

California Consulting, LLC
Fresno COG June 2010 Report

- **180 Braided Ramps**: Again, a special thank you to Malcolm at CalTRANS for his excellent work with us to secure the \$55 million for the 180 braided ramps project. Malcolm, Tony Boren, and CTC Commissioner Darius Assemi and our office executed a team effort that resulted in this major accomplishment for Fresno COG.
- **SB 375**: We continue to work with ARB, Cal-EPA, and the Governor's Deputy Legislative Secretary for Resources on the request to ask for a delay in the implementation of SB 375. As well, we continue to build partnerships with local organizations and perform "coalition-building" work to make this important request.
- **Fresno County Enterprise Zone**: Steve met with Assemblyman Tony Mendoza (D-Los Angeles) regarding the Enterprise Zone issue on June 9 at his Capitol Office. As well, Steve also met with Toni Symonds and Mercedes Flores Consultants from the Assembly Committee on Jobs, Economic Development, and the Economy regarding the Enterprise Zone. This Assembly Committee is the focal point for all EZ work in the Legislature. California Consulting has sent out several EZ updates over the last few weeks and continues to make preservation of the \$400 million EZ funding a top priority. California Consulting has already testified in support of the Mr. Perez's EZ legislation and plans to testify later this month in opposition to SB 974, a bill that seeks to harm EZ's. We encourage all cities to send letters of opposition to SB 974. See previous California Consulting e-mail alerts with a sample letter and details of where to send you opposition letter on SB 974.
- **Economic Development Summit**: California Consulting is organizing an Economic Development summit with special guests from the State. The event will take place in July in the San Joaquin Valley We have already confirmed Joel Ayala as one of the main speakers. Mr. Ayala is the Governor's newly appointed State Director of Economic Development. The summit will also include speakers from BTH and other important state agencies. We will be announcing a date and location for the event very soon. The summit will be a "San Joaquin Valley Economic Development Summit." Details to follow.
- **Highway 99 Bond Savings**: California Consulting continues to work on the Highway 99 bond savings issue. We have sent out numerous

updates on this issue and Tony Boren is very closely involved in this important issue. We have worked with Cal-TRANS Malcolm and Sharri on this issue for several weeks.

- CMIA Savings Round Two: We continue to work on this issue with Cal-TRANS, CTC, and others. We have sent out various updates on the CMIA Round Two issue.
- Education Forum: On July 8 California Consulting is hosting an Education Forum for school districts, cities, counties, and others. Topics will include Proposition 98, Race to the Top, SIG funding, QEIA status update, and State Budget Funding for Education. Special guests speakers from the state will be in attendance including Assembly Committee on Education Chief Consultant Gerry Shelton among others. Please attend and alert your school districts about this important event.
- Capitol Meetings: Steve continues his regular meetings with key leaders to discuss Fresno COG issues. Recent meetings have included the Offices of Senator Florez, Assemblyman Villines, Senator Cogdill, CTC Commissioner Assemi, CTC Executive Director Rhinehart, State Economic Development Director Joel Ayala, Governor's Director of External Affairs Assembly Committee on Jobs, Economic Development and the Economy and others in Sacramento.

Senate Budget's Analysis of the Governor's May Revise Proposal

Subject: Senate Budget's Analysis of the Governor's May Revise Proposal
From: Steve Samuelian <steve@californiaconsulting.org>
Date: Fri, 21 May 2010 16:50:09 -0400 (EDT)
To: carrol@californiaconsulting.org



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45 pgs

Attached is the Senate Budget Analysis of the May Revise proposed by the Governor. This information was provided to California Consulting compliments of the Office of Senate Majority Leader Dean Florez.

Subject: LAO Report on Costs of Implementing AB 32
From: Steve Samuelian <steve@californiaconsulting.org>
Date: Fri, 28 May 2010 16:15:30 -0400 (EDT)
To: carrol@californiaconsulting.org



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Please find below the Legislative Analysts Office report regarding the costs of Implementing AB 32.



May 13, 2010

Hon. Dan Logue
Assembly Member, Third District
Room 2002, State Capitol
Sacramento, California 95814

Dear Assembly Member Logue:

This responds to your request that we conduct a qualitative analysis of the costs of California taking actions to address the climate change issue, without there being a shared consensus and involvement across the nation in terms of how the issue is addressed. You specifically indicated an interest in the costs California would likely incur following the implementation of AB 32 through the California Air Resource Board's (ARB's) Scoping Plan (SP), compared to states that do not have similar policies in place.

In our analysis below, we:

- Identify the main economic effects that implementation of the SP will likely result in, including the important concept of "economic leakage."
- Discuss the various factors that will determine how significant the economic leakage problem might be, including steps the state could take to minimize economic leakage.
- Conclude with our overall assessment of the costs the state will likely incur by implementing the SP without there being a national consensus about what climate policy should be.

Principal Findings. California's economy at large will likely be adversely affected in the near term by implementing climate-related policies that are not adopted elsewhere. This is in large part because such policies will tend to raise the state's relative prices for energy, such as electricity. This, in turn, will adversely impact the state's economy through such avenues as causing the prices of goods and services to rise; lowering business profits; and reducing production, income, and jobs. These adverse effects will occur in large part through economic leakage, as certain economic activity locates or relocates outside of California where regulatory-related costs are lower. While it is true that there will be both winners and losers under the SP, including gains in so-called "green" jobs, the net economy-wide impact in the near term of implementing the SP in the absence of like policies in place elsewhere will in all likelihood be negative. Compared to the size of California's economy, however, these adverse impacts likely will be rela-

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tively modest. However, for certain industries and firms, the negative impacts could be more significant.

OVERALL ECONOMIC EFFECTS OF THE SP

In a previous analysis, we indicated our view that the overall economic effect of the SP will likely be (1) negative in the near term (in large part due to the various dislocations that will occur in the economy) and (2) unknown in the longer term (depending partly on the specific ways in which the SP's individual provisions are implemented). In both cases, however, we indicated that the economic impacts would likely be modest relative to the overall size of California's economy.

