



COMMITTEE ON BUDGET & FISCAL REVIEW
Room 5019, State Capitol
Sacramento, CA 95814

SENATOR MARK LENO, CHAIR

CONFERENCE REPORT SUMMARY
June 11, 2015

The purpose of this Conference Report Summary is to provide an overview of the budget adopted by the Conference Committee on June 9, 2015. A record of individual actions taken by the Conference Committee can be found on the Committee on Budget and Fiscal Review website. If you have additional questions, please contact the committee at (916) 651-4103.

2015-16 Conference Report

Introduction

This document provides a high level summary of major actions that are included in the Conference Report on the 2015-16 budget, as adopted on June 9, 2015. The Conference Committee approved various conference actions between June 1 and June 9, 2015 that, when combined with previous actions taken in both the Senate and Assembly, comprise the Conference version of the 2015-16 budget act. The Conference version carefully balances the need for additional public investment in child care, education, health care and other programs, with the necessity of maintaining the state's fiscal stability through increased reserves and debt reduction. Overall, the Conference version of the budget is structured such that it:

- Fully funds existing programs and commitments.
- Directs new spending to high-impact investments.
- Builds up reserves and pays down debt.
- Uses the best and most timely fiscal information available.
- Factors in the impact on the out-years.

The major highlights of the Conference Committee plan are listed below and include actions that will:

- Benefit educational programs from pre-school through college, through:
 - Investments of significant resources in early childhood education that will expand capacity, increase rates for services, and ensure a sound budgetary footing for the childcare program.
 - Increased resources for K-12 education directed to the implementation of the Local Control Funding Formula (LCFF), and more funds for educator training and adult education.
 - Additional resources and improvements for the state's higher education programs and segments by adopting greater support services, increasing enrollment slots for California residents, and CalGrant expansions.
- Improve California's health care system by increasing Medi-Cal provider rates, restoring most optional Medi-Cal benefits, and adding funding for specific specialized programs.
- Provide resources for a new state Earned Income Tax Credit (EITC), consistent with the Governor's plan, which will provide a limited refundable tax credit for very low-income, wage-earning families.

- Commit additional resources to build up and improve the state’s court system by increasing funding for additional court resources for judges and dependency courts, and provide local law enforcement with additional funding for training and tools for improving the relationships between peace officers and their communities.
- Continue the existing plan to make substantial inroads on reducing California’s budgetary and other debt that are consistent with the Governor’s overall plan, and will succeed in continuing to maintain the state’s firm fiscal footing. The plan fully funds the new reserve fund established through Proposition 2.

Overall Resources, Expenditures and Reserves

The General Fund budget summary for the Legislature’s version of the budget, compared to the Governor’s May Revision, is as follows:

Conference Committee Version				
General Fund Summary				
(Dollars in Millions)				
	<u>May Revision</u>		<u>Conference Version</u>	
	Revised	Proposed	Revised	Proposed
	<u>2014-15</u>	<u>2015-16</u>	<u>2014-15</u>	<u>2015-16</u>
Prior Year Balance	\$5,589	\$2,359	\$5,709	\$2,620
Revenues and Transfers	111,307	115,033	111,348	117,297
Total Resources Available	<u>\$116,896</u>	<u>\$117,392</u>	<u>\$117,056</u>	<u>\$119,917</u>
Non-Proposition 98 Expenditures	64,929	65,892	64,861	*67,507
Proposition 98 Expenditures	49,608	49,416	49,576	50,000
Total Expenditures	<u>\$114,537</u>	<u>\$115,308</u>	<u>\$114,436</u>	<u>\$117,507</u>
Fund Balance	\$2,359	\$2,084	\$2,620	\$2,411
Reserve for Liquidation of Encumbrances	971	971	971	971
Special Fund for Economic Uncertainties	1,389	1,113	1,649	1,440
Budget Stabilization Account	<u>\$1,606</u>	<u>\$3,460</u>	<u>\$1,606</u>	<u>\$4,220</u>

*Includes \$760 million of unallocated debt repayment.

The Conference Committee’s version of the budget includes total General Fund expenditures of \$117.5 billion for 2015-16, an expenditure level which is roughly \$2.2 above the May Revision levels. This amount includes an additional \$760 million pay-down of Proposition 2 debt, and \$1.4 billion in additional program expenditures. The total represents an increased level of spending (not including the additional expenditures on debt retirement) over that of the May Revision of approximately 1.2 percent.

The Conference version of the budget adopts the LAO's revenue assumptions for 2015-16 of \$116.3 billion, which is \$3.1 billion higher than the May Revision, and somewhat higher property taxes that offset Proposition 98 spending. The Conference plan provides for increased reserves, similar to the Governor's plan, and continues to pay down long-term and budgetary debt. In addition, the Conference version balances these actions with targeted prudent investments in education, health care, and other areas that will improve the state's human and social capital.

The Conference Committee's version of the budget provides for \$5.7 billion in general reserves, comprising combined amounts from the Special Fund for Economic Uncertainties (SFEU) plus deposits to the Budget Stabilization Account (BSA). This represents an amount about \$1.1 billion above the reserve totals presented in the May Revision. In addition, under the Conference Committee plan, the state would have higher reserves and bigger operating surpluses in the out-years than projected in the May Revision.

Expenditure Highlights

The budget package represents a comprehensive approach to continue restoring essential educational, social service and health programs, while maintaining the state's solid fiscal outlook. Specifically, the Conference Committee funding plan provides funding for many of its priorities, especially in the areas of child care, human services, health, and higher education. The architecture for the plan begins with much of the Governor's base level funding, but makes distinctive and important changes in program spending reflecting the Legislature's priorities.

