of California** – adopts a cap for out of state enrollment and provides a path for the system to expand in-state enrollment.

 - **Department of Motor Vehicles** - includes trailer bill language to make DMV register voters in a one-step process.

 - **Zero-Based Budgeting** – includes \$1 million for DOF staff to assist our continued zero-based budgeting efforts.

In total, the Assembly version of the budget includes a regular reserve of \$1.8 billion and the Rainy Day Fund grows to \$6.7 billion – for total Reserves of \$8.5 billion.

The rest of this report provides detailed information of the actions of all five Assembly Budget Subcommittees.