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MEMORANDUM

**To: Mayor Libby Schaaf
Council President Lynette Gibson McElhaney and Members of the City Council**

From: Townsend Public Affairs, Inc.

Date: January 20, 2016

**Subject: State & Federal Legislative Update and
Overview of Governor Brown's Proposed Budget for 2016-17**

Townsend Public Affairs, Inc. (TPA) has been providing the City of Oakland updates regarding Governor Brown's Proposed Budget for 2016-17 that was released on January 7, 2016.

The Department of Finance will begin releasing draft trailer bill language in the next month that will include details of the Governor's proposal. The Assembly and Senate Budget Committees will also begin hearings to review program-specific details.

The Governor's budget proposals, as well the Senate and Assembly proposals, will be fully vetted through the Budget Subcommittee process, which will commence with the Committee's first hearing on January 20th and continue with Subcommittee hearings next month.

In May the Governor will release his revised budget proposal for the coming fiscal year that must be passed by June 15 to take effect July 1, 2016.

Attached to this memo are additional staff notes as requested by the Finance Committee members on January 12, 2015. In addition, attached are the Senate and Assembly summaries of the Governor's proposed budget with their highlights and priorities, and information on a plan from the State Senate to address homelessness.

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City Staff Notes Regarding Governor Jerry Brown's 2016-17 Proposed Budget

The full budget summary and detail is available at: <http://www.ebudget.ca.gov/>

The Governor's Budget General Overview

The proposed General Fund budget is \$122.6 billion—an increase of \$6.6 billion in the current year. The total budget, including special funds is \$170.7 billion.

Statewide unemployment is down. Revenues are up due primarily to volatile Capital Gains Taxes. Proposition 2 caps the amount of Capital Gains considered ongoing at 8% of General Fund revenues. The Governor's predicts that these revenues will exceed 10% of General Fund revenues.

The Governor notes that the Economy is in its 7th Year of Expansion which is 2-years longer than the post-ward average. The Governor proposes to increase the State's Rainy Day Fund by \$2.0 billion more than required under Proposition 2, which increases the total from 37 percent of the constitutional target to 65 percent.

The State has \$223.7 in unfunded liabilities of which the Governor's Budget proposes to eliminate \$1.6 billion. The Governor Plans to resolve the State's Retiree Medical unfunded liability, Oakland is referred to as the Other Post-Employment Benefits (OPEB) liability through cost sharing negotiated in the collective bargaining process.

Cap and Trade Allocations

The Governor is proposing an ongoing appropriation of 60 percent of annual auction proceeds which would go to:

- \$500 million for High-Speed Rail Projects
- \$100 million for Low Carbon Transit Operations
- \$200 million Transit and Intercity Rail projects
- \$400 million Affordable Housing and Sustainable Communities program

The Governor is also proposing a one-time appropriation of 40 percent of annual auction proceeds for

- \$400 million for Transit and Intercity Rail Capital program
- \$100 million for the Department of Transportation to administer the Low Carbon Road Program
- \$500 million for the Air Resources Board's Low Carbon Transportation Program

- \$25 million for the Energy Commission for Biofuel Facility Investments.
- \$100 million for the Strategic Growth Council to administer the Transformational Climate Communities Program
- \$40 million for the Air Resources Control Board for black carbon wood smoke.
- \$20 million for the Air Resources Control Board refrigerants.
- \$100 million for the Department of Resources, Recycling and Recovery to provide financial incentives for capital investments that expand waste management infrastructure, with a priority in disadvantaged communities.
- \$60 million for the Energy Commission for water and energy technology programs and appliance rebates.
- \$60 million for the Department of Fish and Wildlife for wetland and watershed restoration.
- \$150 million for CAL FIRE to support forest health programs that reduce GHG emissions through fuel reduction
- \$30 million for CAL FIRE to Urban Forestry programs.
- \$20 million for the Natural Resources Agency for urban greening projects.
- \$20 million for the California Infrastructure and Economic Development Bank (I Bank) to leverage private investments in energy efficiency and renewable energy projects in public buildings
- \$75 million for the Department of Community Services and Development for energy efficiency upgrades and weatherization.

The City is particularly following up on the ongoing Affordable Housing and Sustainable Communities program, and the one-time allocations for the Transformational Climate Communities Program, Urban Forestry programs, and urban greening projects

Transportation & Infrastructure

The Governor's plan for transportation infrastructure includes raising \$3.5 in new revenues. This is compared to \$8.0 billion in a plan under consideration by the legislature. Staff is working with local partners including staff at the Alameda County Transportation Commission to provide more detailed analysis.

- \$2.0 billion from a new \$65 vehicle license fee
- \$0.5 billion from stabilization of the gasoline excise tax
- \$0.5 billion from stabilization of the diesel excise tax
- \$0.5 billion from Cap and Trade

The Governor's Budget increases spending in the following categories in FY2016-17:

- \$342 million for Local Streets and Roads

- \$100million for Low Carbon Roads Program
- \$409million for Transit and Intercity Rail
- \$515million for Highway Repairs and Maintenance
- \$211 million for Trade Corridor Improvement.

The Governor's Budget proposes \$807 million (\$500 million in one-time resources from the General Fund) for deferred maintenance at levees, State parks, universities, community colleges, prisons, State hospitals and other State facilities.

Public Safety

The Governor's Budget includes the following new grant and funding opportunities related to public safety. Staff will explore these opportunities with our lobbyist and community partners.

- \$10 million to local law enforcement agencies for costs incurred through June 2017 related to increased citizen complaint reporting activities as required by AB 953 the State's new racial profiling law
- \$20 million in grants for increasing positive outcomes between local police and the homeless community, persons with mental health issues, and high-risk youth populations.
- \$6 million for competitively awarded grants to local law enforcement agencies for programs strengthening relationships between law enforcement and local communities.
- \$25 million in siting incentives for local governments for new facilities that provide formerly incarcerated persons with substance abuse, mental health, and re-entry services.

Education

The Governor's Budget would increase K-12 spending per student by \$3,600 from five years ago to \$10,591. The Budget raises per pupil funding by \$368 in comparison to the prior year. The budget provides another investment of more than \$2.8 billion in the Local Control Funding Formula and a \$1.6 billion early education block grant. College tuition under the proposal would see no increase. Staff is examining the early education block grant proposal to see if the City or local partners are eligible.

Health and Human Services

The Governor is proposing a modified tax for health care plans that would impact all plans in order to avoid the loss of federal funds when the existing managed care tax expires this summer. The tax is estimated to raise \$1.1 billion annually and would be directly linked to specific State healthcare programs including providing stable ongoing funding for Medical and In-Home Supportive Services.

The “No Place Like Home” Initiative
California Senate Strategic Legislative Package to
Prevent and Address Homelessness in our Local Communities

Owning a home has traditionally been viewed as the center tentpole of the American Dream. Yet – even at a time of continued overall economic growth -- for millions of Californians, obtaining and maintaining stable housing has proven increasingly challenging.

Homelessness is not just a social-justice issue that affects a handful of distressed communities or major urban centers. It is a fundamental economic, public health, public safety and quality-of-life issue that impacts families, businesses, cities and counties in every part of California.

And the related problems are becoming more costly and prevalent.

In response, a bipartisan coalition of members from the California State Senate today is introducing a comprehensive and first-of-its kind “No Place like Home” initiative to assist local communities in preventing and addressing homelessness.

This unprecedented policy framework builds on years of research and best practices – and is guided by the core belief that no individual or family in California should ever experience the uncertainty and pain of living without a home – and, to our local communities, the cost of doing nothing is far greater than the preventative cost of providing housing and coordinated services.

The Senate proposal is crafted with the understanding that fighting modern homelessness – with long-term solutions, not short-term band-aids -- requires a localized approach sustained by a strategic statewide commitment.

Our proposals will empower local governments with additional resources and flexibility to better serve homeless individuals and families, increase access to affordable housing, address the effects of income inequality and, and extend proven programs for homeless who are either disabled or in need of mental-health assistance.

We see the unfortunate reality of California’s stratified economy on our streets every day. Our state has the nation’s largest homeless population while at the same time ranking as the seventh largest economy of the world. The 114,000 total homeless people who live across our state make up 22 percent of the nation’s homeless population, with Los Angeles holding the dubious ranking of the homeless capital of the country with nearly 42,000 homeless residents. Homelessness affects our businesses, safety, government resources, but most of all, it flies in the face of the compassion we aspire to as Californians.

This session, the Senate is focused on policies that lift up all Californians, especially the least fortunate and most vulnerable among us. That while housing and mental health

services are governed by local governments, the State Legislature will directly focus on providing assistance to better manage existing resources and assist local governments through incentives for creating and maintaining permanent housing essential to reducing homelessness.

With this proposal the state will now secure progress on tackling homelessness through an unprecedented amount of funding support and expansion of programs to make services more accessible on the ground.

Many effective programs to deal with homelessness have unfortunately stalled at the local and county level and many Californians that need access to critical services are left helpless because they don't have a registered address. There is even more urgency to get people into shelter with El Niño storms fast approaching.

Even though cities and counties officials have the on-the-ground perspective to assess and respond to conditions that contribute to homelessness in their areas, the state must also provide them the tools to stay at the forefront and maintain access to support services, treatment, housing, and jobs.

The Senate proposal on homelessness re-purposes Prop. 63 bond money and creatively leverages billions of additional dollars from other local, state, and federal funding to achieve the following goals:

Housing:

- \$2 billion bond to construct permanent supportive housing for chronically homeless persons with mental illness.
- \$200 million, over 4 years, to provide supportive housing in the shorter-term, rent subsidies, while the permanent housing is constructed or rehabilitated.
- Support for two special housing programs that will assist families:
The "Bringing Families Home" pilot project, a county matching grant program to reduce homelessness among families that are part of the child welfare system.
The CalWORKs Housing Support Program, which provides housing and support services for CalWORKs families in danger of homelessness.

Income support and outreach:

- An increase in Supplemental Security Income/State Supplementary Payment (SSI/SSP) program grants which provide income support for the aged, blind, and disabled poor who cannot work.
Rates of homelessness are higher for persons with disabilities who cannot work; SSI/SSP is intended to help them make ends meet, and a large portion of grants usually goes toward rent.
These increases will assist about 1.3 million low-income Californians (72% with disabilities and 28% who are elderly).

- A one-time investment to incentivize local governments to boost outreach efforts and advocacy to get more eligible poor people enrolled in the SSI/SSP program.

The federal government covers 72% of the total costs of the SSI/SSP program, so state and local benefits are multiplied significantly for each newly eligible recipient.

The Senate package is multi-pronged, attacking homelessness with immediate and longer-term resources, while leveraging existing local, state, and federal dollars. The competitive grants will also put in place checks and safeguards to ensure cities and counties are using the additional revenue in the most efficient way possible.

California also has more than one third of the nation's chronically homeless – those with mental illness or other significant problems, and an even higher percentage among homeless women. Of the 28,200 chronically homeless in California, nearly 85 percent are unsheltered with this group absorbing the greatest amount of taxpayers' resources, often toping \$100,000 annually per person in public costs for emergency room visits, hospital stays, law enforcement, and other social services.

The Senate proposal supports a "housing first" strategy. Many homeless advocates and social service experts prefer this approach which has been used successfully in other states because it provides safe, secure housing creates an environment that allows for wrap-around services, such as mental health treatment, to take hold. Studies show homelessness aggravates mental illness, making it more difficult to reach and house those with the greatest need of shelter and treatment.

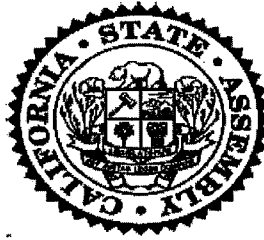
For a homeless person living without shelter, the key to a home could very well open a future that holds hope for restored health and successful reintegration into society.

There are local programs, such as Project 25 in San Diego, which are successfully housing, treating, and transitioning chronically homeless clients back into society. Project 25 is a 3-year-pilot program funded by the United Way of San Diego and led by St. Vincent de Paul which uses the housing first model as a means of intensive case management and delivery of psychiatric and medical care to several dozen clients. Project 25 is paying dividends for the taxpayers. In two years the annual public costs related to participants of Project 25 were reduced nearly 63 percent, to \$1.6 million from \$4.3 million.

Finding housing for the chronically homeless is an important and humane step in making the best use of local and state resources. Doing nothing hurts the state fiscally and also morally.

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For more information contact 916-651-4024



# HIGHLIGHTS OF GOVERNOR'S PROPOSED 2016-2017 BUDGET

JANUARY 7, 2016

**Dr. Shirley Weber**

CHAIR, ASSEMBLY BUDGET COMMITTEE

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**OVERVIEW**

On January 7<sup>th</sup> the Governor released his proposed budget for 2016-17. As expected, the budget proposal reflects a brighter revenue picture, which has yielded increased General Fund revenue and an operating surplus for next year.

Overall the Governor's budget forecasts \$125.8 billion in available General Fund resources in 2016-17; this includes a \$5.2 billion balance projected at the end of 2015-16, and \$120.6 billion in budget year revenues.

The Governor's revenue forecast are \$5.9 billion higher than the 2015-16 Budget Act projections, but are slightly lower than the LAO projections made in the November 2015 Fiscal Outlook report. The chart below compares the three forecasts:

**Forecast Comparisons**

(in billions)

|                          | 2015<br>Budget Act | LAO Nov<br>Forecast | Governor's<br>Jan 7 | Gov's 1/7 vs.<br>2015 Budget<br>Act |
|--------------------------|--------------------|---------------------|---------------------|-------------------------------------|
| 2014-15 Revenues         | 112.9              | 113.8               | 112.9               | 0                                   |
| 2015-16 Revenues         | 116.9              | 120.3               | 120.4               | 3.5                                 |
| 2016-17 Revenues         | 121.8              | 124.8               | 124.2               | 2.4                                 |
| <b>Three Years Total</b> | <b>351.6</b>       | <b>358.9</b>        | <b>357.5</b>        | <b>5.9</b>                          |

The Governor proposes \$122.6 billion in General Fund expenditures; this includes \$71.6 billion in non-Prop 98 expenditures and \$51 billion in Prop 98 expenditures.

The Governor projects the Proposition 2 Rainy Day Fund to grow from 4.5 billion to \$8 billion, which includes \$1.6 billion of additional deposits, a discretionary \$2 billion deposit proposed by the Governor. In addition, pursuant to the provisions of Proposition 2, \$1.6 billion of State debts are repaid.

Under the Governor's proposed budget, there are \$10.2 billion in total reserves, this includes \$2.2 billion in the regular reserve, and \$8 billion in the Budget Stabilization Account (the existing, Proposition 2 Rainy Day Fund).

The Governor's budget proposals, as well the Assembly proposals and others, will be fully vetted through the Budget Subcommittee process, which will commence with the Committee's first hearing on January 20<sup>th</sup> and continue with Subcommittee hearings next month.

We hope this document helps provide an initial understanding of the Governor's proposed budget.

## K-12 EDUCATION

### K-12 Education

- Provides a total Proposition 98 funding level of \$71.6 billion for the 2016-17 Fiscal Year, \$3.2 billion above the level enacted in the 2015-16 Budget.
- Proposition 98 per-pupil expenditures are projected to be \$10,591 in 2016-17, an increase of \$368 per-pupil from 2015-16.
- Uses the "Test 3" formula to determine the Proposition 98 level for 2016-17.

### Specific K-12 Education adjustments:

- Provides \$2.8 billion to further implement the Local Control Funding Formula (LCFF), an increase of 5.4 percent from 2015-16. This proposed funding level will fund the LCFF at 95 percent.
- Proposes an Early Education Block Grant, consolidating \$1.6 billion in Proposition 98 funding from the State Preschool Program, transitional kindergarten, and the Preschool Quality Rating and Improvement System Grant, with the intent to provide local education officials with more financial flexibility. Block grant funding would be distributed based on factors such as population and need, similar to the LCFF, however no local educational agency would receive less funding than they receive currently.
- Provides \$1.2 billion to further pay down the education mandate claims backlog. This funding could be used for any educational purpose.
- Maintains the Career Technical Education Incentive Grant program established in the 2015-16 Budget, which allocates \$900 million over three years (\$400 million in 2015-16, \$300 million in 2016-17 and \$200 million in 2017-18).
- Includes no specific proposal related to school facilities, but commits to "continue a dialogue" to shape a future state program focused on districts with the greatest need.

### Other Adjustments:

- Allocates \$365.4 million to support energy efficiency projects using funds available through Proposition 39.

