Assembly Republicans

Governor's 2016-17 May Revision Budget Highlights

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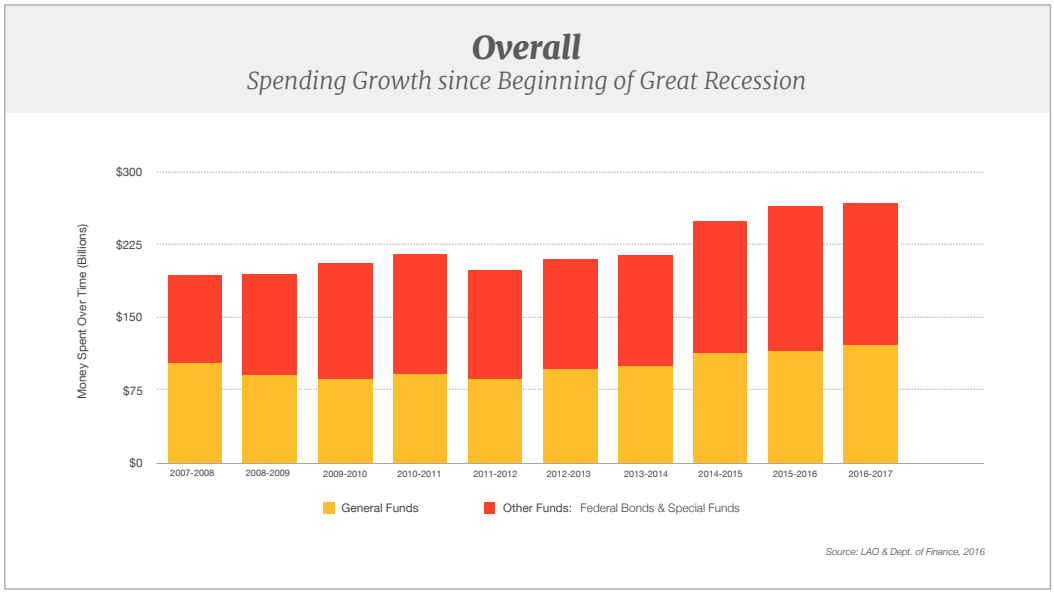
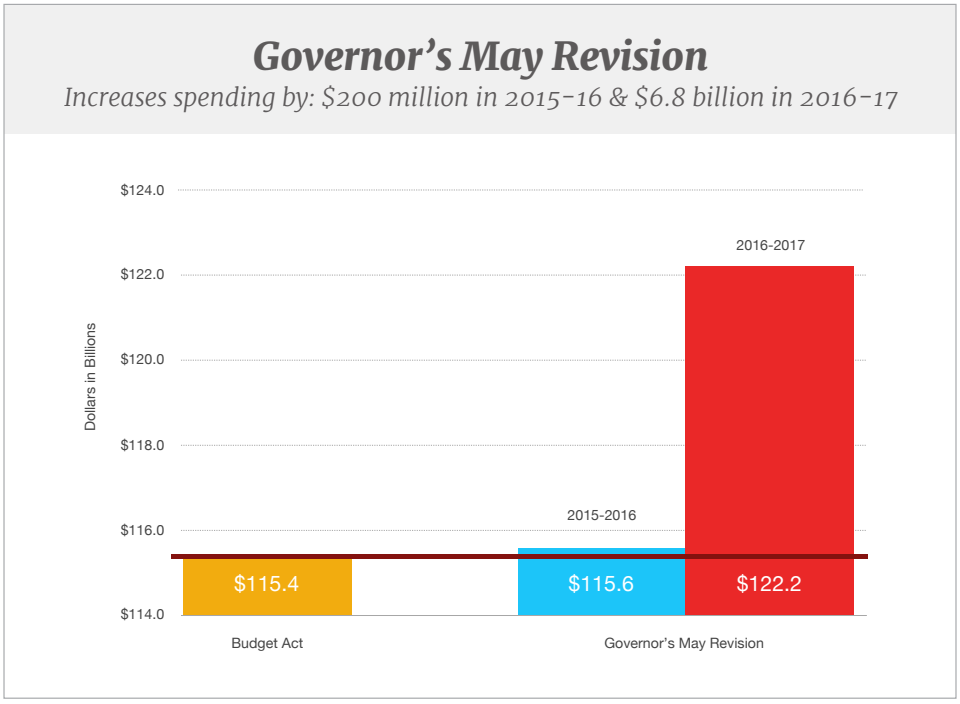
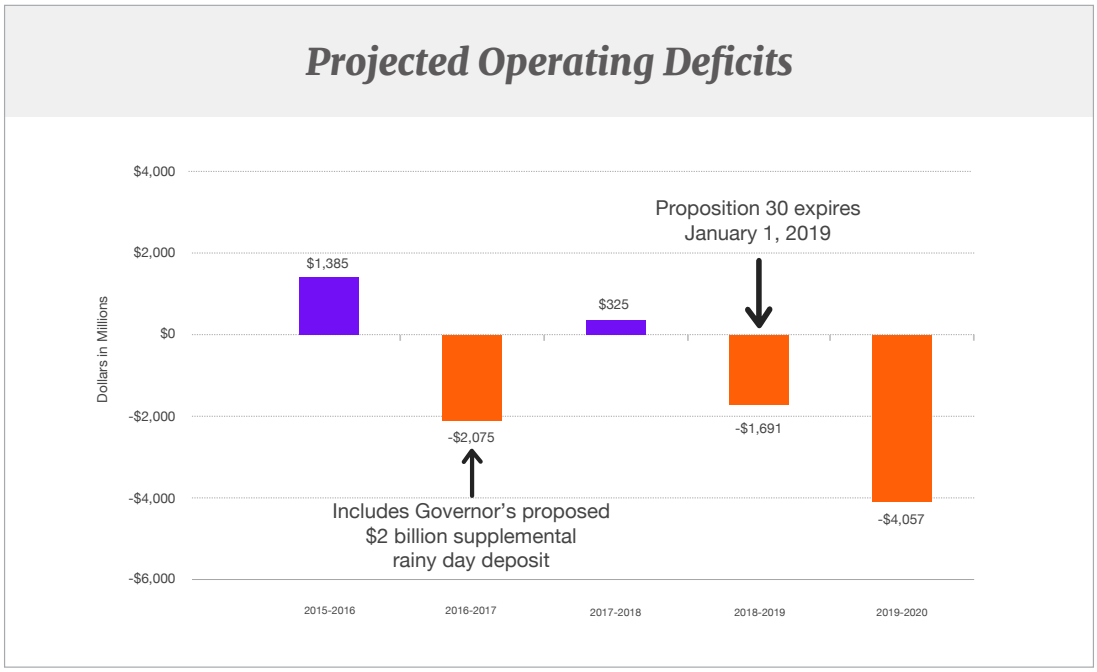
OVERVIEW



Spending Grows with New Promises. The Governor's May Revision proposes to increase General Fund spending to a **record breaking level of $122.2 billion General Fund *(see below)*, up $6.8 billion from last year's Budget Act.** This reflects increased spending for schools required by Proposition 98, but also billions of dollars for discretionary spending on the health and welfare programs and state employee salary increases over the past few years. In addition, the Governor and legislative Democrats recently committed the state to about $10 billion ($3.4 billion General Fund) annually for the full implementation of the minimum wage hike by 2022-23. **Including all sources of funding (special, bond, and federal funds), the Governor proposes spending an astounding $269 billion next year *(see above)*.**



Budget Deficits are Looming. As a result of all the new spending promises discussed above, the Governor and ruling Democrats have set our state on a clear course for another budget crisis. As noted in the chart below, the Department of Finance expects California will have operating deficits reaching $4.1 billion by 2019-20. Ironically, the spending advocates that are driving the deficits are actually pointing to them as justification for new tax increases. **We have the ability to responsibly budget to avoid operating deficits. However, the Democrats and tax hike advocates are pushing for intensified spending at a rate to cause budget deficits, in order to further justify their tax increase measures.**



California is Poorly Prepared for the Next Recession. State General Fund revenues are down $1.9 billion since January's estimate, a reflection of weaker personal income and sales tax revenues. Volatile capital gains are projected to be lower as stock market performance is below previous estimates. Overall General Fund revenues are now projected to be $124.2 billion, which reflects an increase of $6.3 billion over last year's Budget Act. The Department of Finance sounded this cautionary note, "Another recession is inevitable and the state must plan for it… the Department of Finance modeled a recession of average magnitude to occur in 2017-18. Under this forecast, revenues from the state's "big three" taxes — the personal income, sales, and corporation taxes — dropped a total of $55 billion from the start of the recession through 2019-20."