The two principal avenues by which the SP will adversely affect the level of economic activity in California involve increased energy prices and the need for new investments. The exact impacts in these areas will depend to a significant extent on exactly how the SP's measures are designed and phased in. This includes how certain currently unresolved issues are ultimately decided such as the use of "safety valves" (that is, provisions that help to administer SP measures so as to avoid certain undesired effects) for various programs, how carbon emission allowances would be allocated or auctioned, and how California's SP measures would phase out or change if certain regional or national policies came into effect.

The higher energy prices anticipated under the SP arise because of such factors as the increased costs of using alternative fuels, reducing the carbon content of fuels, and placing caps on the quantity of emissions permitted. Regarding the need for increased investments, some of these will be required in order to comply with the SP's regulatory standards, whereas others will be undertaken by businesses as least-cost approaches to meeting the SP's requirements. For example:

- The proposed cap-and-trade (C&T) program may require businesses to acquire emission allowances. Affected businesses, primarily in the utility and manufacturing sectors, may need to buy allowances from the state or from other participating entities. Allowances will be accounted for like other productive assets such as commercial real estate.
- The Low Carbon Fuel Standard (LCFS) places requirements on the transportation sector as a whole, not on specific businesses. Regulated businesses include producers or importers of fuel, fuel dispensers, and suppliers of fuel. Businesses that make relatively high carbon-intensity fuels may make investments in research, development, or production of relatively low-carbon fuel in California.

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THE PHENOMENON OF ECONOMIC LEAKAGE

When the relative costs of doing business in California change compared to those in other states and nations, businesses take this into account in making their decisions about where to locate their activities. Specifically, when the costs of doing business in California rise, certain firms may decide to relocate outside of California, not expand in California, or make other similar types of adjustments. This is referred to as "economic leakage." Because implementation of the SP is expected to cause energy prices in California to rise and firms to face certain investment requirements, the costs of doing business in California will increase and cause such economic leakage to occur. Economists who study climate policies have emphasized the importance of being aware of the potential for economic leakage in designing such policies and determining their ideal geographic scope of coverage. There are two reasons for this. First, the greater the amount of economic leakage that occurs, the greater will be the net adverse economic impacts of a policy on the adopting governmental jurisdiction. Second, economic leakage will lessen the net amount of greenhouse gases (GHGs) reductions a given climate policy generates, since the economic activity that is shifted will also generate GHGs.

Is California at Risk? Economic leakage tends to be greatest when the jurisdiction adopting a given policy is small relative to its competitors, such as in the case of a local government. California, in contrast, is a very large economy. Despite this, however, it too has to be concerned about economic leakage. This is because it directly competes with other states and nations, and economic activity can be fairly mobile over time across borders in today's modern economy.

The ARB Has Not Effectively Analyzed Economic Leakage. Despite the potential importance of leakage, ARB's evaluation of economic leakage within its economic analysis of the SP is deficient. This in part is because the economic model used by ARB is not well suited to analyze leakage, including being able to provide the necessary detail about how leakage affects individual industries and sub-industries.

What Factors Determine the Extent of Economic Leakage?

The extent to which economic leakage will occur under the SP will depend largely on four factors:

- *Importance of Trade-Related Activities.* Industries that are highly active in interstate and international trade, whether with respect to their final outputs or the inputs they rely on, will be especially vulnerable to economic leakage. This is because of their sensitivity to relative prices and costs in the different geographic areas where they do business.
- *Importance of Energy-Dependent Activities.* Industries highly dependent on energy as an input to their production processes also will be especially af-

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affected by the SP in terms of economic leakage because of the higher energy prices that the SP will cause.

- *Climate Policies in Other Jurisdictions.* The greater the extent to which California's climate policies are outliers compared to those of other states, the greater will be the potential for economic leakage.
- *Extent to Which Mitigating Actions Are Undertaken.* To the extent that certain steps are taken to mitigate the adverse economic consequences of the SP's provisions, economic leakage will be reduced. These steps can include a phase-in of regulatory provisions and specific cost containment policies.

We discuss these key determinants of economic leakage further below.

HOW SIGNIFICANT MIGHT ECONOMIC LEAKAGE BE FOR CALIFORNIA?

Pinpointing the exact amount of leakage that California might experience under the SP is difficult, partly due to data limitations and partly because certain businesses will be able to fully or partially "pass" or "shift" their higher costs associated with energy prices and investment requirements on to consumers, workers, or shareholders. To the extent such shifting occurs, it would mitigate the extent to which businesses would have their profitability adversely impacted by the SP, thereby potentially reducing leakage. Absent such shifting, however, in terms of the four key factors identified above that are principal determinants of the amount of leakage, we can say the following.

Trade-Related Activities

Because California is a relatively open economy that relies heavily on trade-related activities, one would expect that leakage under the SP could potentially be a significant problem, all else constant. Firms involved with significant trade-related activities are often dealing with larger markets which they have limited ability to influence. As a result, they tend to be "price takers" who are often unable to pass their increased costs forward in the form of higher prices because they will lose sales and significant market share to competitors. Such firms will thus have a stronger incentive to shift their activities to locations out of state where there is no need to increase prices. In the case of the SP, this means shifting to locations where they do not face the higher energy prices and investment requirements associated with SP provisions.

Energy Intensity

California has a number of industries that are relatively energy-intensive and thus would be susceptible to leakage due to higher energy prices in California versus elsewhere. Examples of such industries include those producing or refining aluminum, chemicals, forest products, glass, metal castings, minerals, petroleum, and steel. While it is true that California is relatively more energy-efficient than are other states and this

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mitigates its susceptibility to leakage, energy-intensive activities still are prone to experiencing leakage under the SP.

Industries That Are Both Trade-Exposed and Energy-Dependent Are Particularly Vulnerable

Given the above, industries whose production processes are highly reliant upon energy as an input, are engaged in trade-related activities, and encounter a high level of competition from outside the state would be particularly susceptible to leakage. To the extent that a firm in these circumstances has the ability to relocate, it may feel greater pressure to do so as its costs of production increase due to the SP. However, the extent to which it does so will at the same time be influenced by other factors—such as proximity to its customer base and access to a qualified labor force. These factors may in some circumstances outweigh the pressure created from increased cost of inputs. For example, the petroleum industry may realize an increase in production costs due to increased energy prices. However, taking into consideration the large amount of capital invested in infrastructure within California, the close proximity to one of the West's largest customer bases, and the difficulty associated with permitting these types of facilities, it is unlikely that such firms in the near term will seek to relocate outside of the state. Instead, these firms will likely seek other means to compensate for increased costs. This may mean greater investment in technological efficiencies or firms may simply attempt to pass increased costs on to their customers.