- Provides \$22.9 million for a 0.86 cost-of-living adjustment for categorical programs outside the Local Control Funding Formula. Provides \$1.7 million to support a COLA and attendance changes for county offices of education.
- Includes \$20 million in one-time Proposition 98 funding to support start-up costs for new charter schools in 2016 and 2017.
- Allocates an additional \$30 million in one-time Proposition 98 funds for local educational agencies to provide academic and behavioral supports, building on the \$10 million provided in 2015-16.
- Proposes \$7.3 million to be available through Proposition 47 to support programs to reduce truancy and support students at risk of dropping out of school or are victims of crime.
- Includes a decrease of \$149.4 million in 2015-16 and \$1.2 billion in 2016-17 in Proposition 98 funding for school districts and county offices of education due to higher offsetting property tax revenues.
- Includes an increase of \$61 million for projected charter school attendance growth and makes other adjustments due to the decrease in projected attendance for school districts, charter schools, and special education.

## HIGHER EDUCATION

### University of California

- Continues the Administration's long-term funding plan by providing about a 4% increase to the university's base budget, or \$125.4 million. The Administration expects UC to hold tuition flat for the 2016-17 school year and to continue working on the agreement reached last year on reforms to shorten the time it takes students to earn degrees.
- Provides \$171 million in Proposition 2 funds to help pay down the unfunded liability in the UC Retirement Plan. The Administration expects UC to implement pension reform by June 30, which was part of the 2015 Budget Act.
- Provides \$35 million one-time General Fund for deferred maintenance projects.
- Provides \$25 million in Cap and Trade funds to allow UC to implement various energy efficiency projects.

### California State University

- Provides a \$148.3 million General Fund increase to CSU's base budget, reflecting the Administration's long-term funding plan for CSU and additional funding via savings from the Middle Class Scholarship program and certain lease revenue rental payments.
- Provides \$35 million one-time General Fund for deferred maintenance projects.
- Provides \$35 million in Cap and Trade funds to allow CSU to implement various energy efficiency projects.

### California Community Colleges

- Calls for 2% enrollment growth in 2016-17, and provides \$114.7 million Proposition 98 General Fund to support this growth.
- Creates the Strong Workforce Program, which is designed to allow community colleges to expand access to career technical education courses and programs and to implement a regional planning and accountability structure to meet regional workforce needs. The Administration proposes \$200 million Proposition 98 General Fund to support this program.

- Continues the Career Technical Education Pathways Program by providing \$48 million Proposition 98 General Fund.
- Revives the Awards for Innovation in Higher Education program by providing \$25 million Proposition 98 General Fund for community colleges to compete for grants focusing on innovations in technology and data, effective transfer pathways, and successful transitions into the workforce.
- Increases support for remedial education by \$30 million Proposition 98 General Fund, which the Administration expects community colleges to use to collaborate with high schools, UC and CSU, further the purposes of the Basic Skills Transformation and Student Outcomes program, and improve outcomes for students requiring remediation.
- Provides \$5 million Proposition 98 General Fund to support community college efforts to begin creating zero-textbook-cost degree programs.
- Increases support for the Chancellor's Office's new Institutional Effectiveness Partnership Initiative by providing \$10 million Proposition 98 General Fund. Of this, \$2 million will go toward technical assistance for local districts and \$8 million will be used to develop and disseminate best practices in professional, administrative and educational areas.
- Provides \$283 million Proposition 98 General Fund for deferred maintenance and instructional equipment costs.
- Provides \$76.3 million Proposition 98 General Fund to pay down outstanding mandate claims.
- Provides .47% cost of living increases to four categorical programs: the Disabled Student Programs and Services program, the Extended Opportunities Programs and Services program, the Special Services for CalWORKS Recipients program, and the Child Care Tax Bailout program. This amounts to \$1.3 million Proposition 98 General Fund.
- Provides \$1.8 million Proposition 98 General Fund to increase apprenticeship funding.
- Provides \$3 million Proposition 98 General Fund to improve systemwide data security.

- Provides \$45.2 million in Proposition 39 funding to continue supporting energy efficiency projects.
- Continues the Full Time Student Success Grant at the same level as the 2015 Budget Act, \$39 million Proposition 98 General Fund. This program provides grants to low-income students who are taking 12 or more units at community colleges.

**California Student Aid Commission**

- Makes adjustments to the Cal Grant program to reflect updated caseload estimates. This decreases spending by \$48.5 million General Fund in 2015-16 and increases spending by \$88.7 million General Fund in 2016-17.
- Decreases funding from the federal Temporary Assistance for Needy Families program for the Cal Grant program by \$304.6 million to reflect increased TANF reimbursements budgeted for 2016-17. TANF is used to offset General Fund costs for the Cal Grant program.
- Increases support for the Middle Class Scholarship program by \$34 million General Fund to reflect agreement made in the 2015 Budget Act.

**California State Library**

- Increases support for the California Library Services Act by \$1.8 million ongoing General Fund and \$3 million one-time General Fund to strengthen statewide and regional services for public libraries.

**Hastings College of Law**

- Continues the Administration's long-term funding plan for Hastings by providing a \$1 million General Fund increase with the expectation that tuition will not increase in 2016-17.
-

## CAP AND TRADE

- Proposes a \$3.1 billion Cap and Trade plan, which would appropriate the expected \$2 billion in 2016-17 in Greenhouse Gas Reduction Funds, as well as a portion of the \$1.7 billion of funds unappropriated from prior years. The Governor's spending proposal reflects the forthcoming scoping plans. The chart below, illustrates the various spending proposals contained in the Governor's budget:

**Figure EPA-01**  
**2016-17 Cap and Trade Expenditure Plan**  
(Dollars in Millions)

| <i>Investment Category</i>                    | <i>Department</i>                                     | <i>Program</i>                                                                    | <i>Amount</i>  |
|-----------------------------------------------|-------------------------------------------------------|-----------------------------------------------------------------------------------|----------------|
| Continuous Appropriation                      | High-Speed Rail Authority                             | High-Speed Rail Project                                                           | \$500          |
|                                               | State Transit Assistance                              | Low Carbon Transit Operations                                                     | \$100          |
|                                               | Transportation Agency                                 | Transit and Intercity Rail Capital Program                                        | \$200          |
|                                               | Strategic Growth Council                              | Affordable Housing and Sustainable Communities Program                            | \$400          |
| 50 Percent Reduction in Petroleum Use         | Transportation Agency                                 | Transit and Intercity Rail Capital Program                                        | \$400          |
|                                               | Caltrans                                              | Low Carbon Road Program                                                           | \$100          |
|                                               | Air Resources Board                                   | Low Carbon Transportation & Fuels                                                 | \$500          |
|                                               | Energy Commission                                     | Biofuel Facility Investments                                                      | \$25           |
| Local Climate Action                          | Strategic Growth Council                              | Transformational Climate Communities                                              | \$100          |
| Short-Lived Climate Pollutants                | Air Resources Board                                   | Black Carbon Woodsmoke                                                            | \$40           |
|                                               |                                                       | Refrigerants                                                                      | \$20           |
|                                               | Cal Recycle                                           | Waste Diversion                                                                   | \$100          |
|                                               | Department of Food and Agriculture                    | Climate Smart Agriculture - Healthy Soils and Dairy Digesters                     | \$55           |
| Safeguarding California/ Water Action Plan    | Departments of Food and Agriculture & Water Resources | Water and Energy Efficiency                                                       | \$30           |
|                                               | Energy Commission                                     | Drought Executive Order - Water and Energy Technology Program & Appliance Rebates | \$60           |
|                                               | Department of Fish and Wildlife                       | Wetlands and Watershed Restoration/CalEcoRestore                                  | \$60           |
| Safeguarding California/ Carbon Sequestration | CAL FIRE                                              | Healthy Forests                                                                   | \$150          |
|                                               |                                                       | Urban Forestry                                                                    | \$30           |
|                                               | Natural Resources Agency                              | Urban Greening                                                                    | \$20           |
| Energy Efficiency/ Renewable Energy           | Department of General Services                        | Energy Efficiency for Public Buildings                                            | \$30           |
|                                               | I Bank                                                | California Lending for Energy and Environmental Needs Center                      | \$20           |
|                                               | Conservation Corps                                    | Energy Corps                                                                      | \$15           |
|                                               | Department of Community Services and Development      | Energy Efficiency Upgrades/ Weatherization                                        | \$75           |
|                                               | University of California/ California State University | Renewable Energy and Energy Efficiency Projects                                   | \$60           |
| <b>Total</b>                                  |                                                       |                                                                                   | <b>\$3,090</b> |

- Provides \$15 million General Fund, on a one-time basis, for the energy commission to research emerging technologies for low carbon transportation fuels.



**TRANSPORTATION**

- Includes a multi-year transportation funding proposal that was previously proposed by the Administration in the Extraordinary Special Session. The proposal would impose a Road Improvement Charge, increasing Gasoline and Diesel excise taxes and dedicate Cap and Trade funds to transportation. The expenditure components of this package are below:

**Figure TRN-01  
Governor's Transportation Package  
(Dollars in Millions)**

| <i>Investment Category</i>           | <i>Program</i>                                | <i>2016-17 Amount</i> | <i>Annualized Amount<sup>3</sup></i> |
|--------------------------------------|-----------------------------------------------|-----------------------|--------------------------------------|
| Local Streets and Roads              | Low Carbon Road Program                       | \$100                 | \$100                                |
|                                      | Local Road Maintenance & Repairs <sup>1</sup> | \$490                 | \$1,010                              |
|                                      | Local Partnership Grants <sup>2</sup>         | \$0                   | \$250                                |
| Transit                              | Transit Capital <sup>1</sup>                  | \$409                 | \$400                                |
| State Highway Repair and Maintenance | Pavement <sup>1</sup>                         | \$220                 | \$900                                |
|                                      | Bridges and Culverts                          | \$155                 | \$500                                |
|                                      | Traffic Management Systems                    | \$20                  | \$90                                 |
|                                      | Maintenance                                   | \$120                 | \$120                                |
| Trade Corridors                      | Improved Goods Movement <sup>1</sup>          | \$211                 | \$200                                |
| <b>Total</b>                         |                                               | <b>\$1,725</b>        | <b>\$3,570</b>                       |

<sup>1</sup> The 2016-17 totals include anticipated loan repayments.  
<sup>2</sup> Provides up to \$250 million per year beginning in 2017-18.  
<sup>3</sup> Excludes one-time loan repayments totaling \$879 million.

**Caltrans**

- Includes a proposal for Caltrans administrative efficiencies, which is expected to save \$100 million through streamline project delivery, staffing flexibility, and extending public private partnerships.

**Department of Motor Vehicles**

- Proposes a Motor Vehicle Account Fee increase of \$10 per vehicle to address the structural imbalance in the Motor Vehicle Account Fund.
- Provides \$8 million to expand DMV's existing network of self-service terminals.
- Includes \$3.9 million for DMV staff to implement the New Motor Voter Program.
- Expands the cap on "green decal" vehicle program so more vehicles can participate in the program.

## HUMAN SERVICES

### Department of Social Services

#### Supplemental Security Income/State Supplementary Payment (SSI/SSP)

- Includes \$40.7 million General Fund for a cost-of-living adjustment (COLA) increase to the SSP portion of the grant equivalent to the increase in the California Necessities Index, which is estimated to be 2.96 percent. The increase would be effective January 1, 2017 and would add to an expected 1.7 percent federal COLA to the SSI portion of the grant that would take effect the same day. This one-time investment does not restore an on-going statutory SSP COLA. The effect of the combined COLA in January 2017 would increase maximum SSI/SSP monthly grant levels by \$17 and \$31 for individuals and couples, respectively.

#### In-Home Supportive Services (IHSS)

- Proposes to continue the restoration of the 7 percent across-the-board reduction in IHSS authorized hours of service in the 2016-17 budget year, funded with resources generated through the Governor's Managed Care Organization (MCO) tax proposal. The cost to restore the 7 percent is estimated to be \$236 million in 2016-17. For additional information on the MCO tax, please see the Department of Health Care Services (DHCS) section of this document.
- Funds the implementation of the U.S. Department of Labor regulations that require overtime pay for domestic workers, which is estimated to cost \$700.4 million (\$331.3 million General Fund) in 2015-16 and \$942 million (\$443.8 million General Fund) annually thereafter. Enacted legislation (Chapters 29 and 488, Statutes of 2014, SB 855 and SB 873 respectively) limits providers to a 66-hour workweek and provides compensation for travel time between recipients for providers who work for multiple recipients up to seven hours per week.

#### Foster Care and Child Welfare

- Includes \$94.9 million (\$60.9 million General Fund) for the Department of Social Services, Department of Health Care Services, county child welfare agencies, and county probation departments to continue the implementation of the Continuum of Care reforms approved in Chapter 773, Statutes of 2015 (AB 403). The Governor's Budget states, "The reforms emphasize home-based family care, improve access to services without having to change out-of-home placements to

get those services, and increase the role of children, youth, and families in assessment and case planning. The bill established a core practice model to govern all services, whether delivered by a county or licensed provider organization, and provides medically necessary mental health services to children and youth in foster care regardless of their placement setting."

**CalWORKs**

- Provides an additional \$15 million General Fund in 2015-16 and \$17.4 million General Fund in 2016-17 to provide remaining needed funding for grant restorations made in recent years that are primarily funded through revenues from the Child Poverty and Family Supplemental Support Subaccount. The Governor makes no additional significant changes in the CalWORKs program.

**CalFresh**

- Includes \$804,000 (\$261,000 General Fund) and five positions for DSS to provide technical assistance and training to the 19 largest counties on effective business processes for enrolling and retaining families in CalFresh. The Governor states that this work will be coordinated with Medi-Cal and the Department of Public Health's Women, Infants, and Children program to provide appropriate nutrition assistance for young children.

**Department of Developmental Services (DDS)**

- Assumes an estimated 302,000 individuals with developmental disabilities will be served in the community and 847 individuals will reside in the state-operated developmental centers.
- Includes \$146.6 million (\$127.2 million General Fund) to assist in the development of community resources for placement of current Developmental Center (DC) residents. This includes direct allocations to each of the remaining DCs, specifically, \$24.5 million for Sonoma, \$29.7 million for Fairview, and \$24.6 million for Porterville. Also includes \$18 million to resolve open workers' compensation claims, inventory and archive clinical and historical records, execute an independent monitoring contract, and relocate residents and their personal belongings.
- Includes \$18 million to address deferred maintenance needs at the Porterville DC.

- Includes \$80 million (\$50 million General Fund) in order to provide targeted investments in the developmental services system. This includes 1) \$46 million (\$26 million General Fund) to establish a 4-bed Alternative Residential Model homes rate; 2) \$17 million to increase the number of case managers and decrease the caseload for each case manager; and 3) \$15 million (\$11 million General Fund) to target rate increases to providers with the aim of transitioning services to more integrated models of care in the community more consistent with the Home and Community-Based Services Waiver.
- Provides \$1.9 million (\$1.3 million General Fund) and 14 positions for audit functions at DDS and to create a new fiscal and research unit that will help develop accurate, reliable, and data-driven programmatic information and services trends that can improve the administration of the regional center system.

## HEALTH

### Department of Health Care Services

#### Medi-Cal

- Assumes total Medi-Cal caseload to be 13.5 million Californians in 2016-17 at a General Fund cost of \$19.1 billion in 2016-17.
- Assumes passage of a new, 3-year managed care organization (MCO) tax, expected to raise \$1.2 billion annually, providing \$1 billion to Medi-Cal and \$236 million to restore the 7-percent reduction to the In-Home Supportive Services program.
- Assumes the continuation of the Coordinated Care Initiative through January 2017, at which point the administration will determine the financial viability of continuing the program based on enrollment and passage of an MCO tax, potentially ceasing operations in January 2018.
- Extends full-scope Medi-Cal coverage to undocumented children, as approved through the 2015 Budget Act, including \$182 million (\$145 million General Fund) to provide full-scope benefits to 170,000 children beginning May 1, 2016.
- Implements various changes and new policies based on the new federal waiver, the "Medi-Cal 2020" Waiver, which results in \$6.2 billion in federal funds over five years. These changes include: a delivery system transformation and alignment incentive program for designated public and district hospitals; a global payment program for designated public hospitals for services for the remaining uninsured; a whole person care pilot program to integrate care for high-risk populations; a dental transformation incentive program; and a federally-required independent assessment of access to care and network adequacy for managed care beneficiaries.
- Expands residential treatment services for substance use disorders at a cost of \$90.9 million (\$32.5 million General Fund).
- Implements the Performance Outcomes System to track outcomes of Medi-Cal Specialty Mental Health Services for children and youth at a cost of \$11.9 million General Fund, for implementing the system, including county collection of assessment data and related training.

- Increases funding by \$169.9 million (\$57 million General Fund) in 2016-17 to counties for the administration of Medi-Cal eligibility determinations.
- Assumes net costs of \$4 billion (\$1.9 billion General Fund) in 2016-17 for the cost of the Affordable Care Act mandatory Medi-Cal expansion.
- Assumes costs of \$14.1 billion (\$740.2 million General Fund) in 2016-17 for the state's share of costs for the Affordable Care Act optional Medi-Cal expansion.