Despite past assertions from the ruling Democrats that the election of the current Governor and the passage of Proposition 25 (majority vote budget) were the most important factors in the last seven years of state revenue growth, the truth is that California rides the waves of national economic growth and recession. As more than two-thirds of our state's revenue is from highly volatile personal income taxes, this state is more dependent on macro-economic trends than any other state. Indeed, a recent "fiscal stress test" by Moody's credit rating service found that **California was one of the least-prepared of the largest states in the nation to weather the next great recession.** California trailed Texas, Florida, and New York due to its revenue volatility, weak financial flexibility, and lower reserve levels. Given this danger, **the LAO indicates: "...at this point in a mature economic expansion, we think it would be prudent to pursue a target for total reserves that is at least as large as the $8.5 billion amount in the Governor's revised budget proposal."**

Democrat vs Republican Spending Priorities. This year, in addition to the $122 billion Governor's Budget, Legislative Democrats have proposed over $3 billion in new General Fund spending for a variety of state programs, including $1.3 billion for subsidized housing, $800 million for subsidized child care, and $200 million to increase cash grants for welfare recipients. The Department of Finance itemized nearly $20 billion in new poverty-focused spending since 2012. It is crystal clear that this level of new spending cannot be maintained and will lead to calls for tax increases (such as the Proposition 30 extension) and spending cuts in the future.

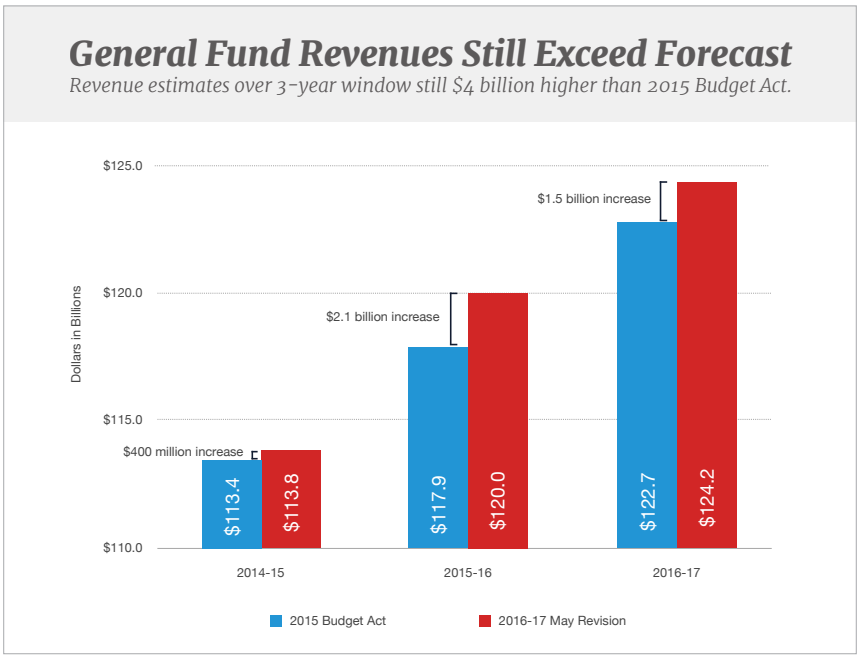
Republicans join the Governor in seeking fiscal restraint, paying down debt, focusing any new spending on critical one-time needs, and avoiding new long-term spending commitments:

1. **Spending Restraint.** Republicans strongly support the Governor's proposal for an additional deposit of $2 billion into the rainy day reserve fund. The state must be vigilant in preparing for the next recession.
2. **Pay Down Debt.** The nonpartisan Legislative Analyst's Office estimates the state has at least $334 billion in outstanding state retirement, infrastructure and budget liabilities. For the sake of future generations of Californian's, the Legislature must make it a priority to pay down these long-term debt obligations.
3. **Focus on Critical One-Time Needs.** Temporary revenues should only be used for one-time needs such as our water, transportation and school infrastructure. This spending should benefit the entire state, in contrast to the Governor's focus on constructing new buildings in Sacramento.
4. **Avoid New Long-Term Spending Commitments.** Assembly Republicans have taken a *"Fix It First"* approach to new spending. We believe that existing programs that are deemed vital to Californians health and well-being should be working effectively and efficiently to serve Californians before consideration is given to any new program spending. One of our top priorities is to ensure that the state Denti-Cal program, which currently fails to provide basic dental care for more than 5 million children, is properly funded and reformed to effectively provide care for those that depend upon it.

REVENUES/TAXATION

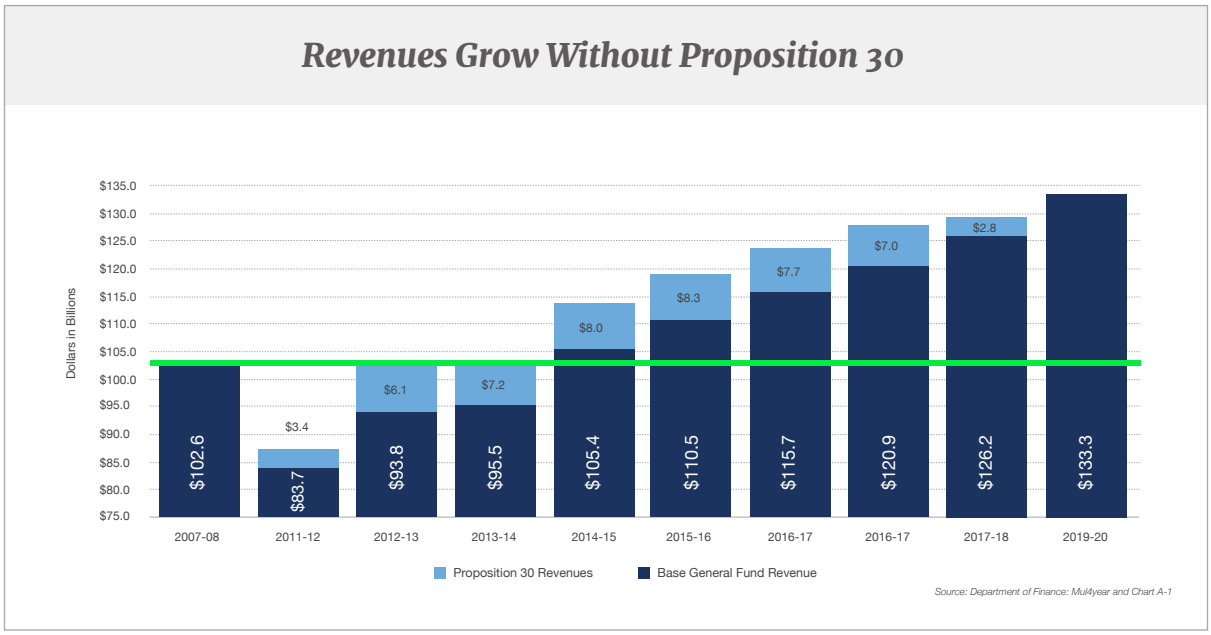
The May Revision includes revised total General Fund revenue estimates of $113.8 billion for 2014-15, $120 billion for 2015-16, and $124.2 billion in 2016-17. Over the three year projection period, these estimates are approximately $1.9 billion less than the January Governor's Budget projections, but 2016-17 revenue estimates are still $6.3 billion higher than last year's Budget Act ($117.9 billion vs. $124.2 billion).

Tax Revenues Are Growing Robustly. Even though the May Revision decreases revenue projections by $1.9 billion (compared to the January budget), total General Fund tax revenues are still growing year over year. As shown in the chart below, total General Fund revenue estimates over the three year forecast window are still $4 billion higher than last year's Budget Act forecast. In January, Assembly Republicans warned the tax revenue surge would eventually slow and that the legislative Democrats should restrain themselves from committing this unrealized revenue to new spending.



Since the beginning of the year, ruling Democrats have committed to increase spending, by $5 billion - including nearly $4 billion in hikes in the minimum wage by 2022-23 AND proposed over $3 billion in additional new spending for a variety of state programs (e.g. $1.3 billion for government subsidized housing, $800 million for subsidized child care, and $200 million to increase cash grants for welfare recipients). The Department of Finance documented nearly $20 billion of new poverty-focused spending just since 2012. While it may seem justified at the time, **this level of spending cannot be maintained, and will harm many of those it is intended to help when new budget deficits arrive and programs are cut.**

No Need for Tax Increases. The current fiscal year is the last that will include the full revenues generated by the Proposition 30 (2012) tax increases. Undermining the argument of proponents for extending the Proposition 30 income tax increases for an additional 12 years, there is no "fiscal cliff effect" projected once Proposition 30 expires. As noted in the chart below, base **General Fund revenues are expected to continue growing by $7.1 billion, (5.6 percent) after the personal income taxes expire in 2019.**



The Governor does not take a stand on extending Proposition 30's tax increases, saying that is "up to the people" to decide. He has stated, **"As it was intended, [Prop 30] has provided the state with increased resources on a short-term basis to give the economy time to recover.** Under the measure, the state has been able to restore funding for education and the safety net, expand health care coverage, and pay off its budgetary borrowing." Even though the Governor says he wants to leave the decision to the voters, Assembly Republicans are concerned that the $20 billion in new spending since 2012, which leads to a projected $4 billion deficit in 2019-20, is intended to put pressure on voters to extend Proposition 30's tax increases. Budget deficits are not an act of nature, the Governor and legislative Democrats are intentionally spending new revenue at a rate that will result in a future budget crisis.