Small Share of California's Economy Falls Into This Highest-Risk Category. Over the past several decades, the make-up of the California economy has shifted to what many consider to be primarily service-based activities. As such, a relatively limited percentage of the state's economy is comprised of industries which are both highly trade-exposed and highly energy-dependent, and thus highly susceptible to leakage. This means that instead of significant economic leakage, the SP will likely result in inflationary pressure throughout the state's economy. This is due to the fact that, while we may not see a large exodus in a majority of California's industries, most will nonetheless seek a means by which to compensate for their increased costs of production. Since energy in some form is an input in the production of most goods and services, we would expect to see such price effects occur throughout the economy.

Climate Policies Adopted Elsewhere

In terms of this third determinant of the degree of economic leakage under the SP, California's climate-related policies, compared with those adopted elsewhere, are generally both more aggressive and more comprehensive. Adoption of the SP would not amount to California literally "going it alone" in the climate area, however, because other states have, to varying degrees, adopted certain of their own climate-related policies. This would work to somewhat reduce the degree of economic leakage that would occur under the SP.

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Brief Review of California's SP Policies. The SP contains a diverse set of 72 measures now in various stages of design and implementation. Each will affect the economy to some degree. The three largest programs, which account for roughly half of planned GHG emission reductions, are the C&T program, the LCPS, and the Renewable Portfolio Standard (RPS).

- Under the C&T, an overall limit on aggregate emissions from a short list of covered entities will be established. The cap will shrink over time and entities subject to the cap will be able to trade permits (allowances) to emit GHGs.
- The LCPS establishes performance standards that fuel producers and importers must collectively meet each year beginning in 2011. Each standard is set to tighten gradually to achieve an average 10 percent reduction in the carbon intensity of the statewide mix of transportation fuels by 2020.
- The RPS as it is currently being proposed would require each electric utility to increase electricity procurement from renewable sources over time. By 2020, at least 33 percent of the utility's overall electricity portfolio must be procured from renewable sources such as wind, geothermal, solar, biomass, and small hydro. Specific interim targets are still under development.

The other roughly half of planned GHG emission reductions is due to a wide variety of other programs, including such things as building standards.

What Have Other States Done? Currently, 35 other states have adopted an RPS. In addition, there is a federal LCPS although it is less restrictive than California's, and a 12-state consortia in the Northeast is in the process of developing a similar standard. Development of a California C&T regulation continues within the context of the Western Climate Initiative, a collaboration of western states and Canadian provinces that together would form a trading market for carbon credits. In those cases where climate policies are actually in place, these would, to varying degrees, reduce the economic leakage problem that implementing the SP would involve.

We have not had the opportunity to thoroughly assess the specifics of other states' climate-related policies and how they compare to California's SP. Doing a detailed analysis is important because two jurisdictions can appear to both "have" a climate policy of a given type, but in reality not be at all comparable due to such factors as differences in phase-in provisions and coverage. Our preliminary assessment, however, is that while these state policies would reduce the amount of economic leakage California would otherwise experience to a material degree, they would by no means eliminate it. As noted earlier, taken together, California's policies are both more aggressive and more comprehensive than elsewhere. An exception involves the RPS, where California's policy is not all that much of an outlier.

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A significant potential for economic leakage caused by the SP will most likely arise from the implementation of a C&T program. This is due to the fact that only a small number of states nationwide currently have such a program. Although C&T is being considered at the national level, it appears unlikely that Congress will come to an agreement on the issue this year. While it would be highly preferable to move forward with such a market mechanism on a national as opposed to state level, there are steps California can take to mitigate the adverse economic impacts and potential for leakage due to the state moving forward on its own, with the implementation of such a policy (see below).

SP Implementation Decisions

In terms of the fourth determinant of economic leakage—that is, the extent to which mitigating actions are taken through the design of the SP's measures and the way they are implemented through the regulatory process—the exact outcome here remains to be seen. Examples of things to consider include the following.

Phase-In Periods. One obvious means of mitigating the leakage problem is to phase in the SP's provisions over time. The goal should be to find an appropriate phase-in speed that avoids particularly harsh economic side effects. For example, economic leakage might be reduced by giving firms ample time to arrange for making their required investments without encountering significant financial stress. This could be especially important for small business with limited access to capital markets. In recognition of this concern, a number of the SP measures are planned to be phased in over time.

RPS-Related Considerations. Key considerations here include both the overall percentage of renewable procurement required by state standards, the pace at which standards are phased in, as well as the provision for trading of renewable energy credits. By providing greater compliance flexibility, the state may be able to reduce leakage and reduce impacts on energy prices. As California moves forward with the implementation of its RPS program, many cost containment provisions are being designed and considered by California regulators.

C&T-Related Considerations. One issue here is giving consideration to allocating emissions allowances in order to limit the potential for negative economic exposure that an auctioning of allowances could cause. For example, one option would be to consider a free allocation of allowances in the initial years of the program—with an eventual phasing in of an allowance auction. Such an approach may serve to limit some of the economic burden the C&T program will place on carbon-intensive industries and may thus minimize the potential for economic leakage in these sectors.

Conclusion Regarding Economic Leakage

Quantifying the net impact of the above factors on leakage is not possible, for a variety of reasons. For example, to our knowledge, no one yet has evaluated which Califor-

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ria industries are highly leakage prone. Such an evaluation would be a difficult task because it involves not only such factors as an industry's use of energy and trade-related activities, but also other factors like its overall competitive environment.

That said, we believe industries highly susceptible to economic leakage comprise only a modest share of the state's economy, for several reasons. First, the contribution to the state's economy of broad industry classifications identified as susceptible to international leakage from national energy and climate policies—such as petroleum refining, aluminum production, or glass making—is relatively small, based on Economic Census data. Second, only specific industries in those broad classifications are likely to be highly leakage prone. Third, the profitability differences among states required for significant leakage in the near term may be fairly high for certain members of broad, susceptible industry classifications, such as mining or heavy manufacturing. Fourth, many businesses in these sectors have significant market power, and so should be able to pass on portions of their cost increases associated with the SP to consumers. In those situations, leakage might be less of a concern, although adverse economic impacts could occur in other ways (such as higher prices to consumers).