**Department of Public Health**

- Seeks to enhance the timely detection of infectious disease outbreaks and improve the prevention of the spread of infectious disease by adding \$1.6 million General Fund and 14 new positions to state laboratories in order to increase disease surveillance and testing.
- Implements the Medical Marijuana Regulation and Safety Act by providing \$457,000 in 2015-16 and \$3.4 million and 14 positions in 2016-17 to the department for the licensing and regulation of medical marijuana product manufacturers and testing laboratories.

**Department of State Hospitals**

- Replaces the public address system and local area networks at the Coalinga and Patton hospitals with an increase of \$6.5 million General Fund and 2 new positions in 2016-17.
- Expands the Restoration of Competency (jail-based competency treatment) Program by adding \$500,000 General Fund in 2015-16 and \$1.5 million General Fund in 2016-17 for the department to contract with Sonoma County for 10 beds in its jail facility.

## NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION

### Emergency Drought Response

- Proposes an additional \$323.1 million (\$212.1 million General Fund) on a one-time basis to continue immediate response to the drought, including:
  - \$74.5 million General Fund and \$2.9 million other funds to continue firefighter surge capacity, retain seasonal firefighters beyond the normal budgeted fire season, provide additional defensible space inspectors, and enhance air attack capabilities to suppress wildfires during the 2016 fire season;
  - \$64 million General Fund for multiple statewide drought response efforts including:
    - \$42 million for installation and removal of a temporary rock barrier in the Sacramento-San Joaquin Delta to deter salinity encroachment;
    - \$12 million to implement statewide actions, including operation of the drought management operations center, water transfer support and water supply modeling;
    - \$5 million to provide emergency drinking water support for small communities, including addressing private wells;
    - \$5 million to continue Save Our Water, the state's public education campaign aimed at helping all Californians reduce water use;
  - \$5.4 million General Fund and \$16.0 million other funds to continue enforcement of drought-related water rights and water curtailment actions and provide grants for emergency drinking water projects;
  - \$15.7 million General Fund and \$2 million other funds to continue fish rescue and stressor monitoring, water efficiency projects on department lands, law enforcement activities, and to provide infrastructure to protect salmon;
  - \$18.4 million General Fund to continue the Drought Food Assistance Program;
  - \$7.5 million General Fund to provide emergency assistance to unemployed farmworkers, including housing, utility and job training assistance; and



- \$26.7 million General Fund for the State Operations Center to continue to provide local communities with technical guidance and disaster recovery support related to the drought, distribution of bottled water, and response and recovery training and credentialing program for local agencies.

### **Water Action Plan**

- Proposes approximately \$563 million in investments to continue to implement the Governor's Water Action Plan, a five-year roadmap towards sustainable water management. Proposed expenditures include:
  - \$385 million Proposition 1 funds for multiple agencies to support projects that meet the state's commitments under the Klamath Agreements (\$250 million), Central Valley Project Improvement Act (\$90 million), and the San Joaquin River Settlements (\$45 million);
  - \$100 million General Fund for the Department of Water Resources to enhance flood protection in the Central Valley;
  - \$80 million Proposition 1 for the Department of Water Resources to design and implement projects that expand habitat and suppress dust at the Salton Sea, a critical resting stop for migratory birds;
  - \$60 million Greenhouse Gas Reduction Fund for the Department of Fish and Wildlife to implement wetland restoration projects that provide carbon sequestration benefits, including habitat restoration projects within the California EcoRestore program to support the long-term health of the Delta's native fish and wildlife species;
  - \$3.6 million General Fund for the Delta Stewardship Council to implement the Delta Science Plan and incorporate the WaterFix Delta conveyance project into the Delta Plan;
  - \$3 million General Fund for the Department of Water Resources to identify water delivery operational improvements in extreme conditions and evaluate long-term climate change impacts on statewide water supplies;
  - \$2.5 million General Fund for the Department of Water Resources to update data and fix safety hazards at 15 monitoring sites that are part of the National Hydrography Dataset, an important federal surface water mapping system; and

- \$1.2 million General Fund for the Department of Water Resources to strengthen coordination and performance evaluation across state and regional agencies and develop a long-term investment and financing strategy for the Water Action Plan.

**Department of Forestry and Fire Protection**

- Proposes an increase of \$150 million Greenhouse Gas Reduction Fund to reduce wildfire risk and improve the carbon sequestration potential of California's forests.
- Proposes an increase of \$24.6 million (\$24 million General Fund) to improve the efficiency and effectiveness of CAL FIRE's emergency response capabilities, including:
  - \$17 million General Fund and 95.9 positions to increase staffing levels in CAL FIRE's 21 Emergency Command Centers, along with the two regions and Sacramento Command Centers, to address the increased volume of emergency calls during historically anticipated periods of increased fire activity; and
  - \$7.6 million (\$7 million General Fund) and 12.8 positions to acquire, install, and support Automated Vehicle Location and Mobile Data Computer devices in all CAL FIRE emergency response equipment.
- Provides \$4.4 million (\$4.1 million General Fund) and 14 positions to establish a dedicated unit responsible for implementing a comprehensive program addressing personnel investigations and adverse actions.

**Department of Parks and Recreation**

- Provides a repayment of \$112 million of General Fund loans made from the Off-Highway Vehicle (OHV) Trust Fund and a one-time transfer of \$31 million of existing fuel tax revenues, currently deposited into the OHV Fund, to the State Parks and Recreation Fund.
- Provides an increase of \$60 million General Fund for high-priority deferred maintenance projects in the state parks system.

**Department of Conservation**

- Provides an increase of \$1.3 million special funds and 2 positions to develop and implement a comprehensive oil and gas training program for regulatory staff.

- Proposes \$1.4 million special funds and 10 positions to enable the Department to prevent possible pipeline releases by testing sensitive gas pipelines on a periodic basis and accurately mapping pipelines to identify potential threats.

**California Conservation Corps**

- Proposes \$15 million Cap and Trade funds for the Energy Corps Program. This funding will support 10 crews and approximately 100 corpsmembers to conduct energy audits and install energy efficiency and water conservation upgrades in public buildings over the next several years.
- Provides \$5 million to partner with CALFIRE on forest health projects that will be targeted in the highest fire risk areas of the state.
- Proposes an increase of \$2.6 million General Fund to allow the Corps, in partnership with CAL FIRE, to open a residential center in the Magalia Conservation Camp with three fire crews totaling 47 corpsmembers.

**Department of Toxic Substances Control**

- Proposes an increase of \$1.2 million from the Hazardous Waste Control Account and continuation of 8 limited-term positions on a permanent basis to support permitting actions and improve the clarity, consistency, protectiveness, and enforceability of permits issued.

**Department of Food and Agriculture**

- Proposes \$3.4 million from the Medical Marijuana Regulation and Safety Fund and 18 positions to provide Medical Cannabis Cultivation Program administrative oversight, promulgate regulations, issue medical marijuana cultivation licenses, and perform an Environmental Impact Report.

## PUBLIC SAFETY

### Judicial Branch

#### Overall funding

- Proposes total funding of \$3.8 billion (\$1.8 billion General Fund) for the Judicial Branch in 2016-17, of which \$2.8 billion is provided to support trial court operations.

#### General Judicial Branch Items

- Includes \$15.6 million (General Fund) for trial court employee benefit costs, of which \$7.4 million is allocated to trial courts that have made progress towards meeting the Public Employees' Pension Reform Act of 2013 standard for employees sharing in the cost of pension funding.
- Provides \$75 million (General Fund) to backfill unrealized Trial Court Trust Fund revenue projections. The shortfall is, primarily, linked to a continued reduction in the amount of fine and fee revenue collected.
- Augments the Judicial Branch's budget by \$21.4 million (General fund) to support increased workload associated with the downgrading of specified drug and property crimes from felonies to misdemeanors pursuant to Proposition 47 (2014).
- Authorizes \$30 million (General fund) in support of a new "Court Innovation Grant Program" intended to identify and promote improvements, efficiencies, and access to justice.
- Augments the Judicial Branch's current Language Access Program by \$7 million (General Fund) to deliver interpreter services in civil proceedings. (The Language Access Program was previously funded at \$94.5 million/year).
- Provides a \$20 million (General Fund) augmentation to the Judicial Branch in support of various trial court operations costs. The Judicial Branch is being given wide discretion on the use of this funding.
- Includes \$8.7 million (General fund) to fund the Phoenix Financial System. The Phoenix Financial System is operated by the Judicial Council. It allows the state to monitor trial court expenditures. The Phoenix Financial System was previously funded from the Trial Court Improvement and Modernization Fund.

- Includes a one-time \$60 million (General Fund) allocation in support of deferred maintenance for court facilities as prioritized by the Judicial Council.

### **California Department of Corrections and Rehabilitation**

#### **Overall funding**

- Proposes total funding of \$10.5 billion (\$10.3 billion General Fund) for the California Department of Corrections and Rehabilitation (CDCR) in 2016-17.

#### **Adult Population**

- Projects a 0.2 percent (309 inmates) reduction in the state's adult inmate population in 2015-16 (as compared to the 127,990 inmate population assumption made in the 2015 Budget Act).
- Projects a 0.7 percent (844 inmates) increase in the state's adult inmate population in 2016-17 (as compared to the 127,990 inmate population assumption made in the 2015 Budget Act).
- Projects a 1.4 percent (610 parolees) decrease in the state's adult parolee population in 2015-16 (as compared to the 44,570 parolee population assumption made in the 2015 Budget Act).
- Projects a 4.5 percent (1,999 parolees) decrease in the state's adult parolee population in 2016-17 (as compared to the 44,570 parolee population assumption made in the 2015 Budget Act)

#### **Juvenile Population**

- Projects an increase of 37 youthful offenders in 2015-16 and 42 in 2016-17 for a total population of 714 wards in 2015-16 and 719 wards in 2016-17.

#### **New Prison Population Reduction Measures**

- Provides \$3.7 million (General Fund) for costs associated with youthful offender parole hearings as required by SB 260 (2013) and SB 261 (2015).
- Includes \$3.3 million to expand existing female Alternative Custody Programs to male offenders pursuant to the *SASSMAN v. BROWN* lawsuit.

#### **Proposition 47 Savings**

- Pinpoints total Proposition 47 savings for 2015-16 at \$29.3 million. This calculation is based primarily on savings from prison population reductions and increased one-time costs associated with parole and Judicial Branch workload.

Absent the aforementioned one-time costs, the Department of Finance projects ongoing annual savings to hover around \$57 million.

#### Rehabilitation and Reentry

- Includes \$400 million (General Fund) for in-prison Division of Rehabilitation Programs targeted at substance use disorders, criminal thinking, anger management, and family relations.
- Provides \$15.2 million (General Fund) to expand substance use disorder treatment to the 11 institution currently not offering these services.
- Includes \$32.1 million (General Fund) for community-based reentry programs that assist with substance use disorders, mental health care, medical care, employment, education, housing, family reunification, and social support.
- Provides \$25 million (General fund) for incentive payments to local governments to aid in the siting of reentry housing in California's communities.

#### General CDCR Items

- Includes \$7.9 million (General Fund) for efforts intended to diminish the flow of contraband into the state's prison facilities.
- Provides \$10 million (General Fund) to address the unique need of lifers and offenders being released after lengthy sentences. These services include transitional housing services, mentoring services, pre-employment services, and other services designed to meet the needs of these offender groups.
- Authorizes \$28 million (General Fund) to satisfy the terms of the *ASHKER v. BROWN* settlement. The settlement moves the department from the use of indeterminate terms on segregated housing units to a system of determinate terms based on behavior-based rule violations. The budget also includes \$5.8 million (General Fund) for additional investigative staff intended to monitor gang activity in prisons as previously segregated inmates matriculate into prison "general populations".

**Local Public Safety**

- Includes \$129.7 million (General Fund) to continue providing incentives to counties successful in reducing the number of felony probationers sent to state prison (SB 678, 2009).
- Provides \$26 million (General Fund) for city police departments targeted at improving relationship between police and communities.
- Includes \$26.8 million (\$18.1 million General Fund) for county probation departments to implement Continuum of Care reforms targeted at foster youth pursuant to AB 403 (2015).
- Includes \$10 million (General Fund) for local law enforcement agencies to support costs incurred from implementation of the Racial and Identity Profiling Act of 2015 (AB 953, 2015). The intent of this funding is to eliminate future mandate reimbursement claims from impacted local agencies.
- Provides \$250 million (General fund) for local criminal justice facility construction. This amount is in addition to the \$2.2 billion authorized for similar purposes in prior years [\$1.2 billion authorized by AB 900 (2008), \$500 million authorized by SB 1022 (2012), and \$500 million authorized by SB 863 (2014)].

## GENERAL GOVERNMENT

### State Employee and Teacher Retirement

- Includes \$5.5 billion (\$3.2 billion General Fund) for state contributions to the California Public Employees' Retirement System (CalPERS) for state pension costs.
- Includes \$2.5 billion General Fund in 2016-17 for the California State Teachers' Retirement Fund (CalSTRS) to address the unfunded liability.
  - Increases the state contribution to 6.3 percent of teacher compensation, 10.2 percent for most teachers, and 12.6 percent for school districts based on the model of shared responsibility.
  - Includes an additional contribution of 2.5 percent of teacher compensation to CalSTRS for the Supplemental Benefits Maintenance Account.

### Employee Compensation

- Includes \$220 million (\$27 million General Fund) in 2016-17 for employee compensation and health care costs for active state employees.
  - Included in these costs are salary increases for the state's rank and file employees represented by BU 9, which the state is extending to state managers and supervisors related to these employees.
- Sets aside \$350 million (\$300 million General Fund) to fund potential employee compensation increases subject to good faith bargaining.

### Improving the State's Civil Services

- Includes 16 positions and \$1.9 million (\$600,000 General Fund) for California Department of Human Resources (CalHR) to develop and implement statewide solutions for workforce and succession planning, recruitment, and training.

### California Five-Year Infrastructure Plan

- Includes a 2016 Five-Year Infrastructure Plan that outlines the Administration's infrastructure priorities for the next five years including investments in transportation and high speed rail, state institutions, the judicial branch, natural resource programs, state office infrastructure, and education.



- Proposes \$1.5 billion transfer from the General Fund to a new State Office Infrastructure Fund to be used for the long-deferred renovation or replacement of state office buildings in the Sacramento region.
  - Includes safety and capacity of the Capitol Annex building, include replacement of the Natural Resources Agency Building and construction of new building on O Street to replace the vacant Department of Food and Agriculture Annex.
- Includes one-time resources of \$807 million to address the most critical statewide deferred maintenance needs.

**Public Employment Relations Board**

- Includes an increase of \$885,000 and 5 positions to reduce backlogs and contribute toward meeting statutory timelines.

**Department of Fair Employment and Housing**

- Includes an increase of \$2.5 million and 21 positions to allow the Department to meet its federal and state requirements to provide thorough and timely investigations of discrimination complaints.

**Precision Medicine**

- Provides \$10 million on a one-time basis to the Office of Planning and Research to further the efforts of the California Initiative to Advance Precision Medicine, and building on the \$3 million appropriation made in the 2014 Budget Act.

**Department of Industrial Relations**

- Includes an increase of \$1.4 million from the Labor and Workforce Development Fund and nine positions to review and investigate additional Private Attorney General Act cases and evaluate proposed settlement agreements to determine if they are consistent with the Act. The Labor and Workforce Development Agency receives notices for approximately 6,000 cases per year. The Budget also includes \$207,000 from the same fund and one attorney at the Agency to oversee the program. There is also proposed trailer bill language to streamline the administration of the Act.
- Includes an increase of \$3.2 million from the Labor Enforcement and Compliance Fund and 19.5 positions to address a significant increase in caseload, eliminate the current backlog of old cases, and provide an appropriate number of

supervising staff. From 2011 to 2014, the units experienced a 48 percent increase in caseload and over 2,400 cases remained open at the end of 2014.

- Includes an increase of \$1.8 million from the Labor Enforcement and Compliance Fund and nine positions to address a growing backlog of wage claim adjudication hearings. The Governor states that the growing complexity of labor law has resulted in higher wage claims comprised of multiple violations and, as a result, hearings take longer. In 2014, it took an average of four months for a hearing to be held after an initial conference failed to result in a settlement, and in busier offices, this process can take as long as eight months.

#### **Department of Veterans Affairs**

- Includes \$8 million to address deferred maintenance needs at the Veterans Homes statewide.

#### **Department of Technology**

- Includes \$1.6 million and 11 positions to expand an information security pilot program into a permanent audit unit that will review all departments for compliance with information security requirements.
- Increases resources for the Department of Technology to provide project oversight and procurement support to departments to improve the quality, value, and likelihood that information technology projects undertaken by the state will be successful.