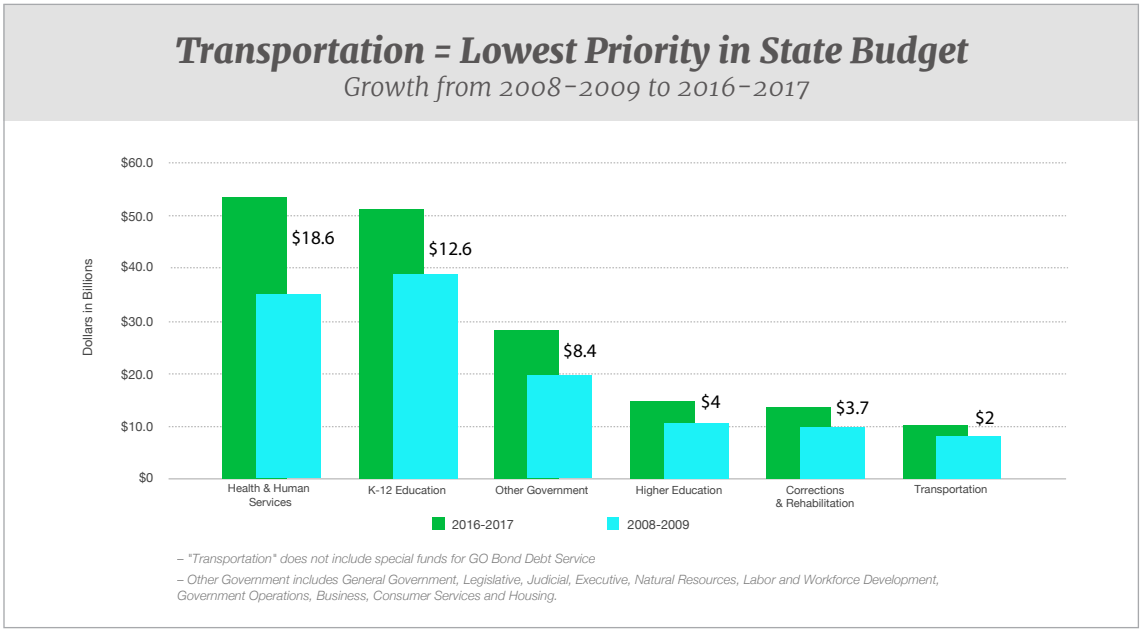
The Rainy Day Fund, Subject to Potential Raids. Republicans fought for the passage of Proposition 2 (2014), which provided a Rainy Day Fund to ensure some money would be put away each year for future economic downturns. The May Revision continues to make a supplemental $2 billion deposit into the state's Rainy Day Fund. After adjusting the mandatory deposit required under Proposition 2, this supplemental deposit would raise the balance in the fund to $6.7 billion, which amounts to 54 percent of its constitutional target (i.e., 10 percent of the General Fund revenues). However, that $2 billion is subject to approval by the Legislature's ruling Democrats. **Assembly Republicans are concerned that the Governor's fiscal restraint will not be shared by the ruling Democrats, who may view the Rainy Day Fund as a "piggy bank" for new spending.** California's budget relies heavily on personal income taxes and benefits from the capital gains tax revenue generated from growth in the stock market. Now is the time to save as the Department of Finance warns that a potential $29 billion deficit would result if there were a moderate recession beginning in 2017-18. Nothing precludes the Legislature from increasing the state's savings account or from paying down our debt faster.

RESOURCES & TRANSPORTATION

TRANSPORTATION

The May Revise continues the Governor's transportation funding plan to address a $5.7 billion annual shortfall in funding for state highway maintenance and rehabilitation. This plan includes $1 billion in fuel tax increases and a $2 billion vehicle registration fee increase. **These taxes disproportionately harm low-income and middle class working families.** Assembly Republicans have proposed a nine-point plan to generate $4.3 billion in new revenue for transportation infrastructure and enact meaningful policy reforms, without raising taxes.

Transportation is an essential duty of government, but ruling Democrats have consistently ignored it. Transportation receives the smallest proportion of state funding of any major Budget component, as noted in the chart below. General Fund spending in the May Revise increases $6.5 billion over last year, but none of this supports roads.



Democrats Whistle While Roads Crumble. The Administration is moving forward with plans to slash more than $750 million from transportation projects over the next five years. Assembly Republicans believe this doesn't need to happen. The Legislature can act immediately to fix our roads and prevent project cuts. **The Assembly Republican plan restores $1 billion in truck weight fees diverted from roads during the last recession. Restoring truck weight fees alone would prevent a single penny in senseless project cuts.** As noted by the California Transportation Commission (CTC), $1 billion in highway and transit investment supports 13,000 jobs.

Keep Up Progress On Loan Repayments. Assembly Republicans directed repayment of $173 million in transportation loans as part of the Managed Care Organization financing reform plan. While this was an important first step, it was only a down payment. The remaining $706 million should be repaid immediately to address our infrastructure funding crisis.

No More Pain At The Pump. According to the American Automobile Association, Californians pay the highest gas prices in the nation. In 2015, the state's Cap-and-Trade program was expanded to cover transportation fuels. The Legislative Analyst's Office (LAO) estimates that this $2 billion tax has added an additional 11 cents to the cost of a gallon of gas. When this "hidden" tax is included, Californians pay the highest gas tax in the nation. The Governor's proposal allocates none of this new revenue towards fixing roads and reducing congestion. **Assembly Republicans believe existing transportation taxes should be spent on transportation, before asking low-income and middle class Californians to pay more.**

Caltrans Reforms Fall Short. In May 2014, the LAO released a review of staff support costs at Caltrans, which determined that Caltrans is overstaffed by 3,500 full-time employees, at a cost of more than $500 million per year. The Governor's proposal forecasts that $1 billion over 10 years will be generated from "Caltrans efficiencies," but enacts no policy or budget changes to achieve these efficiencies. At the same time, the Administration requests $155.5 million and 877 new positions to implement the Governor's transportation plan. **Assembly Republicans have proposed meaningful reforms that reduce Caltrans bureaucracy, and increase local control.**

FOREST FIRES, RECYCLING AND CAP AND TRADE

Preventing Catastrophic Forest Fires. The Governor's May Revise increases funding to address the 29 million trees that have died as a result of prolonged drought and bark beetle infestation. These dead trees increase the risk and intensity of catastrophic wildfires. **Assembly Republicans support efforts to address widespread tree mortality, thereby helping local communities eliminate dangerous tinderboxes and reducing the risk of catastrophic wildfires.**

To address the problem, the May Revise proposes:

- $11 million (General Fund) to CalFire to remove and dispose of dead trees in Kern, Fresno, Madera, Mariposa, Tulare, and Tuolumne Counties.
- $30 million for the Office of Emergency Services for disaster recovery, which locals may use to deal with tree mortality.
- $10.4 million to CalFire to contract for additional helicopters and crews during the peak fire season.
- $12 million to CalFire to purchase the first helicopter as part of a plan to replace its entire Vietnam-era helicopter fleet. While this will dramatically increase firefighting capabilities, CalFire has failed to indicate how much it will cost to renovate its Helitack bases to accommodate the new, larger replacement helicopters.

Broken Bottle Recycling Program Nickels And Dimes Consumers. The Beverage Container Recycling Program (BRCP) is a $1.3 billion program funded by the $0.05 or $0.10 California Redemption Value (CRV) deposit Californians pay on some beverages. About $1 billion per year goes back to consumers who recycle their containers, but the remaining $300 million is used for other purposes, including administration, grant programs, and processing fee offsets.

As a result of California's high recycling rate, low scrap values, grant expenditures, and processing fee offsets, the program now faces a $75 million deficit that will destabilize it in the near future. In addition, several hundred recycling centers throughout the state have shut their doors, making it difficult, if not impossible, for Californians to get their $0.05 or $0.10 CRV deposits back.

The Governor's May Revise fails to provide any plan to address these issues. Without convenient redemption opportunities, this deposit program turns into a tax on consumers. Assembly Republicans believe that the state should make it easier for Californians to get their CRV deposits back and should evaluate the effectiveness of programs funded by the BRCP to determine if those resources can be better used for other purposes. **Assembly Republicans want to ensure that it is as easy for consumers to get their money back as it is to pay the $0.05 or $0.10 CRV deposit.**

Cap-and-Trade Misses Opportunities To Maximize Greenhouse Gas Reductions. Earlier this year, the LAO evaluated the cost-effectiveness of a number of programs funded by cap and trade and cautioned that **the plan lacks responsible analytics and a reliable estimate of benefits.** The May Revise keeps the Governor's January proposal intact, which continues some wildly inefficient greenhouse gas (GHG) reduction programs, including plans for sustainable communities, single-family solar installations, transit and intercity rail, and electric vehicle rebate programs. The LAO determined these programs to cost $191 to $414 for each ton of GHG reduced. This is extremely high considering that the cap and trade market price for carbon allowances in $13 per ton.