Taking all this into account, we believe that the most likely outcome with regard to economic leakage of implementing the SP in the absence of similar policies in place elsewhere is that a modest amount would occur.

LAO BOTTOM LINE

In considering implementation of the climate policies contained in ARB's SP, the Legislature will need to balance both the risks and potential benefits involved. To the extent California proceeds with implementing climate policies that are different and more stringent and comprehensive compared to those that have been adopted elsewhere in the nation, it faces risks that:

- Certain specific companies within our current economy that are adversely impacted by SP's measures may significantly reduce their business activities in California. These are most likely to lie within broad energy-intensive and trade-sensitive industries such as producers or refiners of aluminum, chemicals, forest products, glass, metal castings, minerals, petroleum, or steel.
- Such economic leakage may be mitigated, however, although not eliminated, by the adoption of certain climate-related policies in other jurisdictions, various accommodative design features associated with the actual implementation of the SP's measures, and growth in other sectors of the economy that will likely be stimulated by the SP, such as in the "green" economy.

Although there are very substantial shortcomings in the data and modeling available to accurately assess the relative quantitative magnitudes and probabilities of eco-

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economic leakage, we believe the likely adverse impact on the economy of economic leakage is probably modest.

Should you have questions regarding this information, please feel free to contact Tiffany Roberts at 319-8309 regarding specifics about AB 32 and the SP, and James Nachbaur at 319-8365 regarding economic issues.

Sincerely,

Mae Taylor
Legislative Analyst

Subject: Education Update - Breaking News
From: Steve Samuelian <steve@californiaconsulting.org>
Date: Tue, 1 Jun 2010 15:25:41 -0400 (EDT)
To: carrol@californiaconsulting.org



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Attached are four important documents relative to the breaking news at the State Capitol that impacts Education. Please review the attached items and let me know any feedback. Thanks.
Steve Samuelian, California Consulting, LLC

1. SIG Update
2. Assembly Budget Action
3. Senate Action



JACK O'CONNELL
STATE SUPERINTENDENT OF PUBLIC INSTRUCTION

May 27, 2010

Dear County and District Superintendents and Charter School Administrators:

**EXTENDED DEADLINE—SCHOOL IMPROVEMENT GRANT
UNDER THE ELEMENTARY AND SECONDARY EDUCATION ACT,
SECTION 1003(G), COHORT 2010-11**

The deadline of June 1, 2010, for submission of School Improvement Grant (SIG) applications was established with two conditions in mind 1) the U.S. Department of Education (ED) requirement that any local educational agency (LEA) receiving a SIG subgrant must begin implementation the first day of the 2010-2011 school year, and 2) timely review and approval of California's state application by ED. As of today, California's application has not yet received approval from ED and is part of a larger pool of applications still to be fully reviewed.

Therefore, the application due date has been extended until such time as California receives approval from ED. However, no substantive changes are anticipated to the Request for Applications (RFA) currently posted in DRAFT form on the CDE School Improvement Grant Web page located at <http://www.cde.ca.gov/sp/siw/1/sig09.asp>. LEAs that anticipate applying for SIG funds should continue to assess needs and to develop strategies and proposed budgets in anticipation of final approval of California's state application. Any LEA that submits its application before the state application is made final will be contacted and given the opportunity to provide any additional information, if necessary. Once approval is granted by ED, LEAs will be notified of the new deadline. Please be aware that the timeline for submission of your SIG application to the CDE at that point will be very short, therefore, LEAs are strongly encouraged to continue developing their applications based on the current draft RFA. It is also important to note that the timeline established by ED for the implementation of any approved SIG is the first day of school for the 2010-11 school year.

If you have any questions regarding this subject, please contact Julie Baltazar, Education Administrator, the Regional Coordination and Support Office, by phone at 916-319-0833 or by e-mail at jbaltazar@cde.ca.gov.

Sincerely,

/ds/

Deborah V.H. Sigman, Deputy Superintendent
Curriculum, Learning and Accountability Branch

DS/ds

Assembly Proposition 98 Proposal 2009-10		In Millions of Dollars
July Budget Proposition 98 Funding Level		50,418
K-12 revenue limit adjustments		-195
Replace ongoing funds with one-time funds (no program effect)		-500
Assembly Ongoing Proposition 98 Funding 2010-11		49,723
Governor's May 2010-11 Spending Level		48,442
Restore revenue limit reductions		1,513
Restore child care reductions		1,429
Pay mandate backlog		1,366
Restore K-3 CSR reduction*		225 (plus \$325 million of one-time funds)
Do not apply negative COLA		230
Emergency Repair Program		61
Redirect DJJ savings to county court schools		23
Restore revenue limit reductions from prior years (balancer)		226
Other		342
CCC Economic Workforce Development Fund		100
Restore prior year Community College reductions		38
Proposition 98 reserve		325
Assembly 2010-11 Spending Level		54,308
*Total program savings for 2010-11 is \$500. Use \$325 million of one-time prior year K-3 CSR savings to fully restore the program.		

SUBCOMMITTEE NO. 2 ON EDUCATION FINANCE

MAY 27, 2010

AGENDA

ASSEMBLY BUDGET SUBCOMMITTEE NO. 2 ON EDUCATION FINANCE

Assembly Member Wilmer Amina Carter, Chair

THURSDAY, MAY 27, 2010
STATE CAPITOL, ROOM 444
9:00 AM

PART 2

ITEMS TO BE HEARD

ITEM	DESCRIPTION	PAGE
6110	DEPARTMENT OF EDUCATION	
ISSUE 1	PROPOSITION 98 PACKAGE	
	ATTACHMENT - A	
	PROP. 98 PACKAGE	
	ATTACHMENT - B	
	CCC PLAN	

ITEMS TO BE HEARD

6110 DEPARTMENT OF EDUCATION**ISSUE 1: PROPOSITION 98 PACKAGE**

The issue for the Subcommittee to consider is the total Proposition 98 funding level provided to K-14 schools for 2009-10 and 2010-11.