#### **Department of Consumer Affairs**

- Includes \$3.8 million from the Medical Marijuana Regulation and Safety Act Fund and 25 positions to create the Bureau of Medical Marijuana Regulation. The Bureau will regulate the transportation, storage, distribution, and sale of medical marijuana within the state and will also be responsible for licensing, investigation, enforcement, and coordination with local governments.

## LOCAL GOVERNMENT

### Redevelopment Agencies

- Estimates that in 2015-16 and 2016-17, cities will receive an additional \$643 million in general-purpose revenues, with counties receiving \$684 million and special districts \$203 million.
- Estimates Proposition 98 General Fund savings resulting from the dissolution of RDAs will be \$1.1 billion in 2015-16 and \$1 billion in 2016-17.

### Siting Incentive Grants

- Proposes \$25 million General Fund for incentive payments to cities and/or counties that approve between 1/1/16 and 6/30/17, new long term permits for hard to site facilities that improve public safety and support the criminal justice system through the provision of services.

### Wildfire Relief

- Includes \$1.9 million General Fund one-time in 2016-17 to backfill property tax, sales and use tax, and transient occupancy tax revenue losses that Calaveras and Lake Counties, and the special districts located in those counties will incur due to the wildfires.
- Proposes that the State cover local costs for an existing CalFIRE \$2.6 million contract with South Lake County Fire and a \$267,000 contract with Calaveras County.

## REVENUES

### Revenues

- Projects an overall revenue increase of \$5.9 billion above the 2015 Budget Act before transfers to the Rainy Day Fund. Of this amount:
  - Revenue for the 2015-16 is forecast to be \$3.5 billion greater than the amount forecast in the 2015 Budget Act, and
  - Revenue for the 2016-17 is forecast to be \$2.4 billion greater than the amount forecast in the 2015 Budget Act.
- Forecasts total General Fund Revenues to be \$118 billion in 2015-16, which is 2.2 percent higher than the forecast from the 2015 Budget Act.
- Forecasts total General Fund Revenues to be \$121 billion in 2016-17, which is about 0.3 percent higher than the forecast from the 2015 Budget Act.

### Personal Income Tax

- Estimates personal income tax (PIT) revenues will increase in 2015-16 by 4.7 percent, from \$77.7 billion to \$81.4 billion from what was assumed in the 2015 Budget Act.
- Forecasts that PIT revenues will increase in 2016-17 to \$83.8 billion, 2.7 percent higher than what was assumed in the 2015 Budget Act. These figures reflect a reduction of \$380 million per year in 2015-16 and 2016-17 for the state's earned income tax credit.

### Sales and Use Tax

- Projects sales and use tax (SUT) revenues will generate revenues of \$25.2 billion in 2015-16, and \$25.9 billion in 2016-17, which is a slight increase relative to the 2015 Budget Act. Revenue in 2016-17 only grows slightly because the temporary 0.25 cent Proposition 30 increase expires at the end of 2016, halfway through the fiscal year.

### Corporation Tax

- Estimates corporation tax will decrease slightly by 0.4 percent to \$10.3 billion in 2015-16 from the 2015 Budget Act.

- Projects corporation tax will decrease by 1.1 percent to \$11 billion in 2016-17 from the 2015 Budget Act. These decreases are due primarily to higher refunds affecting 2014-15.

**Supplemental Transfer to the Rainy Day Fund**

- Proposes \$2 billion transfer from General Fund to Budget Stabilization Account in addition to the current projected amounts required by current law. The \$3.6 billion transfer brings the balances of the Rainy Day Fund to \$8 billion in 2016-17, or 65 percent of the maximum.

**• SUMMARY OF CHARTS**

**2015-16 General Fund Budget Summary**

(in millions)

|                                                    | <b>2015-16</b>   | <b>2016-17</b>   |
|----------------------------------------------------|------------------|------------------|
| <b>Prior Year Balance</b>                          | <b>\$3,699</b>   | <b>\$5,172</b>   |
| Revenues and Transfers                             | \$117,537        | \$120,633        |
| <b>Total Resources Available</b>                   | <b>\$121,236</b> | <b>\$125,805</b> |
| Non-Proposition 98 Expenditures                    | \$66,072         | \$71,637         |
| Proposition 98 Expenditures                        | \$49,992         | \$50,972         |
| <b>Total Expenditures</b>                          | <b>\$116,064</b> | <b>\$122,609</b> |
| <b>Fund Balance</b>                                | <b>\$5,172</b>   | <b>\$3,196</b>   |
| Reserve for Liquidation of Encumbrances            | \$966            | \$966            |
| Special Fund for Economic Uncertainties            | \$4,206          | \$2,230          |
| <b>Budget Stabilization Account/Rainy Day Fund</b> | <b>\$4,455</b>   | <b>\$8,011</b>   |

**General Fund Expenditures by Agency**

(in millions)

|                                       | 2015-16          | 2016-17          | Change-<br>Dollar<br>Change | 2015-16<br>Percent<br>Change |
|---------------------------------------|------------------|------------------|-----------------------------|------------------------------|
| Legislative, Judicial, Executive      | \$3,227          | \$3,330          | \$103                       | 3.2%                         |
| Business, Consumer Services & Housing | \$636            | \$434            | -\$202                      | -31.8%                       |
| Transportation                        | \$267            | \$222            | -\$45                       | -16.9%                       |
| Natural Resources                     | \$2,730          | \$2,909          | \$179                       | 6.6%                         |
| Environmental Protection              | \$325            | \$-31            | -\$356                      | -109.5%                      |
| Health and Human Services             | \$31,666         | \$33,742         | \$2,076                     | 6.6%                         |
| Corrections and Rehabilitation        | \$10,276         | \$10,620         | \$344                       | 3.3%                         |
| K-12 Education                        | \$49,859         | \$51,230         | \$1,371                     | 2.7%                         |
| Higher Education                      | \$14,312         | \$14,567         | \$255                       | 1.8%                         |
| Labor and Workforce Development       | \$212            | \$166            | -\$46                       | -21.7%                       |
| Governmental Operations               | \$761            | \$2,245          | \$1484                      | 195.0%                       |
| General Government                    |                  |                  |                             |                              |
| Non-Agency Departments                | \$711            | \$729            | \$18                        | 2.5%                         |
| Tax Relief/Local Government           | \$445            | \$483            | \$38                        | 8.5%                         |
| Statewide Expenditures                | \$637            | \$1963           | \$1,326                     | 208.2%                       |
| <b>Total</b>                          | <b>\$116,064</b> | <b>\$122,609</b> | <b>\$6,545</b>              | <b>5.6%</b>                  |

**General Fund Revenue Sources**

(in millions)

- Change from 2015-16

|                                                             | 2015-16          | 2016-17          | Dollar Change  | Percent Change |
|-------------------------------------------------------------|------------------|------------------|----------------|----------------|
| Personal Income Tax                                         | \$81,354         | \$83,841         | \$2,487        | 3.1%           |
| Sales and Use Tax                                           | \$25,246         | \$25,942         | \$696          | 2.8%           |
| Corporation Tax                                             | \$10,304         | \$10,956         | \$652          | 6.3%           |
| Insurance Tax                                               | \$2,493          | \$2,549          | \$56           | 2.2%           |
| Liquor Tax                                                  | \$366            | \$373            | \$7            | 1.9%           |
| Cigarette Tax                                               | \$84             | \$81             | -\$3           | -3.6%          |
| Motor Vehicle Fees                                          | \$22             | \$22             | 0              | 0.0%           |
| Other                                                       | \$517            | \$425            | -\$92          | -17.8%         |
| <b>Subtotal</b>                                             | <b>\$120,386</b> | <b>\$124,189</b> | <b>\$3,803</b> | <b>3.2%</b>    |
| Transfer to the Budget Stabilization Account/Rainy Day Fund | -2,849           | -3,556           | -707           | 24.8%          |
| <b>Total</b>                                                | <b>\$117,537</b> | <b>\$120,633</b> | <b>\$3,096</b> | <b>2.6%</b>    |





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

SENATOR MARK LENO, CHAIR

**Summary of the Governor's  
Proposed 2016-17 Budget**

January 7, 2016

The purpose of this Summary is to provide members and staff of the Legislature and the public with an overview of the Governor's proposed budget for 2016-17. If you have questions, please contact the Committee at (916) 651-4103.

## **Overall Budget Proposal**

The Governor has proposed a budget for 2016-17 which includes resources—carry forward balance, revenues and transfers—of \$125.8 billion and expenditures of \$122.6 billion. Based on the budget proposal, the General Fund would end the 2016-17 year with an unencumbered reserve of over \$2.2 billion and include the deposit of \$3.6 billion to the Budget Stabilization Account (BSA), resulting in an expected balance in this account of over \$8.0 billion. The budget also includes the continuation of established efforts to pay down budgetary debt from past years, and as set forth through the passage of Proposition 2 in November 2014. The fiscal position of the 2016-17 budget benefits from past years of spending restraint, temporary taxes approved by the voters in 2012, and a steadily improving state economy resulting in increasing revenues.

As a result of the combined efforts of the Administration and the Legislature, the General Fund continues to be in a very solid position. In the current year, the fiscal position of the state is expected to be substantially better than when the budget was adopted in June. From the 2015-16 adopted budget, revenues are up by about \$5.9 billion over the three year period (past year, current year and budget year). The General Fund's comparative health follows from last year's good budgetary news. The proposed 2016-17 budget builds from this solid base, incorporating a general reserve and BSA of approximately \$10.2 billion (with another almost \$1.0 billion reserved for encumbrances). Overall, General Fund spending in 2016-17 is expected to grow in percentage terms by 5.6 percent from 2015-16 to 2016-17, attributable largely to health and human services, education, and government operations.

## Overview of Governor's Budget Proposal

The Governor's budget includes \$125.8 billion in General Fund revenues and other resources and \$122.6 billion in total General Fund expenditures (\$71.6 billion in non-Prop 98 and \$51.0 billion in Proposition 98, providing for a \$2.2 billion unencumbered reserve as well as setting aside an additional \$3.6 billion for the BSA. Expenditures in 2016-17 are proposed to be about \$6.5 billion higher than revised 2015-16 expenditures. Significant additional funding is proposed for K-14 education, health and human services, and debt repayment, with some increases for most other areas of the budget. Additional resources that have allowed for measured expansions and workload growth are the result of very positive revenue growth based on the general economic upturn. The General Fund budget details are summarized below.

| 2015-16 and 2016-17                        |                           |                            |
|--------------------------------------------|---------------------------|----------------------------|
| General Fund Summary                       |                           |                            |
| (Dollars in Millions)                      |                           |                            |
|                                            | Revised<br><u>2015-16</u> | Proposed<br><u>2016-17</u> |
| <b>PRIOR YEAR BALANCE</b>                  | \$3,699                   | \$5,172                    |
| Revenues and transfers                     | \$117,537                 | \$120,633                  |
| <b>TOTAL RESOURCES AVAILABLE</b>           | <b>\$121,236</b>          | <b>\$125,805</b>           |
| Non-Proposition 98 Expenditures            | \$66,072                  | \$71,637                   |
| Proposition 98 Expenditures                | \$49,992                  | \$50,972                   |
| <b>TOTAL EXPENDITURES</b>                  | <b>\$116,064</b>          | <b>\$122,609</b>           |
| <br><b>FUND BALANCE</b>                    |                           |                            |
| Encumbrances                               | \$966                     | \$966                      |
| Special Fund for Economic<br>Uncertainties | \$4,206                   | \$2,230                    |
| <b>BUDGET STABILIZATION ACCOUNT</b>        | <b>\$4,455</b>            | <b>\$8,011</b>             |

## **Current-Year Budget Highlights and Update**

Working from the general basis of the Governor's budget and May Revision, for the current year, the Legislature incorporated significant and important budgetary and policy changes to the state's expenditure plan. In general, the budget reflected the framework of the Governor's budget, but incorporated Legislative priorities as established through the spring budgetary process. The 2015 Budget Act signed by the Governor maintained the overall fiscal framework of the Governor's proposal, with conservative revenue estimates, continued debt retirement, a projected balanced approach in the out-years, and a \$1.1 billion general reserve.

### ***Expenditure Highlights.***

The current budget represents a comprehensive approach to continue restoring of essential educational, human services, and health programs, while maintaining the state's solid fiscal outlook. Specifically, the budget funding plan provides resources for many of the Legislature's priorities—especially in the areas of child care, human services, health, and higher education—within the established framework. The architecture for the plan began with much of the Governor's base level funding, but incorporated distinctive and important changes in program spending reflecting the Legislature's priorities.

**K-14 Education.** The budget continues the state's rapid reinvestment in education. The Proposition 98 funding guarantee (comprising General Fund and local property tax revenues) for K-14 schools was \$56.6 billion in 2007-08, but dropped to \$47.3 billion in 2011-12 as a result of revenue declines largely attributable to the recession. Since then, funding has increased regularly, to \$68.4 billion in 2015-16. The Proposition 98 maintenance factor (an indicator of the past cuts made to schools and community colleges) totaled nearly \$11.0 billion as recently as 2011-12, but is reduced to just \$772 million in the 2015-16 budget. This reinvestment provides for continued implementation of the Local Control Funding Formula (LCFF) well ahead of schedule. When the formula was adopted in 2013-14, funding was expected to be \$47.0 billion in 2015-16. The budget provides \$6.0 billion more, with an allocation of \$53.0 billion this coming year. One-time Proposition 98 funding of \$3.8 million is provided to pay K-14 mandate claims. Additional funds are available for career technical education, adult education, educator support, special education and K-12 internet access.

**Child Care and Early Education.** A centerpiece of the Legislature's priorities is early childhood education, where the budget invests an increase of \$423 million (\$220 million Proposition 98 General Fund and \$203 million General Fund) to

improve access and strengthen quality. The budget provides 13,380 new slots (\$133 million) for full-day state preschool and voucher-based programs, and increases to several reimbursement rates (\$163 million [\$44 million Proposition 98 and \$119 million other funds]), including: rates for State Preschool and other providers that directly contract with the Department of Education, rates for voucher-based child care providers, and rates for license-exempt providers.

**Higher Education.** The budget maximizes the state's dollars in opening up opportunities for Californians by investing in quality, affordability, and increased access at the state's higher education systems. To maintain affordability, the budget holds tuition for California undergraduate students flat through 2016-17. It includes \$217 million in new ongoing funding for the California State University (CSU) and provides \$120 million in new ongoing funding for the University of California (UC). For UC, it also provides temporary funding from Proposition 2 to assist in paying down UC's unfunded pension liability. For California Community Colleges (CCC), the budget provides \$100 million for investing in student success, as well as more resources for full-time faculty and basic skills efforts.

**Water Policy and Drought Response.** California has experienced four consecutive years of below-average rain and snow, and is currently facing severe drought conditions in all 58 counties. Since a state of emergency was declared on January 2014, the Legislature and the Administration have worked to assist drought-impacted communities and fund critical water infrastructure projects that will make the state more resilient if the drought continues. The 2015 Budget Act includes an additional \$1.8 billion of one-time resources to continue the state's response to drought impacts. The funds will protect and expand local water supplies, conserve waters and respond to emergency conditions.

**Cap-and-Trade Expenditures.** The adopted budget for 2015-16 includes staff resources necessary to continue existing workload related to cap-and-trade expenditures, but rejects all of the discretionary expenditure proposals, so that discussions between the Legislature and the Administration can continue in order to further refine the state's expenditure plan for the 40 percent of the cap-and-trade revenues that are not continuously appropriated pursuant to statutes enacted last year.

**Earned Income Tax Credit.** The budget includes an Earned Income Tax Credit (EITC) for the benefit of low-income wage earners. The targeted credit provides a refundable tax credit totaling \$380 million, and focuses on households with incomes less than \$6,580, if there are no dependents and up to \$13,870, if there are

three or more dependents. The credit matches 85 percent of the federal credit, at the lowest income levels, with a maximum benefit of \$2,653. Unlike the federal program, the state EITC is subject to annual appropriation, depending on budgetary conditions.

***Recent Developments.***

Since the adoption of the 2015 Budget Act, there have been numerous moderate spending adjustments as well as significant improvements from the revenues adopted in the budget. The most significant change is the additional \$1.0 billion deposit to the BSA and additional debt pay-down, based on higher personal income tax receipts. The differences between the adopted and revised current year budget are presented below.