Assembly Republicans generally believe that, if the cap and trade program is to remain in place, it only makes sense to fund the most cost-effective programs, including programs to reduce the risk and intensity of wildfires, build infrastructure to recycle organic waste and solid waste, and install dairy methane digesters. The LAO determined that these programs cost between $4 and $15 per ton of GHG emissions reductions. Assembly Republicans have supported legislative proposals that would result in greater GHG reductions at much lower cost, including forest projects (AB 2146, Patterson) and building dairy methane digesters.

To the extent that the Cap-and Trade program continues and is not found to be an illegal tax by the courts, Assembly Republicans believe that revenues should be spent on cost-effective forestry, organic/solid waste recycling, and methane digester projects that will achieve far greater GHG emission reductions at far lower costs to the state. Effective reductions now means less burdensome regulations in the future.

DROUGHT RELIEF

Get Water To Those Most In Need. The May Revise provides an additional $5 million ($10 million total) for emergency drinking water support for small communities. Assembly Republicans have pressured the administration and ruling Democrats to support those communities most in need during this drought.

Assembly Republicans support the Governor's increase in funding for drought relief in disadvantaged communities. **It is unacceptable that the State of California, the home to technological innovations and the world's 7th largest economy, has tens of thousands of Californians without running water.** These communities are the poorest in California; in East Porterville, one-third of the population lives below the federal poverty line. Assembly Republicans will continue to pressure the Administration and legislative Democrats to provide more funding not for only East Porterville, but for all Californians who lack available water.

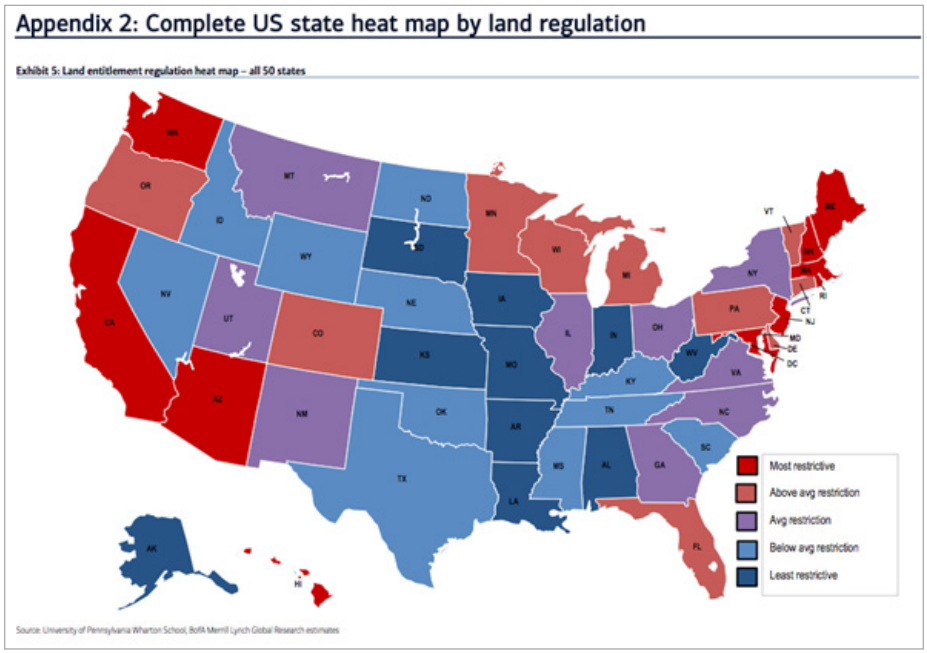
Save Our Water And Drought Rebates. The May Revise reduces funding by $3 million for the "Save Our Water" campaign in response to better statewide water conditions. While better statewide water conditions is a good thing, this reduction could also mean fewer rebates for Californians willing to remove or replace turf and inefficient toilets in their homes. The Save Our Water Campaign is not only a public messaging campaign for statewide water conservation, but also helps individuals learn about rebates for turf removal and high-efficiency plumbing fixtures. **Assembly Republicans support measures that make it easier for Californians to conserve, including AB 2040 (Melendez) which would provide personal income tax credits for irrigation efficiency upgrades.**

Conservation Is Nice, But We Still Need Supply. On May 9, 2016, the Governor issued an Executive Order directing the State Water Resources Control Board (SWRCB) to adjust its emergency water conservation restrictions to account for this year's increased snowpack and rainfall. The Executive Order directs the SWRCB and Department of Water Resources (DWR) to extend the emergency regulations indefinitely, but would allow urban water suppliers to develop local conservation standards based upon each agency's circumstances.

The May Revise provides about $4.5 million so that SWRCB and DWR can review and update local water storage contingency plans, develop recommendations for new water use efficiency targets, and establish permanent urban water use efficiency data tracking. Assembly Republicans believe that conservation planning is best accomplished at the local level, and that the new Executive Order is better than the existing mandate. Assembly Republicans support conservation, but know it is not a cure-all solution. We believe that Californians have done their part to address the drought by passing the Proposition 1 water bond, and by decreasing water use by about 24 percent over the course of the last year. **Now it is time for the state to step up and prioritize projects that increase water supply by increasing surface storage, recycled water, stormwater capture, groundwater recharge, and desalination.**

HOUSING/LOCAL GOVERNMENT

Overview: Housing affordability in California remains a story of the middle-class increasingly unable to purchase a home. The May Revision identifies some of the primary reasons why housing is so expensive in California, including land zoning and entitlement decisions surrounding housing production contributing to low inventories, and discretionary local land use permitting and review processes that lengthen the approval timeline and increase production costs (entitlements dictate the permitted building types that may be constructed on a property). All in all, land costs make up 23 percent of the final cost of a home and 8 percent of that total is simply from the entitlement process. The following map reflects the Wharton Residential Land Use Regulatory Index (conducted by the University of Pennsylvania), which identifies California as having some of the strictest land use regulations in the country.



Externally, community pressure and interest groups often use the current local review process to stall or stop housing projects, and these delays and denials place a strain on the state's housing supply by increasing project risks and costs. These decisions contribute to low inventories and limit supply increases while demand for housing steadily increases.

The Governor offers some solutions that merit consideration; however, these solutions only address a very small part of the problem and do not address the state's severe housing shortage in a manner that benefits all Californians. As discussed below, **Assembly Republicans believe that the state can be more proactive to help increase housing supply and reduce production costs, and have proposed a variety of solutions that would improve housing affordability for all Californians.** *(please see additional solutions below).*

Funding for Affordable Housing. With a few exceptions, the May Revision largely maintains the course that has been set over the past decade, touting the $3.2 billion in state and federal funding and award authority for various affordability and homelessness programs across a number of state entities. This includes the largest new source of funding for the Affordable Housing and Sustainable Communities Program ($400 million of Cap and Trade funds). Even with this level of affordable housing and homelessness mitigation subsidies, California is only scratching the surface of the problem.

The Department of Housing and Community Development reported in 2015 that from 2003 to 2014 housing permits (672,000) accounted for only 45 percent of projected need (1.48 million) to meet demand. Currently, **California's housing shortage requires the construction of at least 1.2 million new units.** California's hard working families are struggling to afford their rent or mortgage (approximately 1.5 million low-income households pay more than half of their income in rent). **California cannot subsidize its way out of the problem.**

Funding for Mental Health-Focused Housing Assistance. The Governor's proposal to spend $267 million in Proposition 63 funds to provide subsidized housing for the homeless mentally ill merits strong consideration. However, it is narrowly focused on a very small number of people. As noted above, California's housing shortage requires the construction of at least 1.2 million new units. Again, **Assembly Republicans support more broad-based solutions that address the excessive costs and obstacles that deter increased production of housing that is affordable for all Californians.**