PANELISTS

- Legislative Analyst's Office
- Department of Finance

BACKGROUND:

Overall Proposition 98 Adjustments. The attached spreadsheet provides detail of the proposed Proposition 98 alternative funding plan per the California Jobs Budget. The proposed alternative to the Governor's Budget makes the following adjustments:

2009-10

- Funds schools at the 2009-10 July Budget funding level, with minor workload adjustments, providing a total of \$50.2 billion. Of this amount, \$500 million is provided in one-time funding. This funding level is \$300 million higher than the Governor proposes to provide for 2009-10. This funding assumes settle-up payments of \$1.7 billion
- Approves the Governor's May Revise proposal to withdraw \$250 million in General Fund prepayments for the K-12 QEIA program in 2009-10 and restores payments in 2010-11

2010-11

- Funds the Proposition 98 minimum guarantee at \$54.3 billion. To meet this minimum guarantee, \$3.9 billion for K-12 education and \$1.4 billion for child care is provided from Jobs and Economic Security Fund. This overall funding level provides \$5.9 billion more than the Governor's proposed funding level of \$48.4 billion

Highlights of the K-12 and child care adjustments:

- Restores the Governor's proposed reduction of \$1.5 billion to school district and county office of education revenue limits
- Restores the Governor's proposed reduction of \$1.4 billion to child care programs

SUBCOMMITTEE NO. 2 ON EDUCATION FINANCE

MAY 27, 2010

- Pays down the "education credit card" by providing \$1.3 billion to pay off all prior year mandate claims¹.
- Rejects the \$207 million negative COLA proposal.
- Provides \$51.0 million for the Emergency Repair Program (ERP) to satisfy 2008-09 Budget Act commitments.
- Partially restores revenue limit reductions from prior years.

Community College Adjustments

- Approves \$48 million in Quality Education Investment Act (QEIA) funds for CTE Pathways, but rejects the \$20 million General Fund augmentation for CTE Pathways.
- Approves \$10 million General Fund restoration for Extended Opportunity Programs and Services (EOPS).
- Approves \$10 million General Fund restoration for Part-Time Faculty Compensation
- Rejects moving CTE Pathways out of the flex item and rejects moving EOPS, Basic Skills, and Fund for Student Success in the flex item.
- Rejects the \$23 million negative COLA proposal, increasing the Apportionments items by over \$22 million.
- Provides approximately 2 percent enrollment growth, or \$91 million.
- Restores \$35 million for prior year reductions to student support/categorical programs.
- Restore an additional \$35 million in prior reductions to Apportionments.
- Provides \$100 million from the Jobs and Economic Security Fund for the Economic and Workforce Development Program. This program advances the state's economic growth and global competitiveness through education, training, and business development.

Staff recommendation: Approve Proposition 98 package per the attached.

¹ This does not include the high school graduation exam, which the Administration is currently challenging as a reimbursable state mandate. The estimated costs associated with this mandate are \$200 million annually with \$2.3 billion in prior year claims.



The California Jobs Budget

**John A. Pérez
Speaker of the Assembly**

**Bob Blumenfield
Chair, Assembly Budget Committee**

May 25, 2010

The California Jobs Budget: Introduction

The California economy has been battered by the Great Recession. In recent years more than one million Californians have become unemployed and the unemployment rate has nearly doubled to 12.6 percent.

Fortunately, economic data indicates that California has hit bottom and is on the rebound, though the recovery will likely be somewhat sluggish and job growth will be slow.

With the potential for a sluggish recovery, it is critical California enact a budget that boosts the private sector job growth that has begun and that does not undermine this growth through massive local government and school district job cuts.

Unfortunately, the Governor's May Budget Revision does undermine a jobs recovery. Just when California needs job growth more than anything else, the Governor's Budget Revision sacrifices another 430,000 private sector, local government, and local school jobs.

The California Jobs Budget, which will be presented to the Legislature and the public for a full and transparent review, will protect and create jobs while also ensuring minimum funding for schools, public safety, and a basic safety net.

The Jobs Budget matches the priorities of the people of California, as measured by the recent PPIC Poll, and it reflects the contributions of thousands of Californians who have testified and participated in over 50 subcommittee hearings, 12 full committee hearings, and seven Budget Forums held throughout the state.

The centerpiece of the California Jobs Budget is a \$10.1 billion Jobs Package that provides \$1.5 billion for targeted Jobs Initiatives, repays debts to local governments and schools to avoid massive local government layoffs, and maintains critical employment services and training programs that get people back to work and keep them on payrolls and off government aid.

The California Jobs Budget closes the \$17.9 billion General Fund shortfall and ends the year with a \$1 billion final reserve.

Snapshot of the Governor's May Revision

- **More Job Loss:** In total, the Governor's budget eliminates over 430,000 private sector, school, and local government jobs. Cutting jobs, as outlined below, make chances of a strong jobs recovery much worse:
 - Schools are facing layoffs of 35,000 teachers and other important school jobs, yet the Governor underfunds Proposition 98.
 - Local Governments have shed over 20,000 jobs including public safety. The Governor proposes no relief for these community jobs.
 - The Governor proposes elimination of Childcare programs which will force tens of thousands of working poor parents to leave the workforce and put over 50,000 small-business child care providers out of business.
 - The Governor proposes elimination of Welfare-to-Work, which strips critical employment services and takes over \$5 billion out of the state's economy (mostly by losing available federal funds). All told, this will result in over 140,000 lost jobs in the private sector.
 - The Governor proposes \$2 billion in Health Care cuts (Losing \$1.2 billion in federal funds), which translates into 25,000 lost jobs.
 - The Governor proposes to cut IHSS spending in half, which if achieved would mean the loss of 161,000 jobs.
- **Devastates Education:** The Governor cuts \$4.3 billion in Prop 98 spending to schools and childcare. The LAO reports that the Governor's level of funding does not meet Proposition 98 required minimums.
- **Punishes the Working Poor.** The Governor wipes out critical childcare and employment services that enable the working poor to stay in the workforce, and instead forces tens of thousands out of work.
- **Billions In Hidden Borrowing.** The Governor hides \$5 billion in borrowing in his budget (in addition to \$2 billion in acknowledged borrowing). The Governor's attempts to violate Proposition 98, wipe out safety net programs and underfund IHSS will only lead to cost shifts to other parts of the budget and to courts overturning the cuts. These cuts are unachievable and the state will ultimately pay for the costs.
- **Protects Big Oil and Corporate Loopholes.** Keeps California as the only oil producing state that lets Big Oil companies take oil out of our ground and not pay a fee, also protects billion dollar corporate loopholes.