**General Fund Expenditures  
Current Year Adopted and Revised  
(Dollars in Millions)**

| <b>Program Area</b>                  | <b>Adopted<br/>2015-16</b> | <b>Revised<br/>2015-16</b> | <b>Change</b> | <b>Percent<br/>Change</b> |
|--------------------------------------|----------------------------|----------------------------|---------------|---------------------------|
| K-12 Education                       | \$49,373                   | \$49,859                   | \$486         | 1.0%                      |
| Higher Education                     | \$14,200                   | \$14,312                   | \$112         | 0.8%                      |
| Health and Human Services            | \$31,867                   | \$31,666                   | -\$201        | -0.6%                     |
| Corrections and Rehabilitation       | \$10,078                   | \$10,276                   | \$198         | 2.0%                      |
| Business, Consumer Services, Housing | \$627                      | \$636                      | \$9           | 1.4%                      |
| Transportation                       | \$261                      | \$267                      | \$6           | 2.3%                      |
| Natural Resources                    | \$2,479                    | \$2,730                    | \$251         | 10.1%                     |
| Environmental Protection             | \$69                       | \$325                      | \$256         | 371.0%                    |
| Labor and Workforce Development      | \$214                      | \$212                      | -\$2          | -0.9%                     |
| Government Operations                | \$738                      | \$761                      | \$23          | 3.1%                      |
| General Government                   |                            |                            |               |                           |
| Non-Agency Departments               | \$684                      | \$711                      | \$27          | 3.9%                      |
| Tax Relief / Local Government        | \$469                      | \$445                      | -\$24         | -5.1%                     |
| Statewide Expenditures               | \$1,152                    | \$637                      | -\$515        | -44.7%                    |
| Legislative, Judicial and Executive  | \$3,158                    | \$3,227                    | \$69          | 2.2%                      |
| <b>Total</b>                         | <b>\$115,369</b>           | <b>\$116,064</b>           | <b>\$695</b>  | <b>0.6%</b>               |

## Proposed Budget Expenditures and Revenues

Like the current year, the proposed budget incorporates additional, but restrained new programmatic increases. The table below summarizes the Governor's proposed expenditures by program area. The largest dollar changes in expenditures by program are in health and human services and K-12 education.

### General Fund Expenditures Current and Budget Year (Dollars in Millions)

| Program Area                         | Revised<br>2015-16 | Proposed<br>2016-17 | Change         | %<br>Change |
|--------------------------------------|--------------------|---------------------|----------------|-------------|
| K-12 Education                       | \$49,859           | \$51,230            | \$1,371        | 2.7%        |
| Higher Education                     | \$14,312           | \$14,567            | \$255          | 1.8%        |
| Health and Human Services            | \$31,666           | \$33,742            | \$2,076        | 6.6%        |
| Corrections and Rehabilitation       | \$10,276           | \$10,620            | \$344          | 3.3%        |
| Business, Consumer Services, Housing | \$636              | \$434               | -\$202         | -31.8%      |
| Transportation                       | \$267              | \$222               | -\$45          | -16.9%      |
| Natural Resources                    | \$2,730            | \$2,909             | \$179          | 6.6%        |
| Environmental Protection             | \$325              | -\$31               | -\$356         | -109.5%     |
| Labor and Workforce Development      | \$212              | \$166               | -\$46          | -21.7%      |
| Government Operations                | \$761              | \$2,245             | \$1,484        | 195.0%      |
| General Government                   |                    |                     |                |             |
| Non-Agency Departments               | \$711              | \$729               | \$18           | 2.5%        |
| Tax Relief / Local Government        | \$445              | \$483               | \$38           | 8.5%        |
| Statewide Expenditures               | \$637              | \$1,963             | \$1,326        | 208.2%      |
| Legislative, Judicial and Executive  | \$3,227            | \$3,330             | \$103          | 3.2%        |
| <b>Total</b>                         | <b>\$116,064</b>   | <b>\$122,609</b>    | <b>\$6,545</b> | <b>5.6%</b> |

The Governor's budget proposes some major policy and budgetary changes. Some of the more important aspects of the budget proposal are outlined below:

## Education

**Education Funding.** The budget proposes to continue investments in both K-12 schools and higher education. Proposition 98 investments in K-14 education increase almost \$5.4 billion over the three-year period of 2014-15 through 2016-17. The key changes in the education area include:

- **Early Education.** The budget proposes to restructure funding for preschool programs through the creation of a new \$1.6 billion block grant that allows Local Educational Agencies to more flexibly meet the needs of their pre-kindergarten populations and benefit low-income and at-risk preschoolers. This block grant combines Proposition 98 funding previously allocated for preschool and transitional kindergarten programs.
- **K-12 Schools.** Per student funding levels (from all fund sources) will increase to \$14,550 in 2016-17 from \$14,184 in 2015-16 (and from \$13,637 in 2014-15). Proposition 98 funding will increase from \$66.7 billion in 2014-15 to \$69.2 billion in 2015-16 to \$71.6 billion in 2016-17. Rising state revenues means that the state can continue implementing the Local Control Funding Formula ahead of schedule. The budget provides almost \$6 billion more in transition funding (\$2.8 billion in 2016-17) than was projected when the formula was adopted in 2013-14 —allocating a total of almost \$55.5 billion this coming year, and thereby funding approximately 95 percent of the formula.
- **Higher Education.** The budget provides continuing additional funding to the state's higher education system to help maintain its quality and affordability. The budget includes stable funding growth designed to eliminate the need for further tuition increases and intends to have community colleges and university systems work together to help ensure students complete their degrees in a timely manner.

## Human Services

**SSI/SSP Cost-of-Living.** The budget proposes a cost-of-living adjustment increase to the SSP portion of the SSI/SSP grant of \$40.7 million General Fund effective January 1, 2017. Together with a federal increase in the SSI portion, this will result in a monthly increase of \$17 for individuals and \$31 for couples. The full year cost of the proposed adjustment is estimated to be \$82.3 million General Fund.



## Health Care

***Managed Care Organization Tax.*** The state's current managed care organization tax (MCO) offsets about \$1 billion expenditures annually and is effective through June 20, 2016. Last year, in response to updated federal guidance on the design of these types of taxes, the Governor proposed an extension of a revised version of this tax; however, the Legislature did not approve the Administration's proposal. The Governor called a special session to address the extension of this tax (and discuss rate increases for providers of Medi-Cal and developmental disability services).

The budget proposes a new tax reform package to extend the MCO. This new tax reform package now includes reforms in the gross premiums tax and business and corporation tax, which were not previously part of the proposal. As a result, as a whole, the health plan industry would not be negatively impacted by the MCO.

The new proposal nets about \$1.35 billion in tax revenue for the state and would be deposited into a special fund. The Administration proposes to use \$236 million of this revenue to restore the seven percent reduction to In-Home Supportive Services. The remaining tax revenue (about \$1.1 billion) is unallocated and in the special fund reserve. The Administration notes its expectation that any additional targeted rate increases for services and supports to persons with developmental disabilities (above what is proposed in the budget) would be funded by the MCO revenue.

## Public Safety and Judiciary

***Local Jail Construction.*** The budget proposes \$250 million General Fund for those counties that have either received partial funding or no funding from the \$2.2 billion in lease-revenue bond funding that the state has provided over the last several years for replacing or renovating county jails.

***Judicial Branch.*** The budget proposes total funding of \$3.6 billion (\$1.7 billion General Fund) for the Judicial Branch, of which \$2.8 billion is provided in support of trial court operations. This represents an \$175 million increase over 2014-15 expenditures.

## **Resources and Environment**

**Cap-and-Trade Revenues.** The budget proposes to invest \$3.1 billion of cap-and-trade auction revenue proceeds which includes the balance of the 2015-16 proceeds that were not appropriated in 2015-16 and the proceeds anticipated in 2016-17, in addition to the \$500 million reserve. Specifically, this includes \$1.2 billion continuously appropriated for transportation and sustainable communities, \$1.0 billion for petroleum use reduction, \$215 million to reduce short-lived climate pollutants, \$200 million for carbon sequestration and healthy forests, \$200 million for energy efficiency and renewable energy programs, \$150 million for water efficiency, drought response and wetland restoration, and \$100 million for a new program to support local climate actions in the state's top five percent of disadvantaged communities.

**Continued Drought Response.** The budget calls for \$323 million to continue drought-relief efforts, including \$160 million for continued emergency response. Major proposals include \$77 million for enhanced fire protection, \$22 million for disaster assistance, and \$17 million for fish rescue and enhancement.

**Marijuana Cultivation Enforcement.** As part of a broader approach to marijuana cultivation enforcement, and including funding provided by the Medical Marijuana Regulation and Safety Act of 2015, the budget provides funding and positions to various regulatory departments to provide environmental protection from medical marijuana cultivation.

## **Fiscal Management**

**Budget Reserve Deposits.** As an integral part of the proposal, the budget includes measures that would result in additional reserves for economic uncertainties. The deposit to the Budget Stabilization Account (BSA), redefined by Proposition 2, will total \$3.6 billion, which includes a supplemental payment above the required amount of \$2.0 billion. This will result in a balance in the account at the conclusion of 2016-17 of \$8.0 billion, when combined with prior deposits to the fund. This would result in the BSA being funded to 65 percent of the maximum level.

**Debt Repayments.** The budget continues to pay down the debt overhang as required under Proposition 2. Under the proposal, \$1.6 billion in Proposition 2 funds will pay off loans from special funds and past Proposition 98 liabilities. \$955 million will pay off budgetary borrowing from special funds, \$257 million

for Proposition 98 settle-up costs, \$173 for pre-Proposition 42 transportation loans, and \$171 million for University of California retiree health.

## **Infrastructure**

***Transportation Infrastructure.*** The budget proposes \$1.7 billion in 2016-17, and \$3.6 billion on an annual ongoing basis, for transportation funding and reform. The annual funding package provides \$2 billion from a new \$65 fee on all vehicles; \$500 million by setting the gasoline excise tax at 18 cents (includes future adjustments for inflation); \$500 million from an 11-cent increase in the diesel excise tax; \$500 million in additional cap-and-trade proceeds; and \$100 million from cost-saving reforms to be implemented by Caltrans. The \$1.7 billion of additional funding in 2016-17 includes \$173 million from the acceleration of General Fund loan repayments over the next four years (\$879 million total), rather than repaying these loans over the next 20 years. The additional funding will be used for local streets and roads, a new low carbon road program, transit and intercity rail capital projects, highway maintenance, and trade corridors.

***Statewide Infrastructure Investments.*** The budget proposes a \$1.5 billion transfer from the General Fund to a new State Office Infrastructure Fund to be used for deferred renovation, or replacement of, state office buildings in the Sacramento region. The budget also includes a one-time \$807 million package (\$500 million General Fund, \$289 million Proposition 98 General Fund, and \$18 million Motor Vehicle Account) to address the most critical deferred maintenance needs. The largest components of this are: \$289 million for community colleges, \$100 million for levee repairs, \$64 million for state hospitals, \$60 million for the judicial branch, \$60 million for parks and recreation, \$55 million for corrections and rehabilitation, and \$35 million each for UC and CSU.

## **General Fund Revenues**

California relies on a broad range of taxes and other revenues to support the activities of the General Fund; however, the personal income tax, sales and use tax, and corporation taxes account for over 97 percent of General Fund revenues. For the budget year, the personal income tax is expected to generate \$83.8 billion (68 percent), the sales and use tax \$25.9 billion (21 percent), and the corporation tax \$10.2 billion (9 percent). For the current year, income taxes are expected to perform strongly. Rapid expansion is expected to occur for the personal income tax, due largely to capital gains realizations and other non-wage income. Even the

corporation tax, which has been weak, is expected to recover somewhat. Sales tax grows in the budget year.

Over the three year period, General Fund revenues are up by approximately \$5.9 billion from the 2015 Budget Act. From the current year to budget year, the major revenue sources are expected to grow by 3.1 percent for the personal income tax, 2.8 percent for the sales and use tax, and 6.3 percent for the corporation tax. Overall year-to-year revenue growth is estimated to be 2.6 percent. The table below presents the state's General Fund revenues for the current and budget year:

**General Fund Revenues  
Current Year Revised and Budget Year Forecast  
(Dollars in Millions)**

| <b>Revenue Source</b> | <b>2015-16</b>   | <b>2016-17</b>   | <b>Change</b>  | <b>Percent Change</b> |
|-----------------------|------------------|------------------|----------------|-----------------------|
| Personal Income Tax   | \$81,354         | \$83,841         | \$2,487        | 3.1%                  |
| Sales and Use Tax     | \$25,246         | \$25,942         | \$696          | 2.8%                  |
| Corporation Tax       | \$10,304         | \$10,956         | \$652          | 6.3%                  |
| Insurance Tax         | \$2,493          | \$2,549          | \$56           | 2.2%                  |
| Alcohol Beverage Tax  | \$366            | \$373            | \$7            | 1.9%                  |
| Cigarette Tax         | \$84             | \$81             | -\$3           | -3.6%                 |
| Motor Vehicle Fees    | \$22             | \$22             | \$0            | 0.0%                  |
| Other Taxes and Fees  | \$517            | \$425            | -\$92          | -17.8%                |
| <b>Subtotal</b>       | <b>\$120,386</b> | <b>\$124,189</b> | <b>\$3,803</b> | <b>3.2%</b>           |
| Transfer to BSA       | -\$2,849         | -\$3,556         | -\$707         | 24.8%                 |
| <b>Total</b>          | <b>\$117,537</b> | <b>\$120,633</b> | <b>\$3,096</b> | <b>2.6%</b>           |

## **Overall Proposition 98 – K-14 Education**

**Prior- and Current Year Adjustments (resulting in additional one-time funds)** – The budget estimates that the total Proposition 98 guarantee (K-14) for 2014-15 increased by \$387 million, compared to the level estimated in the 2015 Budget Act. Similarly, for 2015-16, the Governor estimates an increase in the total guarantee of \$766 million. Both of these adjustments lead to Proposition 98 “settle-up” obligations, which result in additional one-time resources. (The Governor proposes to use the majority of these additional one-time resources to provide discretionary funds to Local Educational Agencies (LEAs), which would also reduce any outstanding mandates claims they may have.) The Administration estimates that the Proposition 98 calculation for 2014-15 is a Test 1 calculation and for 2015-16 a Test 2 calculation.

**Budget Year – Overall Funding Levels** – The budget estimates a total Proposition 98 funding level of \$71.6 billion (K-14). This is a \$3.2 billion increase over the 2015-16 Proposition 98 level provided in the 2015 Budget Act. The Administration estimates that the Proposition 98 calculation for 2016-17 will be a Test 3 calculation.

**Proposition 98 - K-12 Education – Major Spending Proposals** – The budget includes a proposed Proposition 98 funding level of \$63.2 billion for K-12 programs. This includes a year-to-year increase of more than \$2.1 billion in Proposition 98 funding for K-12 education, as compared to the revised Proposition 98 K-12 funding level for 2015-16. Under the Governor’s proposal, ongoing K-12 Proposition 98 per pupil expenditures increase from \$10,223 provided in 2015-16 (revised) to \$10,591 in 2016-17. This 2016-17 proposed Proposition 98 funding level for K-12 reflects a per-pupil increase of almost four percent, as compared to the revised per-pupil funding level provided for in 2015-16. The Governor’s major K-12 spending proposals are identified below.

**K-12 Local Control Funding Formula** – The 2013 Budget Act changed how the state provides funding to school districts and county offices of education by creating the Local Control Funding Formula (LCFF). The Governor’s budget proposes an increase of approximately \$2.8 billion to implement the LCFF. This investment would eliminate about 50 percent of the remaining funding gap between the formula’s current year funding level and full implementation for school districts and charter schools. Overall, this investment results in the formula

being 95 percent fully funded in 2016-17. County offices of education reached full implementation with the LCFF allocation in the 2014 Budget Act.

**Mandate Backlog Reduction** – The budget proposes more than \$1.2 billion in discretionary one-time Proposition 98 funding be provided to school districts, charter schools, and county offices of education to offset outstanding mandate debt. The Administration indicates that this funding allows school districts, charter schools, and county offices of education to continue to invest in implementing state adopted academic content standards, upgrade technology, provide professional development, support beginning teacher induction and address deferred maintenance projects.

**Enrollment and Cost-of-Living Adjustments** – The proposed budget reflects an estimated decrease in student enrollment in the K-12 system. Specifically, it reflects a decrease of \$150.1 million in 2015-16, as a result of a decrease in the projected average daily attendance (ADA), as compared to the 2015 Budget Act. For 2016-17, the Governor’s proposed budget reflects a decrease of \$34.1 million to reflect a projected decline in ADA for the budget year. (For charter schools, the Governor’s proposed budget funds an estimated increase in charter school ADA – see “Other adjustments” below.) The proposed budget also provides \$22.9 million to support a 0.47 percent cost-of-living adjustment for categorical programs that are not included in the new LCFF. These programs include special education and child nutrition, among others. The proposed funding level for the LCFF includes cost-of-living adjustments for school districts and county offices of education.

**K-12 School Facilities** – The budget does not include a specific K-12 school facilities proposal, but does note continued concerns with the existing program, including but not limited to, program complexity, costly administrative burdens, inequalities in funding allocation and lack of alignment with actual local facility needs. The Administration acknowledges that a new program is needed, but goes on to note that the \$9 billion school bond on the November 2016 ballot fails to make needed changes, while adding significant debt service.