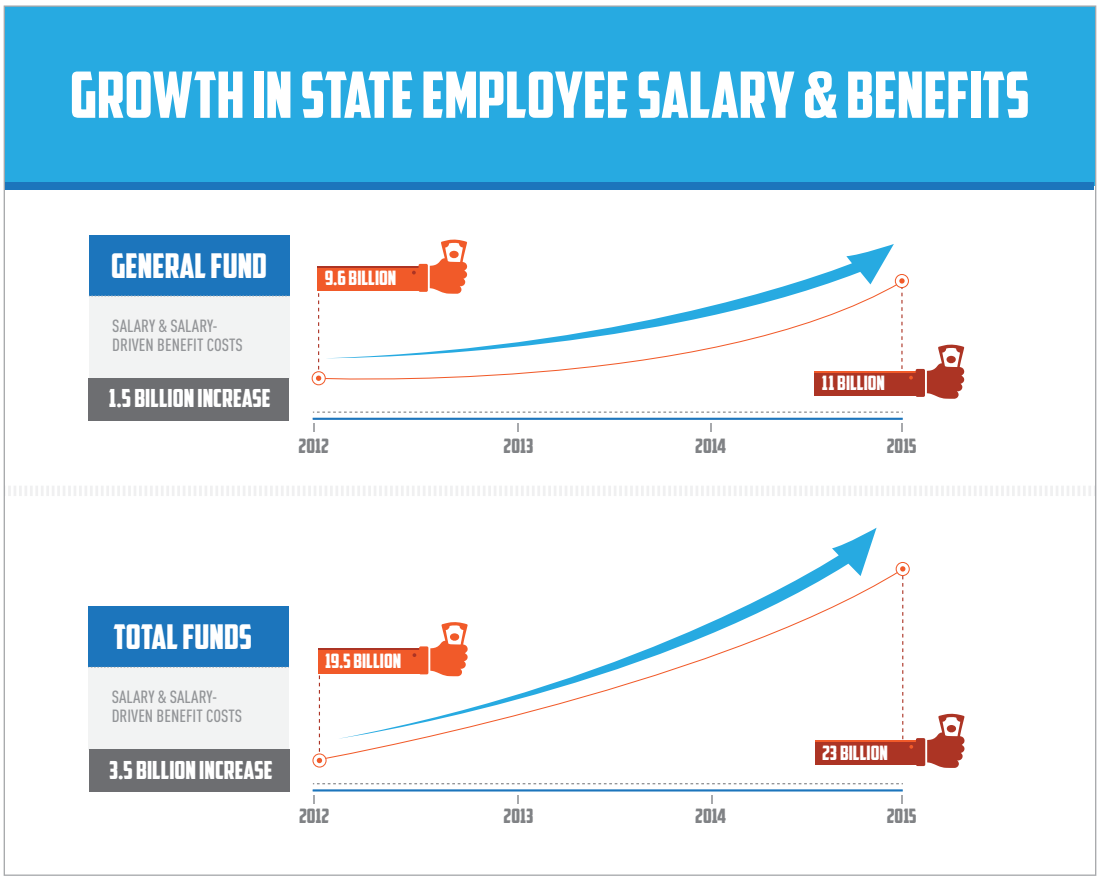
"By-Right" Land Use Entitlement. The May Revision addresses a slim part of the land zoning and permitting problems discussed above by proposing ministerial "by-right" land use entitlement provisions for multi-family infill housing developments that include an affordable housing component. Under the proposal, local government could not require a conditional use permit, planned unit development permit, or other discretionary review, provided the project is consistent with objective general plan and zoning standards. The Governor's "by-right" housing development proposal is welcome start because it would not trigger a costly and burdensome CEQA review. However, this proposal helps only a small segment of the population: multi-family, low-income infill housing projects. It reflects the legislative Democrats desire to move all Californians into dense urban areas, which does not reflect the diversity of California lifestyles. **Assembly Republicans believe the Governor's idea has merit, but that it must be broadened to help all Californians by including all types of housing in every region throughout the state.**

Additional Solutions Not Considered. Assembly Republicans continue to advocate for opportunities to improve the affordability of housing for all buyers and renters. The May Revision fails to include Assembly Republican proposals that would help Californians save for a home (AB 1736), inject the Down-payment Assistance Program with money and incentivize cities to reduce developer fees (AB 1969), provide incentives to developers who produce medium-density developments (AB 1968), and double the renters' credit from $60 to $120 for single taxpayers and $120 to $240 for married taxpayers filing jointly (AB 2694).

EMPLOYEE COMPENSATION

Paying Down Unfunded Liability for Retiree Health Care. The 2016-17 May Revision includes a one-time allocation of $240 million to pay down the state's unfunded liability for retiree health care, which will be apportioned to trust accounts of bargaining units that reach agreements with the Administration that include prefunding for retiree health care. **Assembly Republicans successfully negotiated the inclusion of this money as part of the Managed Care Organizations financing plan.**

Employee Compensation and Benefit Costs Continue to Grow. The May Revision sets aside $500 million ($200 million General Fund) to offset potential employee compensation and benefit costs associated with collective bargaining. Earlier this month, the Legislature ratified the memoranda of understanding between the state and Bargaining Unit (BU) 6 – Correctional Peace Officers, which is estimated to increase annual employee compensation costs by between $600 million and $800 million General Fund. This increase is in addition to the $3.5 billion increase to salaries and salary-driven benefits that have occurred since the state's furlough program ended in 2012. The following chart demonstrates how these costs have grown over the past three years.



Assembly Republicans are concerned that the state is still in active negotiations with 17 of the state's 21 bargaining units, which will likely continue driving up state compensation and benefit costs and reduce funds for vital education, safety net, and public safety programs.

Minimum Wage Increases Strain the State Budget. The May Revision includes $75.5 million ($39.4 million General Fund) to fund state costs associated with the first $0.50 increase to the minimum wage on January 1, 2017. Increasing the minimum wage to $15/hour is estimated to increase total state expenditures by nearly $10 billion ($3.4 billion General Fund) upon full implementation in 2022-23. **Assembly Republicans are very concerned that the new minimum wage law will put a tremendous strain on the state's budget, not to mention the economy as a whole,** and result in a host of unintended consequences. Some of these consequences are already surfacing:

» CalMatters.Org reported on BANANAS, an Oakland-based nonprofit that connects families with childcare providers. In March 2015, the minimum wage in Oakland jumped to $12.25 from $9 an hour. According to Rich Winefield, Executive Director, "The increase in the minimum wage is absolutely having a dramatic impact on the childcare field." The wage hike is restricting access to child care for lower-income families, he said.

» In an April 2016 LA Times article, Selwyn Yosslowitz, president of the Marmalade Café, which operates seven Southland restaurants and an outlet at LAX said that increasing the minimum wage will cause restaurant owners to think about "re-engineering the menu" to require fewer kitchen workers. "We will try to re-engineer the labor force," he said. "Maybe try to reduce the number of bus boys and ask servers to bus tables."

» Townhall.com reported that UC Berkeley will be forced to cut 500 jobs ("the people who clean buildings, who work in food services or health clinics") as a result of the $15 minimum wage hike.

» The LA Times reported that American Apparel, the biggest clothing maker in Los Angeles, said it might outsource the making of some garments to another manufacturer in the U.S., wiping out about 500 local jobs.

K-12 EDUCATION & PROPOSITION 98

INCLUDING CHILD CARE and EARLY LEARNING

Overview. The lower state revenue estimates do not have a major impact on Proposition 98 spending for 2016-17. Due to the complicated P98 formula, PreK-14 **net spending would actually increase by $626 million** over 3 years. In 2016-17, the P98 minimum guarantee would increase to $71.8 billion ($63.5 billion for PreK-12 and $8.3 billion for Community Colleges). P98 PreK-12 per-pupil spending would rise to over $10,600/student. Total spending for K-12 would be $87.6 billion, **nearly $14,700 per-pupil and about $15 billion over 2007-08 funding.**[1] Spending increases for PreK-14 education continue at record high levels. As noted in the Legislative Analyst Office's (LAO) 2016-17 Fiscal Forecast, P98 will continue to increase (albeit more slowly) as Proposition 30 revenues expire. Thus, **contrary to misleading claims by those who want to extend the Proposition 30 tax increases for another twelve years, the expiration of Proposition 30 does not result in a reduction in funding for schools.** The chart below reflects Proposition 98 increases relative to the 2015-16 Budget Act:

	JAN 10	MAY	JAN 10	MAY	JAN 10	MAY	
PROPOSITION 98	**2014-15**	**2014-15**	2015-16	**2015-16**	2016-17	**2016-17**	
2015-2016 Budget Act	$66,303	$66,303	$68,409	$68,409			
2016-2017 Governor's Budget Proposals	$66,690	**$67,153**	$69,175	**$69,050**	$71,585	**$71,847**	
Net Increase from Jan 10		**$463**		**($125)**		**$288**	**$626**

Assembly Republicans believe that funding alone won't address the issues our students face in the K-12 system. We continue to focus on improving opportunities and outcomes for those in poverty and strengthening the middle class through needed K-12 education reforms, which were proposed in our Great Schools for California package.[2]

May Revision Fails to Repeal Irresponsible School Budget Reserve Cap. The 2014-15 Budget established a trigger to severely limit the level of reserves school districts may hold for unanticipated events. This cap continues to threaten school budget stability. **Assembly Republicans believe it should be repealed immediately in order to better protect our students from fiscal uncertainty.**

[1] Total funds include Proposition 98 funding plus federal funds, state payments for teacher's retirement, state bond debt service, funding for the CA Department of Education, CA Commission on Teacher Credentialing, Scholarshare Investment Board, Education Audit Appeals Panel, CA Summer School for Arts, local debt service, local parcel tax revenue, local sales of assets, local lease and rental revenue, local interest, local fees (developer, childcare, adult education), local excess property tax (Basic Aid), and other local miscellaneous

[2] The Great Schools for California package includes AB 1044 (Baker), AB 1078 (Olsen), AB 1248 (Chávez), AB 1099 (Olsen), AB 889 (Chang), AB 1226 (Chávez & Linder), and the budget reserve repeal (AB 1048, Baker & Hadley).