Highlights of the California Jobs Budget

- ♦ **Jobs, Jobs, Jobs.** Puts job creation and protection first, with a \$10 billion Jobs Package that promotes and protects private sector jobs, school, and local government jobs, invests in job training, and jump starts California's clean and green industries and other targeted jobs investments.
- ♦ **Protects Critical Education Dollars.** Rejects Governor's devastating cuts to education and instead meets the Proposition 98 guarantee and puts a stop to the endless cuts to K-12 and Higher Education in order to protect California's future.
- ♦ **Rejects Phony Cuts to Safety Net.** Rejects the Governor's slashing of safety net programs, which would actually cost the state more, and instead maintains welfare to work, childcare, and cost effective alternatives to expensive nursing homes.
- ♦ **No New Broadbased Tax Increase.** Makes no broad based tax increases, and instead delays corporate loopholes and closes the California Oil Severance Tax loophole to generate ongoing funding source for Jobs Package.
- ♦ **Reflects Californians' Priorities.** Reflects Californians' priorities as measured by the recent PPIC Poll
 - **Jobs:** The PPIC Poll shows "jobs and the economy" are by a wide margin the most important issues, and the California Jobs Budget rejects the Governor's proposals to cut 430,000 jobs and instead creates tens of thousands of new jobs.
 - **Education:** The PPIC Poll shows "K-12 Education" as the most important area of the budget to protect from cuts. The California Jobs Budget rejects the Governor's \$4.3 billion in Proposition 98 Cuts and instead fully funds the Constitutional requirement.
 - **Revenues to Maintain Education and Safety Net Funding:** The PPIC Poll shows a majority of Californians support new revenues for K-12 Education, Higher Education, and Health and Human Services. The California Jobs Budget includes no new broadbased taxes, but does delay new tax business tax breaks to avoid cuts to education and the safety net. (The Governor allows the new cuts to take effect and slashes K-12 and safety net funding).

Highlights of the Jobs Package

The centerpiece of the California Jobs Budget is a \$10.1 billion Jobs Fund that will protect against the loss of 430,000 private sector, local government, and school jobs in the Governor's proposal and that will also generate tens of thousands of new jobs.

- ◆ **Generates Billions for Jobs By Closing the California Oil Severance Loophole:**
 - **\$900 million from Oil Severance in 2010-11.** The Oil Severance Tax will generate \$900 million in 2010-11 and billions more each year, to be deposited into the Jobs and Economic Security Fund.
 - **\$9.2 billion by Marshalling other State Resources in 2010-11.** In order to maximize the immediate attack on job losses now, the Jobs and Economic Stability Fund also borrows \$6.7 billion from the California Beverage Recycling Fund¹ and \$500 million from the Disability Insurance Fund (similar to Governor's proposal).
 - **Hundreds of Millions per Year Ongoing.** Beginning in 2011-12, the Jobs and Economic Security fund will have hundreds of millions available for Jobs Priorities, even after making repayments and other required transfers resulting from the 2010-11 Jobs and Economic Security Fund Loans.

Allocation of \$10.1 billion Jobs and Economic Security Funds:

- ◆ **\$1.1 Billion Targeted Jobs Investments.** Provides \$1.1 billion for targeted jobs strategies to develop and strengthen California industries, including green and clean tech industries. These investments can generate tens of thousands more jobs and strengthen California's economy for a generation. This provides a potential funding source for numerous Democratic and Republican jobs bills that are making their way in both houses of the Legislature this year.
- ◆ **\$900 million Repayment to Local Governments.** The California Jobs Budget protects thousands of local police, fire, and other local jobs by repaying \$900 million owed to local governments for past mandates. This provides local governments with \$900 million in discretionary funds to assist their budget challenges and avoid layoffs to critical public service jobs.

¹ Funds will be available from the Beverage Container Recycling Fund due to the acceleration of Beverage Recycling Fees to meet the needs of the program and for other permitted uses. The loan will be repaid from the Jobs Fund to meet the expanded in order to fund the expanded Recycling Program needs.

- ♦ **\$3.8 Billion Repayment to Local School Districts.** Protects tens of thousands of jobs for teachers, aides, and counselors by fully funding Proposition 98 and eliminating portions of the "Education Credit Card" rather than the Governor's proposal to cut schools by \$2.8 billion, which leads to thousands of lost jobs.
- ♦ **\$900 million to Protect Higher Education's Role in Our Economic Future.** Provides \$1 billion to restore recent education cuts and fully fund the UC and CSU to prevent the devastating economic and jobs impact of decimating Higher Education. Also protects access to higher education by reducing the Governor's student fee hike by 50 percent, which will save UC students \$628 and CSU students \$202.
- ♦ **\$1.9 Billion Keeping Working Poor Parents in Workforce.** Maintains necessary childcare programs funded through CalWORKS and Prop 98 to ensure working parents can stay employed and over 50,000 small business childcare providers can stay in business.
- ♦ **\$1.4 Billion Getting Californians Back to Work.** Invests in critical employment services to move people from welfare to work and to retrain workers at Community Colleges. Helps make employment a reality once again to Californians struggling to get back into the workforce through increased job training and employment services.
- ♦ **\$100 Million for Oil Producing Communities.** Provides \$100 million to local communities impacted by the new Oil Severance Fee. Experts project the Oil Severance Fee will have little impact on jobs statewide, but there may be localized impacts. Therefore, an ongoing \$100 million allocation is included to offset any negative impacts of the fee.
- ♦ **\$200 million for the Bottle Bill.** Separate from the Jobs and Economic Security Fund, the package increases funding by \$200 million for the Beverage Container Recycling program to strengthen and stabilize the state's recycling program. California's recycling program was nearly bankrupt due to the downturn in the economy, and this increase in support will provide long term secure funding for the program, which will protect local conservation corps, protect bottle manufacturing jobs through processing fee relief and drive green technology investment through product development grants.