Finally, the Administration proposes to continue the dialogue with the Legislature and stakeholders about the best way to fund school facilities going forward, specifically focused on funding for the highest-need schools and districts and increased local flexibility.

## **Other K-12 Education Budget Proposals**

**Systems of Learning and Behavioral Supports** – The budget proposes to allocate \$30 million in one-time Proposition 98 funds to support an effort (beginning in 2015-16 with \$10 million in one-time Proposition 98 funds) to help LEAs establish and implement schoolwide systems of academic and behavioral support for students. This augmentation is the reappropriation of \$30 million originally provided in the Budget Act of 2015 for services for infants and toddlers with special needs. The Department of Education, Department of Finance, and Legislative Analyst’s Office were instructed to jointly determine how to best allocate infant and toddler funding but were unable to reach agreement.

**Charter School Startup Grants** – The budget proposes to allocate \$20 million in one-time Proposition 98 funds to provide start-up grants for new charter schools. In previous years, new charter schools were eligible for start-up funding through the federal Public Charter Schools Grant program. California was not selected to participate in the latest cohort of this grant program.

**Proposition 39 Energy Efficiency Investments** – The budget proposes to allocate \$419 million in Proposition 39 energy funds available in 2016-17, as follows:

- \$365.4 million to K-12 school districts, for energy efficiency project grants.
- \$45.2 million to community college districts, for energy efficiency project grants.
- \$5.4 million to the California Conservation Corps, to provide technical assistance to school districts.
- \$3 million to the Workforce Investment Board, for continued implementation of job-training programs.

**Charter Schools** – The budget proposes an increase of \$61 million in Proposition 98 funds to reflect an increase in charter school ADA.

**Special Education** – The budget proposes a decrease of \$15.5 million in Proposition 98 funds to reflect a decrease in special education ADA.

**K-12 High Speed Network** – The budget proposes \$8 million Proposition 98 (\$4.5 million ongoing and \$3.5 million one-time) to support the operations of the K-12 High Speed Network. The 2015 budget act required the program to use existing reserves to fund operations in 2015-16.

**Proposition 47** – The budget proposes \$7.3 million in Proposition 98 funding to support improved outcomes for students who are truant, at risk of dropping out of school, or are victims of crimes. Proposition 47 reduced penalties for some crimes and required that 25 percent of the resulting savings be invested in K-12 truancy, dropout prevention, victim services, and drug and mental health treatments.

### **Child Care and Early Education**

**Child Care and Early Education** – The budget proposes to: (a) restructure preschool programs through the creation of an Early Education Block Grant; (b) adopt trailer bill language to develop a plan that will transition child care providers' contracted funding into voucher-based care; and, (c) makes other additional adjustments based on previous years' Budget Act investments. Overall, the Governor's budget includes \$3.6 billion for child care and preschool programs (including Transitional Kindergarten).

**Restructure Preschool Programs with the Creation of an Early Education Block Grant** – The budget proposes to consolidate Proposition 98 funding from the State Preschool Program, transitional kindergarten, and the Preschool Quality Rating and Improvement System Grant to create a \$1.6 billion block grant intended to benefit low-income and at-risk preschoolers. Specifically, the proposal would build on the tenets of the Local Control Funding Formula (LCFF), and distributed based on similar factors, such as population and need, to ensure that funds are equitably distributed to schools with large populations of disadvantaged children. Also, the budget specifies that no LEA will receive less funding under the block grant than under prior funding models. The Governor's budget does not provide further detail, but the Administration plans to engage stakeholders in the coming months and intends to release more details by the May Revision. Of note, the proposal does not move funds currently supporting the wrap component of full-day State Preschool provided by non-LEAs into the block grant.

**Child Care Vouchers and Funding** – The budget proposes trailer bill language that requires the Department of Education to develop a plan to transition contracted funding into vouchers over the next five years. Approximately two-thirds of California's child care is voucher-based care, meaning that a voucher is provided



to a family who can choose their own provider. It is envisioned that the move to voucher-based care, as administered by existing alternative payment agencies, will equip families with more access and choice to care, particularly for non-traditional hour care.

**Full-year implementation of 2015 Budget Act investments** – Reflecting an increase of 7,003 full-day State Preschool slots (beginning January 1, 2016); a 4.5 percent increase to the Regional Market Rate, the rate by which providers that accept vouchers are reimbursed; and a five-percent rate increase for license-exempt providers (both beginning October 1, 2015), the budget includes an increase of \$16.9 million non-Proposition 98 General Fund and \$30.9 million Proposition 98.

**Child Care and Development Funds** – The budget includes an increase of \$10.4 million federal funds, totaling \$593.2 million federal funds.

**CalWORKs Child Care** – The budget includes an overall year-to-year increase of about \$18 million to fund changes in CalWORKs child care caseload and the type of care selected. Specifically, the budget includes \$422.3 million for Stage 2 (an increase of \$1.8 million non-Proposition 98 General Fund to reflect an increase cost per case); and, \$315.9 million for Stage 3 (an increase of \$33.4 million non-Proposition 98 General Fund to reflect an increase in the number of cases and cost per case).

## **Higher Education**

**Multi-Year Stable Funding Plan** – The budget continues to support the investment plan in higher education that started in 2013-14, which assumes additional General Fund support for the University of California (UC), the California State University (CSU), and Hastings College of the Law. For first two years, the multi-year plan assumes a five percent increase for UC and a four percent increase in each of the subsequent two years. CSU has received identical base increases to UC.

State funding for the CCCs is projected to increase by 4.4 percent (Proposition 98 General Fund and property taxes) in 2016-17. The budget focuses this increased funding to support student success by supporting student access to courses and programs, enabling students to successfully transition into college-level courses, and prioritizing expanded access in districts where there is the greatest unmet need in the primary missions of the CCCs.

## **University of California**

**General Fund Increase** – The budget proposes an increase of \$125.4 million (four percent) ongoing General Fund. The budget assumes no systemwide tuition and fee increases for resident undergraduate students, except for a \$51 (five percent) increase in the Student Services Fee. The budget assumes UC will enroll 5,000 more resident undergraduates in 2016-17 and receive an associated \$25 million ongoing augmentation in 2015-16.

**One-time Funding to Pay Down Debts and Liabilities** – The budget provides \$171 million one-time Proposition 2 funds to pay down the unfunded liability of the UC Retirement Plan. Consistent with the 2015 funding agreement, the UC Regents are expected to establish a retirement program that limits pensionable compensation consistent with the Public Employees' Pension Reform Act of 2014, no later than June 30, 2016. The budget also proposes \$35 million one-time General Fund for deferred maintenance.

**Energy Projects** – The budget proposes \$25 million one-time cap-and-trade Funds for energy projects.

## **Hastings College of the Law**

**General Fund Increase** – The budget proposes an increase of \$1 million General Fund. This funding is predicated on maintenance of current tuition levels.

## **California State University**

**General Fund Increase** – The budget proposes \$148.3 million (five percent) ongoing General Fund increase. The budget proposes (1) a \$125.4 million unallocated augmentation identical to UC's base increase, (2) an additional unallocated \$15 million associated with savings from changes to the Middle Class Scholarship program made in 2015-16, and (3) \$7.9 million for lease-revenue bond debt service. The Governor does not propose enrollment targets or enrollment growth funding and assumes no increase in tuition.

**One-time Funding** – The budget provides \$35 million one-time General Fund for deferred maintenance, and \$35 million in one-time cap-and-trade funds for energy projects.

## California Community Colleges

*Please see the K-12 Education section of this report for additional information on the overall K-14 Proposition 98 budget.*

**Strong Workforce Program** – The budget proposes \$200 million ongoing Proposition 98 support to implement recommendations of the Board of Governors’ Task Force on Workforce, Job Creation, and a Strong Economy. Community Colleges would collaborate with education, workforce, labor, and civic partners to develop regional plans for career technical education (CTE).

**Apportionments** – The budget provides \$115 million Proposition 98 General Fund for two percent enrollment growth and \$29 million for a 0.47 percent cost-of-living adjustment (COLA).

**Basic Skills Initiative** – The budget proposes \$30 million ongoing Proposition 98 General Fund for the Basic Skills Initiative to implement practices that increase student mobility to college-level courses.

**Institutional Effectiveness Initiative** – The budget proposes \$10 million ongoing Proposition 98 General Fund for the Institutional Effectiveness Initiative, bringing total funding to \$27.5 million. This includes \$8 million for workshops and training and \$2 million for technical assistance to local community colleges and districts.

**Zero-Textbook-Cost Degrees** – The budget provides \$5 million ongoing Proposition 98 General Fund for campuses to develop “zero-textbook-cost” degree and certificate programs using open educational resources.

**Telecommunications and Technology Infrastructure Program** – The budget proposes \$3 million ongoing Proposition 98 General Fund to improve systemwide data security.

**Cost-of-Living Adjustments for Categorical Programs** – The budget provides \$1.3 million Proposition 98 General Fund for a 0.47 percent COLA for Extended Opportunity Programs and Services, Disabled Student Programs and Services, and the CalWORKs Program. The Administration also provides \$1.8 million Proposition 98 to raise the apprenticeship funding rate to the highest noncredit rate.

**Career Technical Educational (CTE) Pathways Program** – The budget proposes \$48 million Proposition 98 General Fund increase to the CTE Pathways

Program, currently scheduled to sunset at the end of 2015-16, ongoing. Additionally, the Administration intends to introduce trailer bill language to eliminate the sunset date and make the program permanent. The program supports collaboration to improve career pathways and linkages among schools, community colleges, and local businesses.

**Deferred Maintenance** – The budget proposes \$289 million one-time Proposition 98 increase for deferred maintenance, instructional equipment, and specified water conservation projects. Community colleges will not need to provide matching funds for deferred maintenance in 2016-17.

**Mandate Debts** – The budget provides \$76.3 million one-time Proposition 98 General Fund increase to pay down outstanding mandate claims. These payments will further reduce outstanding mandate claims and open up one-time resources to address various one-time needs, such as campus security, technology and professional development.

**Innovation Awards** – The budget proposes \$25 million Proposition 98 General Fund for innovation awards focusing on technology, transfer pathways and successful transition from higher education to the workforce.

### **Student Financial Aid**

**Middle Class Scholarship** – The budget includes \$34 million General Fund in for the third year of implementation of the Middle Class Scholarship program. In the budget year, the maximum award amount increases to 30 percent of tuition at UC and CSU, up from 20 percent in the current year.

**Cal Grant Program Growth** – The budget includes an \$89 Million (five percent) increase for Cal Grant caseload costs. The increased costs largely relate to changes in the distribution of awards. Specifically, the budget reflects increases in awards at segments with a higher average award amount (such as UC) and decreases in awards at segments with a lower average award amount (such as private, for-profit institutions). For the current year, the budget recognizes \$49 million in savings.

**Workload Adjustments and Fund Swaps** – The budget includes increases in the amount of federal Temporary Assistance to Needy Families funds that directly offset General Fund in the Cal Grant program from \$521 million in 2015-16 to \$826 million in 2016-17. This results in a \$305 million decrease in General Fund

expenditures.

### **California State Library**

**California Library Services Act** – The budget provides an increase of \$1.8 million General Fund ongoing, and \$3 million one-time General Fund, for the California Library Services Act program to strengthen statewide and regional services for public libraries.

## **Resources and the Environment**

**Cap-and-Trade Revenues** – The budget proposes to invest \$3 billion of cap-and-trade auction revenue proceeds as follows: (1) \$800 million (continuously appropriated) for transportation, including \$500 million for High-Speed Rail, \$100 million for low carbon transit operations programs, and \$200 million for transit and intercity rail capital projects; (2) \$400 million (continuously appropriated) to the Strategic Growth Council for sustainable communities and affordable housing; (3) \$1 billion for petroleum use reduction, including \$400 million to the Air Resources Board for low carbon transportation and fuels; (4) \$215 million to reduce short-lived climate pollutants; (5) \$200 million for carbon sequestration and healthy forests; (6) \$200 million for energy efficiency and renewable energy programs; (7) \$150 million for water efficiency, drought response and wetland restoration; and, (8) \$100 million for a new program to support local climate actions in the state’s top five percent of disadvantaged communities.

**Continued Drought Response** – The budget proposes \$323 million (\$212 million General Fund) to continue drought-relief efforts including: (1) \$160 million for continued emergency response, of which \$77 million is proposed for enhanced fire protection; \$22 million for disaster assistance; and \$17 million for fish rescue and enhancement; (2) \$95 million for water and energy conservation, including \$60 million to the Energy Commission for rebates and water/energy technology; and, (3) \$42 million for emergency salinity barriers in the Delta.

**Proposition 1 (Water Bond)** – The budget proposes allocation of \$385 million from the Statewide Allocations pot as follows: (1) \$250 million for the state’s commitments under the Klamath Agreements; (2) \$90 million for the Central Valley Improvement Act; and, (3) \$45 million for the San Joaquin River Settlements. From a separate allocation, the budget proposes \$80 million for continuing projects to restore the Salton Sea.

**Forestry and Fire Protection** – In addition to \$150 million proposed for greenhouse gas reduction efforts and \$77 million for enhanced fire protection due to the drought (both one-time), the budget also includes \$24.6 million (\$24 million General Fund) for enhanced emergency response, including increased staffing at emergency command centers and automated emergency response equipment tracking. The budget proposes \$4.4 million (\$4.1 million General Fund) to establish a dedicated unit responsible for implementing a comprehensive program addressing personnel investigations and adverse actions.

**Marijuana Cultivation Enforcement** – As part of a broader approach to marijuana cultivation enforcement, and including funding provided by the Medical Marijuana Regulation and Safety Act of 2015, the budget provides: (1) \$3.4 million (new funding) and 18 positions to the Department of Food and Agriculture for oversight, regulation, licensing and environmental impact; (2) \$700,000 (Department of Pesticide Regulation Fund) and three positions to the Department of Pesticide Regulation for guidelines for the use of pesticides in the cultivation of medical marijuana; (3) \$7.6 million (General Fund) to the Department of Fish and Wildlife to make permanent the statewide multi-agency task force and to address environmental issues related to cultivation; and, (4) \$5.7 million (\$5.2 million General Fund and \$472,000 Waste Discharge Permit fund) and 35 positions to the State Water Resources Control Board, to develop and implement a regulatory program to address the environmental impacts of medical marijuana cultivation.

**Delta Levees** – The budget proposes \$100 million (General Fund) to the Department of Water Resources for levee improvements and repairs.

**Department of Toxic Substances Control** – The budget proposes an increase of \$1.2 million (Hazardous Waste Control Account) and conversion of eight limited-term positions to permanent, to support permitting actions that enhance and streamline the permitting process.

**Environmental License Plate Fund (ELPF) Shortfall** – The budget addresses the structural shortfall in the fund by shifting the regulatory Tahoe Regional Planning Agency budget (\$4 million) from ELPF to General Fund.

**State Parks Operations and Deferred Maintenance** – The budget proposes to continue the department's efforts to improve ongoing budget and overall park system enhancements including: (1) after a repayment of \$112 million of the

General Fund loan by the Off-Highway Vehicle Fund, provides a one-time transfer of \$31 million (existing fuel tax revenues) to the State Park and Recreation Fund for debt repayment; (2) \$60 million (General Fund) for deferred maintenance; and, (3) \$690,000 (State Park Protection Fund) to conduct a pilot program to enhance programs in high-population areas.

**Department of Conservation** – The budget proposes \$2.7 million (Oil, Gas, and Geothermal Administrative Fund) and 12 positions to develop a comprehensive training program for regulatory staff.

## **Transportation**

**Department of Transportation (Caltrans) Funding** – The budget provides for total expenditures of \$10.5 billion by the department. The primary sources of funding for the department are federal funds, state taxes on gasoline and diesel fuel, and vehicle weight fees (about \$9.1 billion), with additional funds from Proposition 1B bonds (about \$141 million), and reimbursements from local governments (about \$1.2 billion).

**Increased Funding for Transportation Infrastructure** – The budget proposes \$1.7 billion in 2016-17, and \$3.6 billion on an annual ongoing basis, for transportation funding and reform. The annual funding package provides \$2 billion from a new \$65 fee on all vehicles; \$500 million by setting the gasoline excise tax at 18 cents (includes future adjustments for inflation); \$500 million from an 11-cent increase in the diesel excise tax; \$500 million in additional cap-and-trade proceeds; and \$100 million from cost-saving reforms to be implemented by Caltrans. The \$1.7 billion of additional funding in 2016-17 includes \$173 million from the acceleration of General Fund loan repayments over the next four years (\$879 million total), rather than repaying these loans over the next 20 years. Proposals for spending the increased funding are described below.