Early Education and Childcare. A centerpiece of the Conference Committee plan is a \$409 million (\$147 million Proposition 98 General Fund, \$262 million General Fund) reinvestment in the state's childcare and early learning system. The approved plan includes \$242 million (\$112 million Proposition 98 General Fund, \$130 million General Fund) for increases in center-based, voucher, and license-exempt rates; as well as \$116 million (\$10 million Proposition 98 General Fund and \$107 million General Fund) for 27,000 slots for preschool and alternative payment programs. This initiative couples well with the Governor's proposed EITC, which provides a refundable tax credit for low-income wage earners.

K-14 Education. In K-14 education, the Conference plan for Proposition 98 provides over \$750 million more for K-14 education than the Governor's May Revision. The plan includes \$500 million for educator quality and effectiveness; provides \$500 million for adult education and \$25 million for adult education data; continues to provide one-time funds for mandate claims/support of state-adopted academic content standards; and augments the Governor's proposed LCFF payments. For community colleges, the Conference plan increases funding for Foster Youth Education Opportunity Program; increases financial aid for community college students; and provides funding to help transform basic skills remediation through researched-based best practices.

Higher Education. The Conference plan maximizes the state's dollars in opening up opportunities for Californians. The plan:

- For the University of California (UC), provides an additional \$25 million contingent on increasing California resident enrollment by 5,000 students, holding resident tuition flat in 2015-16 and 2016-17 and redirecting non-resident institutional aid to support resident

students. Provides additional student support services to increase the graduation rates of low income and underrepresented students; and provides \$2.5 million for the implementation of the California Dream Loan Program.

- For California State University (CSU), provides an additional \$70 million; increases enrollment for California residents by 10,400 students; provides additional support for student services, course sections and tenure-track faculty; reestablishes a California freshman eligibility study; and provides \$2.5 million for the implementation of the California Dream Loan Program.
- For CalGrants, repeals the financial aid cuts for students in private non-profit colleges; increases the number of competitive Cal Grant awards by 16,250; and increases the Cal Grant B access award to \$1,796. Additionally, the plan makes modifications to the Middle Class Scholarship by adopting a four or five year participation time-limit and an asset ceiling of \$150,000.

Cap-and-Trade Expenditures. The Conference plan approves staff resources necessary to continue existing workload related to cap-and-trade expenditures, but rejects all of the discretionary expenditure proposals, so that discussions continue to further refine the state's expenditure plan for the 40 percent of the cap-and-trade revenues that are not continuously appropriated according to statute enacted last year.

Other Significant Investments and Initiatives. In other important legislative initiatives, the plan funds additional significant activities and programs:

- For In-Home Supportive Services (IHSS), restores the seven percent cut in hours and implements overtime payments.
- For CalWORKs, eliminates the maximum family grant provision and temporarily suspends the 24-month clock.
- For immigration services, provides more funding for non-profits to help undocumented immigrants with documentation required under the President's deferred action, and creates a fund to support the newly-created Office of New Americans, which is charged with creating a statewide strategic plan for the integration of California's new Americans.
- For foster youth and child welfare services, provides \$25 million General Fund to support foster parent recruitment, retention, and support; \$7 million General Fund for housing supports for child welfare families, and \$3 million General Fund to support the federal Strengthening Families Act.
- For Medi-Cal, sets aside money to provide coverage to undocumented children; provides funds for provider payment increases; and restores most optional benefits, including full adult dental benefits.

- For developmental services, approves rate increases for community-based providers and regional center operations and sets requirements for the department when submitting their plan to close one or more developmental centers.
- For the Office of Emergency Services (OES), adopts a fee structure to create a response network for the transport of hazardous materials by rail through the state.
- For California veterans, appropriates an additional \$3 million in General Fund to support County Veteran Service Officers; and establishes 36 permanent positions within the Department of Veterans Affairs to address the continued federal claims backlog.
- For the Department of Justice, establishes permanent position authority within the Bureau of Firearms.
- For farmworker housing, provides nearly \$20 million for farmworker housing related programs.
- For local government, includes approval of various legislative changes that address several long-running issues associated with state-local fiscal relations, and will facilitate the completion of the wind-down of redevelopment agencies.

The Conference Committee plan also reduces caseloads in dependency court cases and provides some additional funding for previously-authorized judicial positions and provides relatively small—but vital—augmentations for other programs, such as support for libraries, the arts council, and natural resources programs.

Overall and Long-Term Outlook

The Conference Committee plan represents a balanced approach, both in terms of revenues and expenditures, and with respect to savings and wise reinvestment. It focuses on reducing financial, social, and environmental costs in the long run, while ensuring access to health care, higher education, and justice systems. Spending is moderated, with all new spending fully paid for from other budgetary savings and/or additional analytically-based revenue estimates. Based on the Legislative Analyst's Office (LAO's) revenue assumptions, the Conference Committee plan includes more debt pay-down, more reserves, and more critical investments for rebuilding California.

The Legislature's version of the budget is conservative on new spending, pays off debts, and increases the reserves. Preliminary calculations show that, if the Conference budget is adopted and the LAO revenue projections materialize, additional dollars could be available for debt payments, reinvestment in services, and reserves in 2016-17 through 2018-19. Since the Proposition 30 taxes are temporary and start expiring at the end of 2016, this is a responsible way in which to fiscally position the state upon the termination of the temporary taxes.