Highlights For Education:

- ♦ **Rejects Governor's Devastating School Cuts.** The California Jobs Budget rejects the Governor's proposal to eliminate \$3 billion from our schools and fully funds the Budget Year minimum guarantee (with updated revenues) at \$54.4 billion. Schools have already suffered through \$17 billion in cuts over the last few years. Education is vital to economic recovery and future economic growth and continuing to shortchange schools undermines this effort.
- ♦ **Rejects Governor's Call to Break Education Agreement and Manipulate Proposition 98.** California Jobs Budget rejects the Governor's call to break last year's education deal. Proposition 98 is a critical commitment between the voters and our schools that should not be violated.
- ♦ **Reduces State's "Education Credit Card" Debt.** The California Jobs Budget fully funds education and provides \$1.6 billion to pay down the "Education Credit Card" (\$1.3 mandate payment and \$500 million toward deficit factor) and avoid adding \$1.5 billion to the Credit Card balance.

Highlights for Higher Education:

- ♦ **Restores Funding for UC and CSU.** The California Jobs Budget restores \$610 million in funding for UC and CSU in last year's budget, consistent with the Governor's proposal, but from the Jobs and Economic Security Fund.
- ♦ **Cuts Governor's Fee Increases in Half.** The California Jobs Budget reduces the Governor's 15% UC increase and 10% CSU increase by half by providing the UC and CSU \$275 million from the Jobs and Economic Security Fund.
- ♦ **Major Increase for Community College Job Training.** The California Jobs Budget provides \$100 million from the Jobs and Economic Security Fund to provide a 400% increase for the Economic Development Program, which successfully gets unemployed Californians back to work.

Highlights For Local Government:

- ♦ **Repays \$931 million to Cities, Counties, and Special Districts.** The California Jobs Budget protects thousands of police, fire, and other local community jobs by repaying \$931 million owed to local governments for past mandates. This provides local governments with \$931 million in discretionary funds to assist their budget challenges and avoid layoffs to critical public service jobs.

Highlights for Health:

- ♦ **Fully Funds Healthy Families.** The California Jobs Budget fully funds the Healthy Families program to enable children of working families to have access to health care.
- ♦ **Rejects Governor's Elimination of Adult Day Healthcare.** The California Jobs Budget rejects the Governor's call to eliminate Adult Day Healthcare. Not only would eliminating these services be devastating to individuals dependent upon the program, but it would be fiscally irresponsible with more individuals needing to rely on more costly institutional care.
- ♦ **Rejects Governor's Medi-Cal Cuts.** The California Jobs Budget rejects the Governor's Medi-Cal cuts, including cuts to legal immigrant programs for immigrants who have played by the rules, and funding for critical family planning funds which receive a 9-to-1 federal match. The Jobs Budget also rejects numerous cuts to Medi-Cal that would have violated federal laws and greatly reduced access to health services for the state's lowest-income families.
- ♦ **Protects Community Mental Health.** The California Jobs Budget rejects several proposals that collectively would decimate community mental health services, increase crime, increase costs through state mental hospitals, emergency rooms, and jails, and return the state to conditions in the 1960s, before the deinstitutionalization of mental health care (including for children).
- ♦ **Rebuilds the State's Public Health Infrastructure.** The California Jobs Budget recognizes that protecting the public health is a core function of state government, and therefore rejects cuts to key public health programs such as cancer screening and treatment programs, and restores programs single-handedly eliminated by the Governor last year, namely HIV/AIDS and maternal, child, and adolescent health programs.

Highlights For Transportation:

- ♦ **Reflects Prop 58 Session Actions:** The California Jobs Budget accepts the Governor's General Fund savings proposals consistent with the Proposition 58 Session actions.

Highlights for Human Services:

- ♦ **Bolsters Employment Services and Job Training.** The California Jobs Budget minimizes General Fund costs in CalWORKs and utilizes the Jobs and Economic Security Fund to provide employment training and job skills to unemployed and underemployed parents so that they can adequately care for their children.
- ♦ **Fully Funds Childcare Programs.** The California Jobs Budget fully funds childcare programs, including through Proposition 98, to ensure working poor parents can remain in the workforce and thousands of small business child care providers are not put out of business.
- ♦ **Protects IHSS for Aged, Disabled Consumers.** The California Jobs Budget restores funding for IHSS to ensure that aged and disabled needy Californians can continue receiving the services they need to stay out of costly institutions and to hold onto their quality of life. In addition, the Jobs Budget establishes a provider fee mechanism which will generate approximately \$150 million in General Fund savings and establishes a stakeholder process to develop strategies to bring down future General Fund costs of the program, while strengthening important IHSS services.
- ♦ **Rejects Harmful Cuts and Their Dramatic, Negative Cost Shifts.** The California Jobs Budget rejects cuts to SSI/SSP recipients, including programs for vulnerable, needy legal immigrants who have played by the rules, and Medi-Cal Drug services.

Highlights for Resources and Environmental Protection:

- ♦ **Provides Full Funding for State Parks.** The California Jobs Budget fully funds the state parks system to avoid closures and maintain funding for rangers and rangers for state parks and beaches.
- ♦ **Strengthens the Bottle Bill.** The California Jobs Budget increases funding by \$200 million for the Beverage Container Recycling program to strengthen and stabilize the state's recycling program. California's recycling program was nearly bankrupt due to the downturn in the economy, and this increase in support will provide long term secure funding for the program, which will protect local conservation corps, protect bottle manufacturing jobs through processing fee relief, and drive green technology investment through product development grants.