More Funding for Local Control Funding Formula (LCFF) and Retiring Mandate Debt. The Governor increases LCFF funding by $154 million, bringing the total LCFF increase for 2016-17 to $3 billion. Discretionary one-time spending increases by $135 million to $1.4 billion, which retires outstanding mandate debt. **Assembly Republicans believe paying state mandate debt is a responsible use of one-time funds.**

Career-Technical Education (CTE) Funding Unchanged. Other than a few minor/technical changes, the Governor still proposes $300 million for the 2nd year of a three-year, $900 million CTE Incentive Grant program. **Assembly Republicans generally support CTE programs in order to develop a skilled workforce and to strengthen the middle class,** and generally support an ongoing funding commitment rather than a time-limited program.

Enhanced Teacher Recruitment Activities. The May Revision proposes $10 million in one-time non-P98 General Fund for grants to colleges to expand or create new four-year undergraduate teacher credentialing programs. Additionally, it includes $2.5 million one-time P98 General Fund to create the California Center on Teaching Careers to conduct a statewide recruitment campaign. **Assembly Republicans have joined in bipartisan efforts to address the teacher shortage crisis,** including authoring and co-authoring bills to increase loan assumption for teaching candidates and streamlining credentialing.

New Revolving Loan Program for Facility Emergencies. This new $100 million one-time P98 program would provide loans to schools for emergency repairs. To qualify, schools would need to demonstrate fairly dire circumstances and would have up to 20 years to retire the loans. While Assembly Republicans generally support pay-as-you-go school facility funding, some Assembly Republicans may be concerned that the California Department of Education (CDE) would operate the new program rather than the Office of Public School Construction, which has long managed school facility grant programs in a responsible manner.

EARLY LEARNING & CHILD CARE

Revised Early Learning Block Grant Proposal. The May Revision continues the proposal to block grant $880 million for the California State Preschool Program and $725 million for Transitional Kindergarten funding, but removes $50 million for the Preschool Quality Rating and Improvement System. The Governor proposes to delay the implementation until 2017-18, funnel all funding through school districts, provide $20 million to county offices of education for related increased responsibilities, and make other changes. **Assembly Republicans generally support a mixed delivery system for state preschool – which includes private providers. This proposal shifts all early learning funding to public school districts, and thus Assembly Republicans have concerns about this proposal.**

Transition to Streamlined Child Care System. The Governor does not provide any major increases for child care, but clarifies the proposal to have CDE make recommendations for transitioning to a streamlined child care system with a single rate structure and one set of minimum quality standards. The LAO notes that such a system would benefit the delivery of services to families. **Assembly Republicans have supported assistance for middle class and working families by proposing to double the current child care tax credit as proposed by AB 2676 (Chavez).**

HIGHER EDUCATION

Overview: The May Revision generally maintains the Governor's January proposals for higher education, including 4% base increases ($125 million, each) for UC and CSU. The main changes include minor P98 related increases for Community Colleges and a shift of estimated savings from the Middle Class Scholarship (MCS) to a few new higher education proposals.

California Students Should Be Top Priority. The UC system was given an additional $25 million in 2015-16 with an expectation to increase resident enrollment by 5,000 students, among an additional lengthy list of reforms/initiatives. California resident enrollment declined in 2015-16 while nonresident enrollment increased much more than anticipated. However, UC believes, and the Department of Finance concurs, that it will meet the net enrollment increase target for the 2016-17 school year. Thus, the Governor proposes that the $25 million remain ongoing, but no additional funding for resident enrollment increases is provided. **Assembly Republicans are concerned about increases in nonresident enrollment and declines in resident enrollment, and remain vigilant regarding UC's progress in this area. California students should be our highest priority.**

CSU Graduation Rates Unacceptably Low. The Governor proposes $25 million for CSU to increase graduation rates and expresses his desire for CSU to improve these rates through education planning, technology, various policy reforms (possibly outcome-based funding). This funding would come from savings in the MCS program noted above. **Assembly Republicans share concerns about CSU's dismal graduation rates and support shifting to outcome-based funding, but questions remain about how these funds would be used.**

UC Continues to Violate Agreement Not to Increase Student Tuition/Fees. This remains unchanged from January. UC increased mandatory systemwide student "fees" last year and began to separate "fees" and "tuition" to get around the tuition/fee freeze expected by the Legislature and Governor, and that was sold to students to get their support for Proposition 30 (2012) tax increases. In 2016-17, UC plans to again increase the "fee" portion of mandatory systemwide tuition/fees by $51/student,which is a per student increase of about $100 over 2 years. UC has also publically stated it will begin to increase statewide mandatory student "tuition" beginning in 2017-18. Proposition 30 tax increases were sold to students as a way to keep their mandatory tuition/fees from increasing. **It is clear that an extension of these taxes will not stop tuition/fee increases for higher education.**

Modified California Community College (CCC) Proposals. The changes in May include a shift of some funding from the Governor's deferred maintenance proposal to support a $75 million base increase and modest increases in one-time ($37 million) and ongoing ($36 million) P98 funding, which support a variety of smaller spending increases.

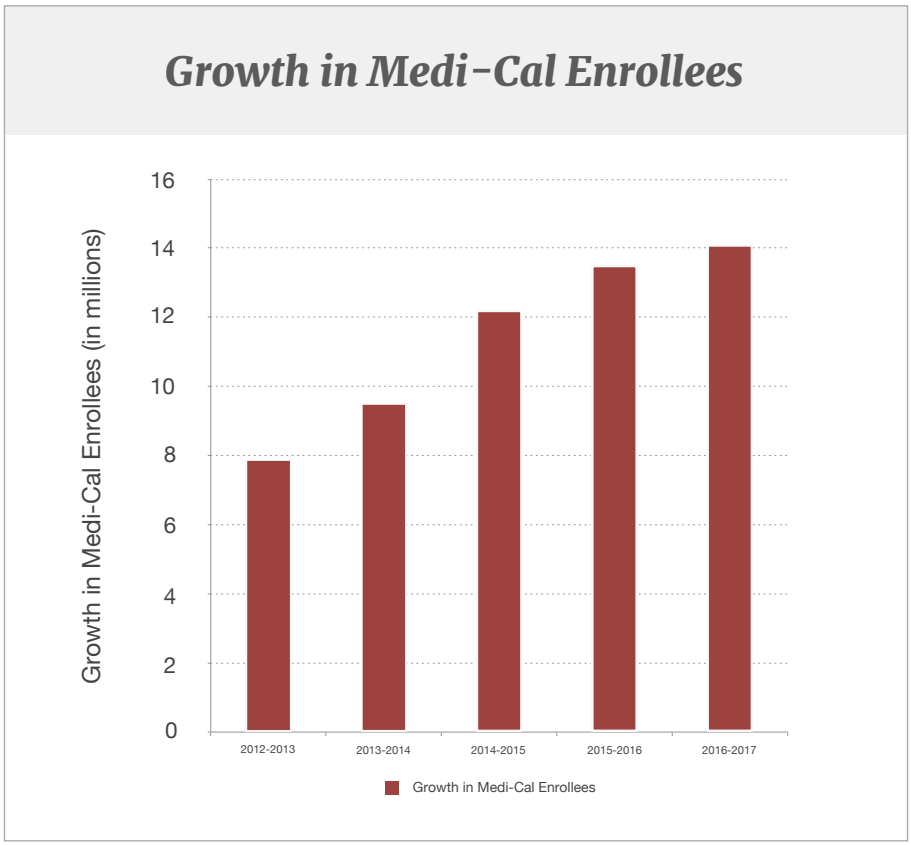
CCC Access Award for CTE Students. One of the CCC increases noted above is for the Full-Time Student Success program, which currently provides supplemental "access" awards (cash aid) for Cal Grant B recipients. The May Revision includes an additional $2.2 million to expand the program to include Cal Grant C recipients (those in career-technical education or workforce programs), which is consistent with both the desire of workforce development industry and advocates to enhance the Cal Grant C access awards and Assembly Republican support for improving access to CTE.

Savings in Cal Grants, but Funding Shifted Away from Financial Aid. Beyond cost estimate adjustments and a $283 million increase in Temporary Assistance to Needy Families (TANF – federal welfare funds) that offset General Fund resources, the major changes to the Cal Grant program include a reduction of $33.5 million for the Middle Class Scholarship program, which adjusts the funding to meet program current demand. The Governor uses a portion of the $33.5 million to fund the $25 million for the CSU graduation rate proposal noted above.