**Local Streets and Roads** – The budget increased funding will provide \$342 million to cities and counties for local road maintenance and \$148 million in loan repayments will reimburse cities and counties for funds already spent on Traffic Congestion Relief Programs.

**Low Carbon Road Program** – The budget provides \$100 million cap-and-trade revenues for a new Local Carbon Road Program for local projects that encourage

active transportation such as bicycling and walking, with at least 50 percent of the funds going to disadvantaged communities.

**Transit and Intercity Rail Capital** – For transit and intercity rail capital expenditures, \$400 million from cap-and-trade revenues (and \$9 million from loan repayments) for transit capital investments that provide greenhouse gas reductions, with at least 50 percent of the funds going to disadvantaged communities.

**Highway Maintenance and Repair** – The budget provides an increase of \$515 million (\$5 million from loan repayments) for repairs and maintenance on the state highway system.

**Trade Corridor Improvements** – The budget provides an increase of \$211 million (\$11 million from loan repayments) for Caltrans to fund projects along the state’s major trade corridors.

**Reforms and Efficiencies** – The budget proposes to improve Caltrans’ performance by establishing measurable targets for improvement. Also, proposes to streamline project delivery by making various changes that include advancing project environmental mitigation, implementing more innovative procurement, allowing Caltrans to deliver projects funded with new revenues by doubling contract staff over the next five years, and extending the sunset date for public-private partnerships through 2027.

**High-Speed Rail** – The budget provides capital outlay funding of \$611.3 million (\$600 million in cap-and-trade funds, and \$11.3 million in Proposition 1A bond funds) for Phase 1 of the blended system. Also, proposes \$1.1 billion to provide funds to local agencies for local/regional components of the high-speed train system.

**Department of Motor Vehicles (DMV) Self-Service Terminals** – The budget provides \$8 million to expand DMV’s network of self-service terminals to help improve convenience, reduce costs, and better manage current and future workloads.

**New Motor Voter Program** – The budget provides \$3.9 million General Fund to create an automatic voter registration process that is integrated with DMV’s license application and renewal process as authorized by AB 1461, (Gonzalez), Chapter 729, Statutes of 2015.



**Motor Vehicle Account (MVA) Fee Increase** – The budget increases the vehicle registration fee by \$10 to address the looming shortfall of about \$500 million.

**California Highway Patrol** – The budget provides \$103 million in capital outlay funding to continue the replacement of facilities in Quincy, San Diego, Santa Barbara, and Truckee, and \$25 million for the acquisition and performance criteria phases of the El Centro, Hayward, and Ventura area office replacement projects.

## **Health and Human Services**

The Governor's budget includes a total of \$136 billion (\$34 billion General Fund and \$102 billion other funds) for health and human services that serve low-income, vulnerable individuals and families.

### **Health**

#### **Department of Health Care Services (DHCS)**

The budget proposes \$87.7 billion (\$19.6 billion General Fund) for DHCS.

**Medi-Cal Program** – The budget proposes total expenditures of \$85.1 billion (\$19.1 billion General Fund) for 2016-17. This is an eight percent increase in General Fund spending from the prior year. It is projected that Medi-Cal will serve about 13.5 million Medi-Cal eligible individuals, an increase in caseload of about 1.5 percent, primarily due to the implementation of federal health care reform under the Affordable Care Act (ACA). It is estimated that over a third of the state's total population will be enrolled in Medi-Cal.

The budget assumes net costs of \$4 billion (\$1.9 billion General Fund) in 2016-17 to provide for the mandatory Medi-Cal expansion and \$14.1 billion (\$740.2 million General Fund) 2016-17 for the optional Medi-Cal expansion. The federal government has committed to pay 100 percent of the costs of the optional expansion for the first three years (through calendar year 2016); by 2020-21, the federal share will decrease to 90 percent and the state will pay 10 percent.

**Managed Care Organization Tax** – The state’s current managed care organization tax (MCO) offsets about \$1 billion expenditures annually and is effective through June 20, 2016.

Last year, in response to updated federal guidance on the design of these types of taxes, the Governor proposed an extension of a revised version of this tax; however, the Legislature did not approve the Administration’s proposal. The Governor called a special session to address the extension of this tax (and discuss rate increases for providers of Medi-Cal and developmental disability services).

The budget proposes a new tax reform package to extend the MCO. This new tax reform package now includes reforms in the gross premiums tax and business and corporation tax, which were not previously part of the proposal. As a result, as a whole, the health plan industry would not be negatively impacted by the MCO.

The new proposal nets about \$1.35 billion in tax revenue for the state and would be deposited into a special fund. The Administration proposes to use \$236 million of this revenue to restore the seven percent reduction to In-Home Supportive Services. The remaining tax revenue (about \$1.1 billion) is unallocated and in the special fund reserve. The Administration notes its expectation that any additional targeted rate increases for services and supports to persons with developmental disabilities (above what is proposed in the budget) would be funded by the MCO revenue.

**Behavioral Health Treatment** – The budget includes \$91 million General Fund in 2016-17 health treatment (BHT) services for individuals with Autism Spectrum Disorder up to 21 years of age.

**Extension of Full-Scope Medi-Cal Coverage to Undocumented Children** – The budget includes \$182 million (\$145 million General Fund) to expand full-scope Medi-Cal benefits to undocumented children under 19 years of age, as required by SB 75 (Budget and Fiscal Review Committee), Chapter 18, Statutes of 2015.

**County Medi-Cal Administration** – The budget includes an additional \$169.9 million (\$57 million General Fund) in 2016-17 and 2017-18 for county workers to conduct Medi-Cal eligibility work on behalf of the state as a result of the increase in Medi-Cal caseload since implementation of the ACA and the delays in automating the eligibility process.

**Coordinated Care Initiative (CCI)** – The budget continues to implement CCI in 2016. The Administration states that it will seek ways to improve participation in the program and extend an allowable managed care tax. If the tax is not extended and participation is not improved by January 2017, the Administration states that CCI would cease operating effective January 2018.

**Medi-Cal 1115 Waiver** – California received approval for renewal of its 1115 Waiver, called Medi-Cal 2020. This waiver is effective January 1, 2016 through December 31, 2020. The total initial federal funding in the renewal is \$6.2 billion over five years, with the potential for additional funding in the global payment program. The waiver includes the following elements: (1) a delivery system transformation and alignment incentive program for designated public hospitals and district/municipal hospitals, (2) a global payment program for designated public hospitals for services to the remaining uninsured, (3) a whole person care pilot program, and (4) a dental transformation incentive program.

**Medi-Cal Provider Payment Reductions** – The budget proposes no changes to the implementation of AB 97 (Budget Committee), Chapter 3, Statutes of 2011, which enacted Medi-Cal provider payment reductions.

**Drug Medi-Cal Residential Treatment** – The budget includes \$90.9 million (\$32.5 million General Fund) for residential substance use disorder treatment services expanded under the Drug Medi-Cal waiver.

**Performance Outcomes Systems for Medi-Cal Specialty Mental Health Services** – The budget includes \$11.9 million General Fund for implementation of this system, including county collection of assessment data and related training to better report on outcomes.

### **Department of Public Health (DPH)**

The budget proposes \$3 billion (\$134 million General Fund) for DPH.

**Timely Outbreak Detection and Disease Prevention** – The budget includes \$1.6 million General Fund and 14 positions to enhance state laboratory capacity to address communicable diseases through increased disease surveillance and testing.

**Implementation of the Medical Marijuana Regulation and Safety Act** – The budget contains \$457,000 in 2015-16 and \$3.4 million and 14 positions in 2016-17 for DPH to begin its regulatory responsibilities associated with the Act.

## Human Services

### Department of Developmental Services (DDS)

The Governor proposes an overall 2016-17 budget for DDS of \$6.4 billion (\$3.8 billion General Fund), a net increase of \$394 million (6.6 percent) over the updated current year budget.

DDS estimates the number of persons with developmental disabilities receiving services and supports in the community to be 302,000 and 747 individuals in state-operated developmental centers by the end of 2016-17.

**Developmental Centers** – The Governor’s budget includes \$543.4 million (\$319.7 million General Fund) for the developmental centers, a decrease of \$47.1 million (or about eight percent). Major proposals include:

- **Development of Community Resources** – The budget includes \$146.6 million (\$127.2 million General Fund) to assist in the development of community resources for placement of current developmental center residents. This includes \$78.8 million for Sonoma Developmental Center, \$29.7 million for Fairview Developmental Center, and \$24.6 million for Porterville Developmental Center.
- **Closure Activities** – The budget includes \$18 million (\$12 million General Fund) to resolve open workers’ compensation claims, inventory and archive clinical and historical records, execute an independent monitoring contract as stipulated by the federal government, and relocate residents and their personal belongs.

**Community Services Program** – The budget includes about \$5.8 billion (\$2.3 billion General Fund) for services and supports provided or secured by regional centers, an increase of about \$439 million (or eight percent) over the updated current year budget. Major proposals include:

- **Research Unit** – The budget includes \$1.9 million (\$1.3 million General Fund) and 14 positions for audit functions and to create a new fiscal and research unit that would help develop accurate, reliable, and data-driven programmatic information and service trends.

- **Establish Four-bed Alternative Residential Model Homes Rates** – The budget includes \$46 million (\$26 million General Fund) to help transition and establish smaller four-bed homes for regional center clients living outside their family. Originally, this model was based on six-bed homes.
- **Case Managers** – The budget includes \$17 million (\$12 million General Fund) to improve case manager caseload ratios.
- **Compliance with Home and Community-Based Services Waiver** – The budget includes \$15 million (\$11 million General Fund) for targeted rate increases to providers to transition services, like segregated day programs and sheltered workshops, to models that are more integrated and consistent with the Home and Community-Based Services Waiver.
- **Rate Increases** – The Administration states that it expects any additional targeted spending proposals (such as rate increases) to be funded from the proposed extension of the managed care organization tax (as discussed in the Health Section of this report).

**Department of Social Services** – The budget includes \$23.8 billion (\$8.0 billion General Fund), an increase of \$800.0 million General Fund.

**California Work Opportunity and Responsibility to Kids (CalWORKs)** – The Governor proposes an overall 2016-17 budget of \$5.4 billion in federal, state, and local funds for the program and estimates a caseload of 497,000 families (a decrease of 5.5 percent).

**Maximum Aid Payment (MAP) Levels** – The budget includes \$15 million General Fund in 2015-16 and \$17.4 million General Fund in 2016-17 from the Child Poverty and Family Supplemental Support Subaccount (\$241.5 million in 2015-16 plus \$69.5 million in carryover from the prior fiscal year, and \$302.4 million in 2016-17) to fund the two five-percent grant increases to CalWORKs grant levels that took effect on March 1, 2014 and April 1, 2015. These increases are estimated to cost \$326 million in 2015-16 and \$319.8 million in 2016-17.

**In-Home Supportive Services (IHSS)** – The budget includes \$9.2 billion (\$3.0 billion General Fund), an 8.4 percent increase, and estimates a 490,000 person caseload in 2016-17.

**Fair Labor Standards Act** – The budget estimates the cost to implement the Federal Fair Labor Standards Act regulations for IHSS, including the payment of overtime, effective February 1, 2016, is \$700.4 million (\$331.3 million General Fund) in 2015-16 and \$942 million (\$443.8 million General Fund) annually thereafter.

**Restoration of cuts to IHSS service hours** – The budget proposes to restore the current seven-percent across-the-board reduction in IHSS service hours, estimated at a cost of \$507.3 million, with a portion of revenues from the new tax on managed care organizations (MCO), effective for three years starting in 2016-17. For more information on the MCO, please see the Health Section of this report.

**Child Welfare Services: Continuum of Care Reform** – The budget includes \$94.9 million (\$60.9 million General Fund) for the department, county child welfare agencies, and county probation departments to continue implementation of CCR reforms.

**SSI/SSP** – The estimated caseload for the Supplemental Security Income/State Supplementary Payment (SSI/SSP) program is 1.3 million recipients (28 percent aged; 1 percent persons who are visually impaired or blind; 71 percent persons with disabilities). Effective January 2016, maximum SSI/SSP grant levels are \$889 per month for individuals and \$1,496 per month for couples. The Governor's budget includes \$2.9 billion General Fund for the SSI/SSP program.

The budget includes an estimated growth factor of 1.5 percent in 2016 and 1.7 percent in 2017 for the SSI (federal) portion of the grants. The budget also assumes a corresponding increase in costs for benefits under the state-only Cash Assistance for Immigrants (CAPI) program. The budget proposes a cost-of-living adjustment increase the SSP (state) portion of the SSI/SSP grant by \$40.7 million General Fund, effective January 1, 2017. Together with the federal increase, this will result in a monthly increase of \$17 for individuals and \$31 for couples. The full year cost of the proposed adjustment is estimated at \$82.3 million General Fund.

**CalFresh Assistance and Training** – The budget includes \$804,000 (\$261,000 General Fund) for the department to provide technical assistance and training to 19 of the largest counties on how to more effectively enroll and retain families in the CalFresh Program.

## **General Government and Local Government**

The budget includes several proposals related to statewide issues and across departmental functions.

**Employee Compensation and Retiree Health Unfunded Liability** – The budget includes \$200 million (\$27 million General Fund) to fund increases in employee compensation and health care costs for active state employees. Also, provides an additional \$350 million (\$300 million General Fund) to fund potential employee compensation increases resulting from collective bargaining. This year, the Administration will negotiate with 15 of the state’s 21 bargaining units and intends to include in the negotiations its plan of having the state and its employees share equally in the prefunding of retiree health benefits.

**Employee Retirement** – The budget estimates approximately \$5.5 billion in total funding for state employee pensions in 2016-17. These costs include the third and final phase-in of the impact of demographic assumptions made by the CalPERS Board in February 2014, which reflect a mortality increase of 2.1 years for males and 1.6 years for females.

**State’s Civil Service System** – The budget continues to implement and propose reforms on the state’s civil service system. The Administration plans to eliminate outdated and duplicative classifications and to allow state departments to hire from a broader applicant pool. To support these efforts, the budget proposes 16 positions and \$1.9 million (\$600,000 General Fund) for the California Department of Human Resources (CalHR), to develop and implement statewide solutions for workforce planning, recruitment and training.

**Strategic Growth Council** – The budget proposes \$100 million for a new Transformational Climate Communities Program to support local climate actions in the state’s top five percent of disadvantaged communities. Funding is for projects that integrate multiple, cross-cutting approaches to reduce greenhouse gas (GHG) emissions and may include investments in energy, transportation, active transportation, housing, urban greening, land use, water use efficiency, waste reduction, and other areas.

**Office of Planning and Research (OPR)** – The budget proposes \$10 million (one-time) to further the efforts of the California Initiative to Advance Precision Medicine and fund additional demonstration projects over a 24-month period.

**Five-Year Infrastructure Plan** – The Administration outlines its five-year infrastructure priorities, including transportation investments, high-speed rail, state institutions, judicial branch, natural resource programs, and state office infrastructure. A July 2015 study of Sacramento state offices assessed 29 state-owned buildings. The independent analysis found them to be "safe, serviceable, and functioning," and also, identified and ranked state buildings based on severity of greatest need for improvement and repair. To address these deficiencies, the budget proposes a \$1.5 billion transfer from the General Fund to a new State Office Infrastructure Fund to be used for deferred renovation, or replacement of, state office buildings in the Sacramento region. Specifically, the \$1.5 billion will improve the Capitol Annex Building, Natural Resources Agency building and construction of a new building to replace the vacant Department of Food and Agriculture annex.

In addition, a one-time \$807 million package (\$500 million General Fund, \$289 million Proposition 98 General Fund, and \$18 million Motor Vehicle Account) makes investments in schools and community colleges, and state parks. Specifically:

- K-12 Education and Higher Education
  - California Community Colleges: \$289 million Proposition 98 General Fund
  - California State University: \$35 million
  - University of California: \$35 million
  - State Special Schools: \$4 million
  - Hastings College of Law: \$2 million
  
- Natural Resources
  - Department of Water Resources: \$100 million for levee repairs
  - Department of Parks and Recreation: \$60 million
  - Department of Fish and Wildlife: \$15 million
  - Department of Forestry and Fire Protection: \$8 million
  - California Conservation Corps: \$700,000
  - Department of Food and Agriculture: \$300,000
  - San Joaquin River Conservancy: \$200,000
  
- Human Services
  - Department of Development Services, Porterville Developmental Center: \$18 million



- **Corrections**
  - Department of Corrections and Rehabilitation: \$55 million
  - Department of State Hospitals: \$64 million
  - Judicial Branch: \$60 million
  
- **Other**
  - California Military Department: \$15 million
  - Department of General Services: \$12 million
  - California Highway Patrol: \$10 million (Motor Vehicle Account)
  - Department of Motor Vehicles: \$8 million (Motor Vehicle Account)
  - Department of Veterans Affairs: \$8 million
  - Network of California Fairs: \$4 million
  - California Science Center: \$3 million
  - Office of Emergency Services: \$800,000

**Fair Employment and Housing** – The budget provides \$2.5 million General Fund and 21 positions to help the department meet its federal and state requirements to provide thorough and timely investigations of discrimination complaints.