Highlights for Public Safety:

- **Reduces Prison Health Costs.** The California Jobs Budget achieves \$811 million in savings by accepting the Governor's proposal to reduce support for the Prison Receiver's Medical Services Program to a per-inmate medical cost level that is comparable to other states' correctional health care programs.
- **Establishes the Emergency Response Initiative.** The California Jobs Budget enacts the Emergency Response Initiative, which assesses a 4.6% surcharge on all statewide property insurance policies to generate over \$400 million per year to fund emergency response activities at the Department of Forestry and Fire Protection, Cal EMA and at the local level.
- **Shifts Certain Offenders to Local Jails.** The California Jobs Budget saves \$243.8 million by accepting the Governor's proposal to create a system of block grants to provide evidence-based programming and other probation and jail services at the local level. The block grants will be funded from a portion of state savings generated by having non-sex offender, non-serious, non-violent offenders convicted with sentences of three years or less to serve their felony sentence in local jails.
- **Keeps Courts Open.** The California Jobs Budget ends the one-day per month closing of trial courts and additional layoffs of court employees by providing funding to keep California's courts operating full-time. This funding is a result of various fee increases and the redirection of court construction funds and does not negatively impact the General Fund.

Highlights For Revenue:

- **Delays New Tax Business Tax Breaks.** The California Jobs Budget delays the start of new business tax breaks scheduled to take effect in 2010-11. Delaying these new tax breaks avoids over \$2 billion in cuts to education and other critical services.
- **Closes Oil Severance Loophole.** The California Jobs Budget closes the Oil Severance loophole to be the primary fund source for the Jobs and Economic Security Fund. This will generate billions to protect and create jobs. An additional \$100 million will be allocated annually to oil producing communities to offset any potential impacts of the loophole closure.

**Side-by-Side Comparison:
Governor's May Revision & California Jobs Budget**

Starting Problem	-\$17.9	Starting Problem:	-\$17.9
Governor Education: - Funds Proposition 98 at \$48.4 billion (no funding for childcare) and cuts Prop 98 funding for schools over the current year and budget year by \$2.8 billion. - LAO believes this does not meet Prop 98 Obligation.	\$2.9	Jobs Budget Education - Funds Proposition 98 \$5.9 billion (including \$1.4 for Child Care) above the Governor for the Budget Year - Provides \$3.9 billion from Jobs and Economic Security Fund to meet Prop 98 minimums. - Saves \$1 billion in the Current Year by maintaining the existing appropriation level	\$4.9
Governor's Prop 98 Child Care: Eliminates Child Care.	\$1.4	Jobs Budget Prop 98 Child Care: Fully Funds Child Care from the Jobs and Economic Security Fund	\$1.4
Governor's Higher Ed: - Restores \$800 million in cuts to UC and CSU. - Increases UC fees by 15% and CSU fees by 10%.	--	Jobs Budget Higher Ed - Restores \$800 million in cuts to UC and CSU with the Jobs and Economic Security Fund - Reduces Governor's UC and CSU fee increases by 50% by providing an additional \$275 million for the UC and CSU from the Jobs and Economic Security Fund	\$6
Governor's Health: - Various significant cuts to Medi-Cal to save nearly \$700 million - Eliminates Adult Day Healthcare to save nearly \$200 million - Cuts county Mental Health Funds to save \$600 million - Makes various other health care cuts to save \$200 million	\$1.6	Jobs Budget Health: - Makes no significant cuts to healthcare - Restores \$70 million for critical public health and clinic programs that were vetoed by the Governor last year	-.1

Governor's Human Services: • Eliminates CalWORKS to save \$1.2 billion. • Reduces IHSS by 50% to save \$750 million. • Reduces SSI/SSP grants for individuals to the federal minimum to save \$133 million. • Shifts county human service funds and various other reductions to save \$600 million.	\$2.7	Jobs Budget Human Services: • Provides \$1.8 billion from the Jobs and Economic Security Fund for employment services and childcare portions of CalWORKS, and shifts all General Fund costs to Federal Funds to save \$1.5 billion. • Establishes an IHSS provider fee to save \$150 million. • Rejects cuts to SSI/SSP. • Restores critical funds that the Governor vetoed last year, including \$80 for Child Welfare Services, \$6.4 million for core aging nutrition and support programs, and \$20.4 for domestic violence shelters.	\$1.5
Governor's Public Safety: • Unspecified reduction to prison healthcare costs to save \$811 million. • Shifts certain offenders to county jail and provides a block grant to save \$200 million.	\$1.0	Jobs Budget Public Safety: • Generally the same as proposed by the Governor.	\$1.0
Governor's Local Government: • Suspends and defers certain mandate payments to save \$700 million.	\$5.2	Jobs Budget Local Government: • Provides \$931 million to repay local mandate funds owed to local governments, which also saves \$200 million.	\$5.2
Governor's State Employee Comp.: • Avoids collective bargaining to cut salaries 5%, increase employee retirement contributions 5%, reduces staff funding by 5%, and have a floating furlough day to save \$2.1 billion.	\$2.1	Jobs Budget State Employee Comp.: • Cuts staffing funds and overhead by 5% to save \$700 million. • All other reductions should be accomplished through collective bargaining and any savings will increase the reserve.	\$5.7

Governor's Federal Funds. • Projects \$3.4 billion in additional Federal Funds	\$3.4	Jobs Budget Federal Funds • Accepts Governor's projection of \$3.4 billion.	\$3.4
Governor's Special Fund Loans, Transfers, Fund Shifts • Proposes \$2.6 billion in various special fund loans, transfers, and fund shifts	\$2.6	Jobs Budget Special Fund Loans, Transfers, Fund Shifts • Generally accepts Governor's proposals • Various costs (as specified above) are shifted to the Jobs and Economic Security Fund).	\$2.6
Governor's Revenue Solutions. • Establishes Speed Cameras to generate \$200 million. • Extends Hospital Fees to generate \$200 million. • Establishes the Emergency Response Initiative property insurance fee to fund fire costs to save almost \$100 million. • Estimates \$450 million in various other revenues.	\$9	Jobs Budget Revenue Solutions • Rejects the Speed Cameras but includes all other Governor's revenue solutions to generate \$700 million. • Accepts LAO Current Year Revenues of \$400 million • Accepts LAO Budget Year Revenues of \$1 billion (\$430 million net of Prop 98) • Delays various new business tax breaks to generate \$2.1 billion (\$903 net of Prop 98)	\$2.4
Governor's Various Others:	\$3	Jobs Budget Various Others (inc Prop 98 reserve):	\$3
Final Reserve	\$1.2	Final Reserve	\$1.0