Governor Fails to Provide Parity in the Cal Grant Program. Assembly Republicans believe it is important to have parity in the Cal Grant program by restoring the Cal Grant award for students attending private, nonprofit colleges/universities, which promotes student choice and can save the state money. **Savings from the revised MCS funding could support this parity, but unfortunately the Governor failed to address this significant issue.**

May Revision Maintains Funding for UC Labor Institutes. As in January, increased funding from last year's budget for UC Labor Institutes ($4 million) remains, as the Governor merely removed the $6 million earmark. **Assembly Republicans think it is inappropriate to use taxpayer money for political activities and no other special interest groups enjoy this kind of extraordinary treatment.**

HEALTH & HUMAN SERVICES



Health and Human Services Overview. The May Revision includes $33 billion in General Fund (GF) spending ($141 billion total funds), which is a decrease of $747 million GF from the Governor's January Budget for Health and Human Services programs. This reduction is largely due to the passage of the Managed Care Organization (MCO) financing plan that is bringing in $1.1 billion of new funding from the federal government, which reduces the burden on California taxpayers.

As reflected in the chart above, 14.1 million people will be served by Medi-Cal in 2016-17, and this figure continues to rise. This is nearly 80 percent more than just 4 years ago. This rapid enrollment increase is driving billions of dollars in new state costs. Moreover, it is unclear if these 14.1 million people are able to access quality health care services, or even if they wish to be on Medi-Cal at all. **Assembly Republicans believe that we should allow parents to opt out of Medi-Cal and include their children on the parents' Covered California plan if they so desire as proposed by AB 1839 (Patterson).**

Critical Need to Fix Denti-Cal. The Governor failed to include any additional funding for Denti-Cal despite the request for an additional $200 million General Fund for the program by both the Assembly and Senate Republican Caucuses. A scathing, bipartisan Little Hoover Commission report entitled "Fixing Denti-Cal," detailed in stark terms the failure of California's Denti-Cal program. The inability to obtain proper dental care, particularly preventative care, can have significant long-term impacts. **A lack of access to dental care can result in expensive emergency room visits, missed school days, and ultimately poorer academic performance and lost job opportunities. This contributes to multi-generational poverty and increased social costs for taxpayers.** Denti-Cal is unable to attract enough dentists to provide adequate access to care due to chronic underfunding. Reimbursement rates for the top 10 children's dental services paid in California are only 35% of the national average. Eleven counties have no dentists willing to accept new patients covered by Denti-Cal, and five counties have no Denti-Cal providers at all. **Fixing Denti-Cal is a priority for legislative Republicans.**

Managed Care Organization (MCO) Financing Plan Working as Intended. The MCO financing plan package approved in early March is operating exactly as planned. Medi-Cal General Fund expenditures are lower for 2016-17, and the budget includes more than $300 million in reduced taxes on health plans, which should result in reduced premium costs for many Californians. Once the federal government gives the plan final approval, expected this month, $1.1 billion in federal matching funds will begin to flow back to the state, **savings which Assembly Republicans successfully directed toward better services for the developmentally disabled, keeping skilled nursing facilities open, and paying down more than $400 million of existing state debt.**

CalWORKs Can Do Better. The Governor's wariness is justified regarding legislative Democrat's proposal to repeal the Maximum Family Grant, which increases cash aid to CalWORKs recipients for each child born after the recipient begins receiving CalWORKs welfare grants. Repeal of the Maximum Family Grant would cost the state $360 million, and there are better alternatives to help lift people out of poverty than simply increasing their welfare payments when they have more children. Assembly Republicans have proposed educational incentives and increased support for those on CalWORKs based upon increased educational attainment (AB 2058, Mayes). Education is a great equalizer that can provide new hope and opportunity for those on welfare. **By providing positive incentives for parents to achieve educational milestones that increase job opportunities and lifetime earning potential, we can help break the cycle of poverty for them and their children.**

Breaking the Promise of Foster Care Reform. The Governor has failed to fully fund his own Continuum of Care Reform initiative. While $67 million was added to cover the state's implementation costs, Assembly Republicans generally agree with advocates that inadequate resources are being allocated for "child and family teaming" and other activities critical to success. **Assembly Republicans want to keep the promises made to foster youth** through bills such as AB 1984 (Linder), which provides grants for enrichment and extracurricular activities—"normalization" efforts deemed critical to successful foster youth placements.

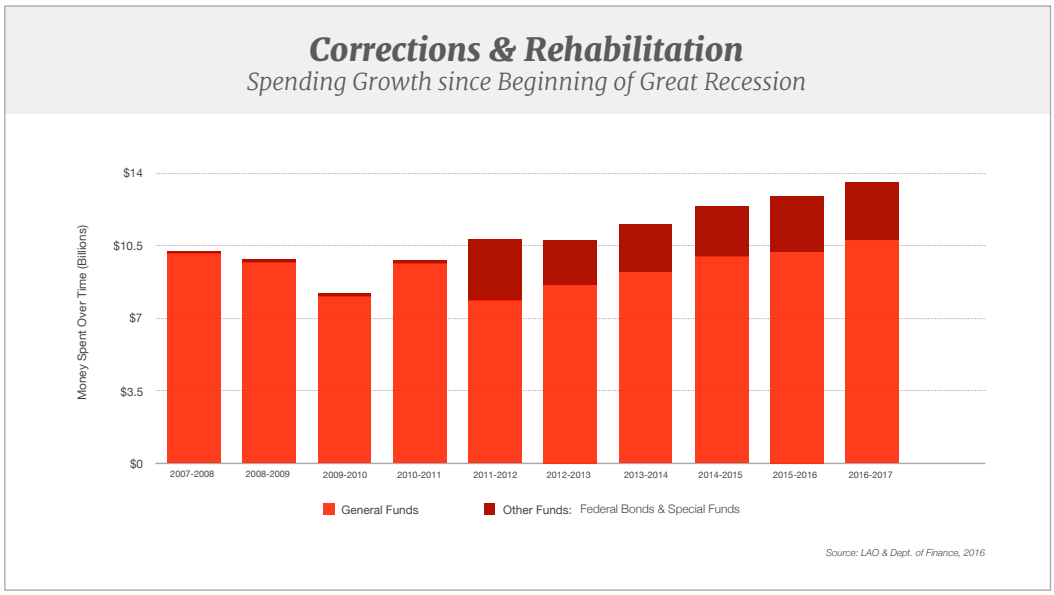
Minimum Wage Increase Hurts the Developmentally Disabled. Assembly Republicans remain vigilant in protecting the developmentally disabled community, and share their concern that the recently enacted statewide minimum wage increase will harm the progress made with provider rate increases negotiated earlier this year. It will have harmful consequences through wage compaction, leading to difficulty in retaining the best-trained staff. The minimum wage increase also will create higher costs for providers if there are not additional state funded increases for those provider rates to balance out the pay raises to supervisors that are required by law to make twice the minimum wage. The May Revise includes $12 million GF ($21 million total funds) to offset the impact of minimum wage hikes, **but it is very uncertain if there will be future adjustments in light of the looming budget deficits.**

Care for the Vulnerable at Risk. Some of California's most vulnerable citizens are at risk of losing their In-Home Supportive Services (IHSS) providers as a result of the Department of Social Services' (DSS) failure to adequately prepare to implement new federal overtime requirements for IHSS. The IHSS program provides care to a medically fragile population and plays a crucial role in allowing them to live in their homes. Without clarification of how federal overtime rules affect IHSS providers, recipients may lose their providers and end up in nursing homes – the costliest option to the state. **Assembly Republicans are concerned about a lack of preparedness on the part of DSS that could cost home care workers their jobs, have a harmful effect on vulnerable IHSS recipients, and increase state costs in the process.**

Mobile Field Hospitals Need Additional Funding. The Governor's May Revision includes a proposal for the Emergency Medical Services Authority to redesign the Mobile Field Hospital program to modify and expand the potential uses of the equipment. This approach is intended to allow for flexible deployment to a broad range of emergencies, including earthquakes, fires, floods, severe influenza, a novel virus epidemic, or bioterrorism. **This is consistent with Assembly Republican efforts (AB 1578, Kim) to ensure that resources are ready and available to assist local communities in the event of a natural disaster or other mass casualty incident.** Since there is no funding augmentation in the May Revision for field hospitals, AB 1578 takes on an even greater importance with the Administration's new focus on this program, because it includes $2 million for maintenance and upkeep of the field hospitals.

Cost of Medi-Cal for Undocumented Children Exceeds Estimates. The May Revision includes $188.2 million for 185,000 undocumented children (an increase of $45.4 million) who were made eligible for full-scope Medi-Cal benefits last year. This is an increase over the estimated 100,000 children in the proposed January Budget. With so many current Medi-Cal recipients going without adequate access to care due to a shortage of available providers related to low reimbursement rates, this recent expansion may not be the best use of California taxpayer funds.