**Redevelopment Agencies** – The budget implements SB 107 (Committee on Budget and Fiscal Review), Chapter 325, Statutes of 2015, which made numerous changes to the RDA dissolution process. The most significant changes are designed to reduce the workload of successor agencies and clarify and refine various provisions in statute to reduce ambiguity, where appropriate, and make the statutes operate to complete the phase-down of RDA activities.

**Siting Incentive Grants for Local Governments** – The budget proposes \$25 million for incentive payments to cities and counties that approve new, long-term permits for hard-to-site facilities that improve public safety and support the criminal justice system through the provision of services such as substance abuse treatment.

**Wildfire Relief for Lake and Calaveras Counties** – The budget provides a backfill of \$1.9 million General Fund to Lake and Calaveras Counties for property tax, sales and use, and transient occupancy tax revenue losses due to the wildfires. Also, uses general funds to cover the local costs of existing CAL FIRE contracts with South Lake County (\$2.6 million) and \$267,000 for Calaveras County.

**Department of Technology** – The Department of Technology, the state’s central information technology (IT) organization, approves and oversees statewide IT

projects, statewide IT professional development, and centralized IT services to state and local governments. Within the department, the Office of Information Security (OIS) protects state information security policies and standards and provides technology direction to agencies to ensure the confidentiality, integrity, and availability of state systems and applications. The budget includes \$364.4 million (\$4.5 million General Fund) and 919 positions for the department. In addition, the budget specifies two proposals:

- **Information Security.** The 2014 Budget Act included funding for a two-year pilot project to audit state departments' compliance with mandated state and federal IT security policies. The budget proposes an increase of \$1.6 million and 11 positions to expand this pilot program into a permanent audit unit to review all departments for compliance with mandated state and federal IT policies.
- **Statewide Project Oversight.** The budget includes an increase of \$1.7 million and 12 positions to provide project oversight and procurement support.

**Office of Emergency Services.** The budget provides \$1.5 billion (\$166.6 million General Fund) to the department, including an increase of \$35.2 million General Fund to support a proposal for enhanced services. This proposal includes:

- A one-time \$20 million General Fund augmentation to purchase wildland fire engines, placed throughout the state as part of the State Fire and Rescue Mutual Aid System;
- \$4.2 million General Fund for the Fire and Rescue Branch and the Law Enforcement Branch to expand capacity to respond to fires and manmade disasters; and
- \$5 million General Fund to support disaster response programs.

**Medical Marijuana Regulations** – In June 2015, Governor Brown signed the Medical Marijuana Regulation and Safety Act, comprised of Assembly Bill 243 (Wood), Chapter 688, Statutes of 2015; Assembly Bill 266 (Bonta), Chapter 689, Statutes of 2015; and Senate Bill 643 (McGuire), Chapter 719, Statutes of 2015. Together, these bills established the oversight and regulatory framework for the

cultivation, manufacture, transportation, storage, and distribution of medical marijuana in California.

The budget includes an initial loan of \$5.4 million in the Medical Marijuana Regulation and Safety Act Fund, which will, in the future, be the repository for all fees collected by the licensing authority. In addition, the budget includes \$12.8 million General Fund, \$10.6 million Medical Marijuana Regulation and Safety Act Fund, \$1.2 million special funds, and a proposed 126 positions to implement the regulations. To comply with the new requirements and standards set forth by the Act, the budget includes several proposals across different departments, including:

- **Department of Fish and Wildlife** – The budget includes \$7.6 million General Fund and 31 positions to make permanent the 2014 multi-agency task force.
- **State Water Resources Control Board** – The budget includes \$5.7 million (\$5.2 million General Fund and \$472,000 Waste Discharge Permit Fund) and 35 positions in the budget year for the Board to develop and implement a program that addresses environmental impacts of cultivation, as well as protecting fish from possible water diversions related to cultivation.
- **Department of Food and Agriculture (CDFA)** – The budget proposes \$3.3 million in 2015-16 and \$3.4 million from the Medical Marijuana Regulation and Safety Act Fund, and 18 positions in the budget year, to provide administrative oversight for the Medical Cannabis Cultivation Program, establish regulations, issue medical marijuana cultivation licenses, and perform an Environmental Impact Report. Also, the CDFa will establish a “seed-to-sale” program to report the movement of products throughout the distribution chain.
- **Department of Consumer Affairs** – The budget includes \$1.6 million in the current fiscal year and \$3.8 million from the Medical Marijuana Regulation and Safety Act Fund, as well as 25 positions in the budget year, to create the Bureau of Medical Marijuana Regulation within the Department of Consumer Affairs.
- **Department of Public Health** – For licensing and regulation of medical marijuana product manufacturers and testing laboratories, the budget

includes \$457,000 in 2015-16 and \$3.4 million from the Medical Marijuana Regulation and Safety Act Fund, and 14 positions in the budget year.

- **Department of Pesticide Regulation** – To assist in the development of guidelines of pesticide use in medical marijuana cultivation, the budget proposes \$700,000 to the Department of Pesticide Regulation.

**Department of Industrial Relations** – The budget proposes an increase of \$1.4 million Labor and Workforce Development Fund and nine positions for the department to review and investigate Private Attorney General Act cases and to evaluate if proposed settlement agreements are consistent with the Act. The budget also proposes \$207,000 from the Fund and one attorney at the Labor and Workforce Development Agency to oversee the program. The budget also proposes legislation to streamline the administration of the Act.

The budget proposes an increase of \$5 million from the Labor Enforcement and Compliance Fund for 19.5 positions to address the retaliation complaint investigation caseload, and nine positions to address a growing backlog of wage claim adjudication hearings.

**Debt Service and Debt Repayment** – General Obligation and lease revenue bonds are used to fund major infrastructure improvements such as new road construction, flood control levees, and other critical public infrastructure. Estimated General Fund debt service expenditures in 2016-17, after various other funding offsets, will increase by \$60.3 million over current-year expenditures, to a total of \$5.4 billion. This increase is comprised of \$13.5 million for General Obligation debt service (\$4.8 billion total) and \$46.8 million for lease-revenue bonds (\$579 million total) and is attributed to recent bond sales and the planned issuance of additional bonds over the next year.

In addition to debt service on capital market obligations, the budget continues to pay down the debt overhang as required under Proposition 2. Under the proposal, \$1.6 billion in Proposition 2 funds will pay off loans from special funds and past Proposition 98 liabilities. \$955 million will pay off budgetary borrowing from special funds, \$257 million for Proposition 98 settle-up costs, \$173 for pre-Proposition 42 transportation loans, and \$171 million for University of California retiree health.

**Budget Stabilization Account** – As an integral part of the Governor’s proposal, the budget includes measures that would result in additional reserves for economic uncertainties. The deposit to the Budget Stabilization Account (BSA), redefined by Proposition 2, will total \$3.6 billion, which includes a supplemental payment above the required amount of \$2.0 billion. This will result in a balance in the account at the conclusion on 2016-17 of \$8.0 billion, when combined with prior deposits to the fund. This would result in the BSA being funded to 65 percent of the maximum level.

## **Public Safety and Judiciary**

### **Corrections and Rehabilitation**

**California Department of Corrections and Rehabilitation (CDCR)** – The budget proposes total funding of \$10.5 billion (\$10.3 billion General Fund and \$248 million other funds) in 2016-17. This is an increase of approximately \$500 million General Fund over 2014-15 expenditures.

**CDCR Adult Institution Population** – The adult inmate average daily population is projected to increase from 127,681 in 2015-16 to 128,834 in 2016-17, an increase of 1,153 inmates. This constitutes a slight decrease from the 2015-16 projection and a slight increase from the 2015 Budget Act’s 2016-17 projection.

**CDCR Parolee Population** – The average daily parolee population is projected to decrease from 43,960 in 2015-16 to 42,571 in 2016-17, a decrease of 1,389 parolees. This is a decrease from the 2015 Budget Act projections.

**CDCR, Division of Juvenile Justice (DJJ) Population** – The DJJ’s average daily ward population is increasing, when compared to 2015 Budget Act projections. Specifically, the ward population is projected to increase by 37 in 2015-16, for a total population of 714; and 42 in 2016-17, for a total population of 719.

**Mental Health Program Caseload** – The population of inmates requiring mental health treatment is projected to be 35,743 in 2015-16 and 36,825 in 2016-17. This is an increase of 571 and 1,653, respectively, over the 2015 Budget Act projections. The budget includes \$14.7 million General Fund for the staffing increases related to the population increase.

**Programs and Services for Lifer Population** – The budget proposes an increase of \$10.5 million General Fund for the expansion of several programs for life-term and long-term offenders. The budget proposes using the funds toward increasing services, as follows:

- \$3.1 million for 136 additional beds in Parolee Service Center Program.
- \$3.4 million to expand the In-Prison Longer-Term Offender Program to level III and IV facilities, increasing the number of program slots by 1,700.
- \$3.1 million to expand the Pre-Employment Transitions Program to all prisons. In addition, the Governor proposes discontinuing the use of contractors for the program and instead hiring teachers. The program will serve approximately 23,000 inmates per year.
- \$423,000 to expand the Offender Mentor Certification Program which trains long-term and life-term inmates to become drug and alcohol counseling mentors. Once the mentors obtain 4,000 hours of work experience in treatment programs, they will be eligible to obtain a substance abuse counselor certification. This expansion will train an additional 64 inmates annually.

**Community Reentry Program** – The budget proposes \$32.1 million General Fund to continue and expand community reentry programs for male inmates. The funding will allow the program to expand to 680 beds in 2016-17 and allows an increase in the eligibility criteria from 120 days to 180 days prior to an inmate's release. In addition, proposes \$25 million for incentive payments to local governments to aid in the siting of these facilities.

**Alternative Custody for Men** – The budget proposes \$3.3 million General Fund in 2015-16 growing to \$6 million in 2016-17 to expand the existing Alternative Custody Program, previously limited to participation by women, to the male population, as required by the *Sassman v. Brown* lawsuit. The proposal adds 40 additional CDCR positions to administer the expansion.

**Substance Abuse Treatment** – The budget proposes \$15.2 million General Fund to continue the expansion of substance abuse treatment programs to all adult institutions.

**Drug Contraband and Interdiction** – The budget proposes \$7.9 million General Fund to continue the existing 11 institution pilot program and expand the enhanced efforts at three intensive institutions.

**Youthful Offender Parole Hearings** – The budget proposes \$3.7 million General Fund for the Board of Parole Hearings to implement SB 261 (Hancock), Chapter 471, Statutes of 2015, which provides youthful offender parole hearings and consultations to eligible inmates who were under the age of 23 at the time of their offense.

**Three-Judge Panel Population Cap Compliance** – In order to continue to comply with the population cap, the Governor requests the following:

- Legislative authority to continue the use of in-state and out-of-state contract beds beyond the December 31, 2016 sunset date established by SB 105 (Steinberg), Chapter 310, Statutes of 2013.
- Continued operation of the California Rehabilitation Center, which was slated to be closed in *The Future of California Corrections Blueprint* and whose closure was assumed under the 2012 Budget Act. In addition, the budget proposes \$6 million General Fund to address critical repairs and deferred maintenance projects at the facility in Norco, California.

**Ashker v. Brown Settlement** – The budget includes a reduction of \$28 million General Fund to reflect the reduction in the number of inmates serving terms in segregated housing. This reduction is partially offset by a request for \$5.8 million General Fund for additional investigative staff to monitor gang activity in prisons.

**Community College Courses in Prison** – The budget proposes \$480,000 General Fund for increased custody staff to oversee evening college courses offered in prisons.

**Deferred Maintenance** – The budget proposes \$55 million General Fund for deferred maintenance for the prison system.

**Federal Receivership Overseeing Prison Medical Care** – The budget proposes \$1.9 billion (General Fund) for the receiver's office.

**California Health Care Facility Janitorial Services** – The budget proposes \$12.6 million General Fund to increase janitorial services at the California Health Care Facility in Stockton.

**Pharmaceutical Costs** – The budget proposes \$26.8 million General Fund for increased pharmaceutical costs.

**Executive Management Teams** – The budget proposes \$11.9 million General Fund to establish executive healthcare management teams at prisons with shared management oversight between CDCR and the federal receiver and creates supervisory ratios for certain healthcare classifications

**Increased CDCR Security Staffing** – The budget proposes \$9.4 million General Fund for the additional health care access staffing required due to physical plant changes made by the Health Care Facility Improvement Program and insufficient security coverage in health care areas that provide emergency response services.

**Health Care at Contract Facilities** – The budget proposes \$2 million to increase health care staffing at in-state contract facilities.

**Proposition 47 State Savings** – The Administration estimates that initial savings for the first year of Proposition 47 will be \$29.3 million and on-going savings are currently estimated to be \$57 million per year. Proposition 47 requires the Department of Finance to provide their first official estimate by July 31, 2016, and on July 31 each year thereafter.

## **Local Public Safety**

**Jail Construction Funding** – The budget proposes \$250 million General Fund for those counties that have either received no funding or partial funding from the state previously for replacing or renovating county jails.

**Board of State and Community Corrections (BSCC)** – The budget proposes total funding of \$417.6 million (\$328.7 million General Fund) for the BSCC in 2016-17. This represents an increase of \$260.9 million General Fund over 2015-16. The bulk of the increase is due to the jail construction funding grants discussed above.



**Community Performance Incentive Grant** – The budget assumes \$129.7 million General Fund for county probation departments to support the continued efforts of counties to reduce the number of offenders sent to prison.

**Local Law Enforcement** – The budget proposes \$20 million General Fund for cities in support of frontline law enforcement efforts designed to increase positive outcomes from interactions between city police and vulnerable populations.

**Continuum of Care Reform** – The budget proposes \$26.8 million (\$18.1 million General Fund) to county probation departments to implement Continuum of Care reforms. (See Department of Social Services for details.)

### **Department of State Hospitals**

**Department of State Hospitals (DSH)** – The budget proposes total funding of \$1.8 billion (\$1.7 billion General Fund) in 2016-17. This is an increase of approximately \$29 million over 2014-15 expenditures. DSH is comprised of five state hospitals and three psychiatric programs that are anticipated to treat approximately 6,800 patients in the current year. The Administration estimates that the population served will reach a total of 7,323 in 2016-17.

**Restoration of Competency Program** – The budget proposes an increase of \$1.5 million General Fund in 2016-17 to expand the existing Restoration of Competency (ROC) Program to the Sonoma County jail. Total costs for the ROC program will be \$20 million General Fund annually and will provide 158 in-jail treatment beds.

**Deferred Maintenance** – The budget proposes \$64 million General Fund for deferred maintenance for the state hospitals.

### **Judicial Branch**

**Judicial Branch** – The budget proposes total funding of \$3.6 billion (\$1.7 billion General Fund) for the Judicial Branch, of which \$2.8 billion is provided in support of trial court operations.

**Local Trial Court Funding** – The budget proposes \$20 million General Fund in on-going additional funding to support trial court operations.

**Employee Benefit Costs** – The budget proposes \$15.6 million General Fund for increases in trial court employee benefit costs.

**Proposition 47** – The budget proposes \$21.4 million General Fund for workload associated with the implementation of Proposition 47.

**Appellate Court Appointed Counsel** – The budget proposes \$4.3 million General Fund to provide a \$10 per hour increase for appellate court appointed counsel.

**Trial Court Trust Fund Backfill** – The budget proposes \$75 million General Fund to backfill reductions in fine and penalty revenue in 2016-17. This represents an \$8.8 million increase over the previous year.

**Court Innovations Grant Program** – The budget proposes \$30 million General Fund on a one-time basis for a grant program that promotes improvement, efficiencies, and access to justice in the courts.

**Language Access** – The budget proposes \$7 million General Fund to provide court interpreter services in civil proceedings.

**State-Funded Reserve** – The budget proposes a one-time \$10 million General Fund augmentation for the Trial Court Trust Fund reserve, which will allow for emergency allocations to counties.

**Deferred Maintenance** – The budget proposes \$60 million General Fund for deferred maintenance in the courts.

**Fund Shift for Financial System** – The budget proposes \$8.7 million General Fund to fund the Phoenix Financial System. This system has previously been funded from the State Trial Court Improvement and Modernization Fund.

## **Department of Justice**

**Department of Justice** – The budget proposes total funding of \$826 million (\$438 million General Fund) for the Department of Justice, this represents an increase of \$102 million over 2014-15 expenditures.

**Racial Identify Profiling Act of 2015** – The budget proposes \$10 million General Fund to allocate to local law enforcement agencies for costs associated with required citizen complaint reporting activities.