LAW & ADMINISTRATION



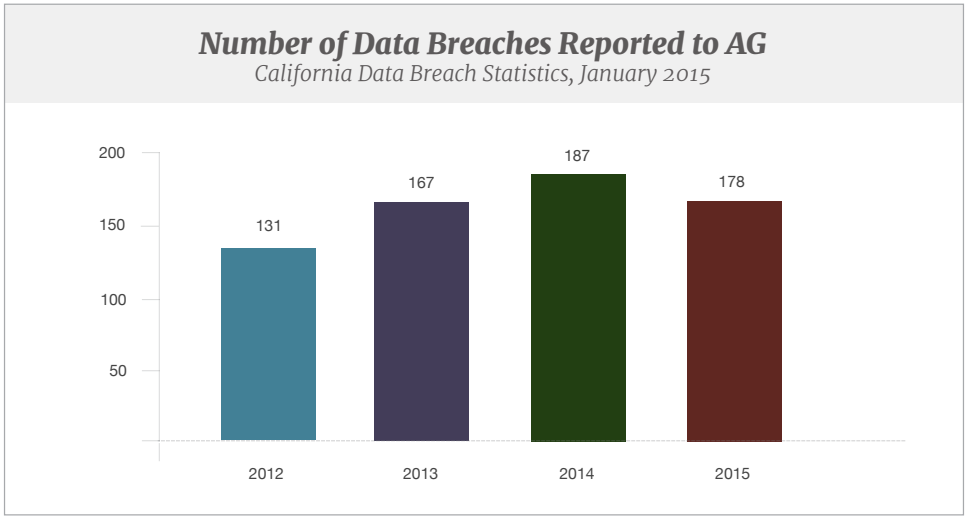
Overview: The May Revision does not include any major policy or budgetary changes; however, it generally continues to ignore the needs of front-line law enforcement, the courts, and gaps in cybersecurity while continuing the Governor's questionable policies with respect to the 2011 Public Safety Realignment and Proposition 47. Assembly Republicans believe the state should provide adequate resources for local law enforcement to protect our communities, help the courts to provide access to justice, and protect Californians from cyber-attacks.

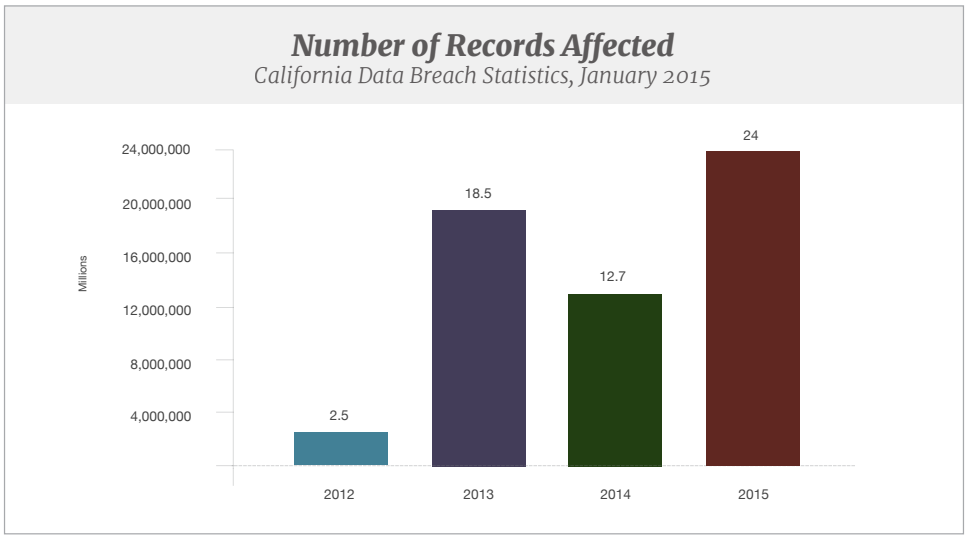
Rising Crime is a Serious Problem. According to the California Police Chiefs Association, both violent crime and property crime increased significantly in 2015 across California and rose faster than crime in the rest of the nation. The May Revision fails to provide sufficient funding for front-line law enforcement to address rising crime rates in California neighborhoods. It includes a $20 million city law enforcement grant and $10 million for compliance with a recent anti-racial profiling mandate. However, it does not provide new funding to address rising crime or the impact of Proposition 47, which reduced penalties for drug possession and property crimes. Both will have major impacts on local law enforcement budgets. **Assembly Republicans generally support providing additional state funds for front-line officers and for enhanced law enforcement training and equipment.** AB 1745 (Hadley) would allocate $85 million for these purposes.

No Money for Prosecuting Human Trafficking. Though the budget includes money for human trafficking victims, it does not contain any funding for prosecuting this offense. **Assembly Republicans believe providing funding for prosecution should be a priority.** AB 2202 (Baker) would provide $2.6 million to local prosecutors for this purpose.

Proposition 47 Savings Shortchanges Rehabilitation. The May Revision retains the methodology used by the Department of Finance to calculate Proposition 47 savings, but increases the amount of estimated savings from 29.3 million to 39.4 million. Using a different methodology, the Legislative Analyst estimated the savings should be $120 million higher. **Assembly Republicans do not want to see these funds diverted to other spending and sent a letter that requested the Department of Finance to allocate the full $129 million for diversionary programs and treatment grants, truancy prevention, and victim services as provided in Proposition 47.**

Governor Underestimates Cybersecurity Risk. The May Revision provides no additional funds for critical infrastructure cyber-defense or risk assessments as mandated by legislation passed last year. The Governor continues a proposed increase of $1.6 million, which is 1/1,000th of one-percent (0.001%) of all state expenditures, to fund an information security audit program that will review all departments for compliance with information security requirements. By comparison, Google spends almost one-third of its revenues on cybersecurity. **Considering that cyber-threats are increasing, as evidenced by the increases in data-breaches statewide shown by the charts below, more resources should be directed to protecting the sensitive information of Californians.** AB 2595 (Linder) seeks to make use of federal homeland security grant funds reflecting the Governor's Executive Order issued last year.





No Funding for New Trial Court Judgeships. The May Revision fails to include money for new judgeships. However, according to the Judicial Council of California, it has approval to sponsor separate legislation to require it to develop a methodology to allocate up to five vacant positions. The May Revision subtracts two vacancies each from Alameda and Santa Clara and adds two judgeships each to San Bernardino and Riverside. Nonetheless, more judges are needed. **Assembly Republicans support additional resources for new judgeships and are particularly concerned that rural and suburban areas seem to be the most impacted by inadequate trial court judgeship funding.**

Trial Courts Left with Inadequate Reserves. The Judicial Council's projections show a trial court funding gap of over $240 million under the proposed Governor's Budget. This severely limits access to justice for millions of Californians who rely on those services. The current one percent cap on trial court reserves imposed by Democrats in 2014 restricts the ability of trial courts to reopen courtrooms or plan for things such as technology upgrades, and requires the state to supply funding for projects that should be paid out of court reserves, such as the court case management systems being replaced in the superior courts of four counties. **Assembly Republicans generally support increasing or lifting the cap placed on trial court reserve funds in order to give courts greater flexibility to meet short-term and long-term needs as proposed by AB 2458 (Obernolte).**

Corrections Population Remains Relatively Flat. The May Revision includes an increase in the budget for the Department of Corrections and Rehabilitation from $10.5 billion to $10.6 billion despite the relatively flat prison population. Specifically, the May Revision includes a decrease of $11.6 million General Fund (GF) in 2015-16 and a $9.8 million decrease GF in 2016-17 to account for changes in prison population. The updated prison population projection is an increase of 578 to 128,259 inmates in the current year, a decrease of 13 to 128,821 inmates in the budget year, and keeps the population under the 137.5% of "designed capacity" federal cap. It also includes $24.5 million for additional rehabilitation programs, which are intended to expand programming opportunities for inmates.

Program Results Should be Measured. The Department of Corrections and Rehabilitation is partnering with the Pew-MacArthur Results First Initiative to conduct an evaluation of the programs offered to inmates and parolees to identify which programs are cost-effective and successful, and to prioritize and expand on effective evidence-based programs based on this analysis. **Assembly Republicans support subjecting rehabilitation programs to cost-benefit analyses and a similar proposal was included in AB 1961 (Gilmore) of 2010.**

Future of Local Jail Construction Funding Uncertain. Assembly Republicans applaud the Governor's proposal of $250 million for jail facility construction funding for counties that have not received an award or received only a partial award. The Sheriffs strongly support this funding. **Assembly Republicans are concerned that legislative Democrats may reject this proposal in order to free up the money for other purposes.** Eliminating this funding would significantly undermine public safety in our communities.

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