



# HIGHLIGHTS OF GOVERNOR'S PROPOSED 2017-2018 BUDGET

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## OVERVIEW

Today the Governor unveiled his 2017-18 budget proposal. The Department of Finance projects a \$1.6 billion deficit in 2017-18 that is offset with \$3.2 billion in budget solutions. The projected deficit is mostly the result of lower projected revenues, \$5.8 billion lower than assumed in the 2016 Budget Act for the 2015-16 through 2017-18 fiscal years. In addition, the budget reflects a \$1.8 billion shortfall in Medi-Cal funding, mostly occurring in the current fiscal year. The baseline budget also assumes that revenues and savings from Proposition 52 (hospital fee), Proposition 55 (income tax extension), Proposition 57 (prison reform), and Proposition 56 (tobacco tax) are used as benefits to General Fund.

The budget includes \$3.2 billion in budgetary solutions to address the projected shortfall. The largest of these solutions reflects a reduction of the Proposition 98 guarantee growth by \$1.7 billion as a result of the lower revenue numbers assumed in the budget (Proposition 98 still increases by \$2.1 billion). This reduction would freeze progress in implementing the Local Control Funding Formula (LCFF) at 96 percent and result in some payment deferrals, but it not expected to reduce funding to schools.

The budget proposal also includes solutions that may have some difficult impacts on vulnerable Californians and will need further scrutiny:

- The Governor proposes to end enrollment of the Middle Class Scholarship, which would increase student debt for some lower and middle income students over four years by up to \$9,000 at the CSU and up to \$20,000 at the UC.
- The Governor uses his existing authority to eliminate the Coordinated Care Initiative, which provides vulnerable individuals that qualify for Medi-Care and Medicaid and the resulting shift of In Home Supportive Services authority responsibility back to counties could hurt low income individuals and their caregivers.
- The Governor proposes to pause the increase in early care and education providers rates will stop the progress that was made to keep pace with minimum wage increase.
- Additionally, the Governor proposes eliminate one-time investments that were included in 2016 Budget, such as investments in SSI-SSP disability advocacy and Community Infrastructure. Also of note, the Governor assumes that \$400 million set aside for affordable housing and \$300 million for State Office infrastructure will not be allocated as planned.

Accounting for the solutions proposed by the Governor, for 2017-18 the State would have \$125.1 billion in total revenue, \$122.5 billion in reserves, and a net reserve of \$1.5 billion. In addition the Budget Stabilization Accounts (the Rainy Day Fund) would grow to almost \$7.9 billion.

The Governor's proposed budget does not presuppose any federal action that could help or harm the State's budget. Some of the potential proposals could significantly impact the State's budget, however there is considerable uncertainty of which proposals and when California would be impacted.

This document provides an overview of the Governor's proposal. With the release of the budget, the Assembly begins the 2017-18 budget process. Over the next five months, the Assembly will consider this proposal and weigh alternatives in our public process of crafting a balanced and on time budget.

## K-12 EDUCATION

### K-12 Education

- Provides a total Proposition 98 funding level of \$73.5 billion in 2017-18, \$2.1 billion above the revised 2016-17 level. Projects "Test 3" to be operative in 2015-16 through 2017-18.
- Revises the Proposition 98 guarantee downward by \$379 million in 2015-16 and \$506 million in 2016-17.
- Projects Proposition 98 ongoing per-pupil spending to be \$10,579 in 2016-17 and \$10,910 in 2017-18.

### Major K-12 Education Adjustments:

- Provides an increase of \$744 million for a cost-of-living adjustment for the Local Control Funding Formula (LCFF) in order to maintain the current year implementation level of 96 percent.
- Proposes making changes to California's special education finance system to better align it with the LCFF. Provides no specific proposal, but commits to engaging stakeholders throughout the spring budget process.
- Proposes additional accountability and oversight requirements for all participants in the School Facilities Program, including front-end grant agreements and including facility bond expenditures in the K-12 Audit Guide.
- Dedicates \$287 million in one-time Proposition 98 funding to further pay down the education mandates backlog, allowing school districts, charter schools and county offices of education to use this funding for any educational purpose.
- Provides \$200 million in one-time Proposition 98 funding for the third and final year of the Career Technical Education Incentive Grant program. This program was established in the 2015-16 Budget and committed to allocating \$900 million over three years (\$400 million in 2015-16, \$300 million in 2016-17 and \$200 million in 2017-18).
- Proposes a one-time payment deferral of \$859.1 million in LCFF expenditures from June 2017 to July 2017 in order to maintain programmatic expenditures. The Governor's Budget also proposes to repay this deferral in 2017-18.

Other Adjustments:

- Allocates \$422.9 million to support energy efficiency projects using funds available through Proposition 39.
- Includes an increase of \$58.1 million in Proposition 98 funding to provide a 1.48 percent cost-of-living adjustment for categorical programs outside the LCFF.
- Provides \$29.9 million of the Proposition 56 revenues to support tobacco and nicotine prevention and reduction programs at K-12 schools.
- Estimates \$10.1 million to be available through Proposition 47 savings to support programs to reduce truancy and support students at risk of dropping out of school or are victims of crime.

**Early Education and Child Care**

- Includes \$87.9 million in non-Proposition 98 General Fund and \$23.5 million Proposition 98 funding in 2017-18 to reflect full-year costs of the 2016 Budget Act adjustments and increased costs for CalWORKs Stage 2 and Stage 3 child care programs.
- Proposes pausing additional provider reimbursement rate increases and the addition of 2,959 full-day State Preschool slots agreed to in the 2016-17 Budget until 2018-19, due to lower-than-expected revenue growth.
- Proposes a number of changes to increase efficiencies and better align child care and early education programs, including:
  - Authorize the use of electronic applications for child care subsidies
  - Allow children with exceptional needs above the income eligibility to access part-day state preschool if all other eligible children have been served
  - Align the state and federal definitions of homelessness for purposes of child care eligibility
  - Eliminate licensing requirements for state preschool programs utilizing facilities that meet transitional kindergarten facility standards within K-12 public school buildings
  - Allow state preschool programs flexibility in meeting minimum adult-to-student ratios and teacher requirements, in order to align with transitional kindergarten requirements

- Simplify the process for school districts to align program minutes for state preschool and transitional kindergarten

## HIGHER EDUCATION

### University of California

- Continues the Administration's long-term funding plan for UC by providing a 4% increase, or \$131.2 million General Fund, over current-year funding levels. The Administration signals its opposition to a UC proposal to increase student tuition by 2.5%. No direction is provided to UC as to how to spend this increased funding.
- Provides \$169 million in one-time Proposition 2 funds to help address the unfunded liability of the UC Retirement Plan. This is the final installment of three years of funding that totals \$436 million.

### California State University

- Continues the Administration's long-term funding plan for CSU by providing a 4% increase, or \$131.2 million General Fund, to match funding provided to UC. The Administration signals its opposition to a CSU proposal to increase student tuition by 5%. No direction is provided to CSU as to how to spend this increased funding.
- Provides \$26 million General Fund as part of a commitment made last year to revise the Middle Class Scholarship program. No direction is provided to CSU as to how to spend this increased funding.
- Provides \$5 million General Fund as part of an agreement with CSU over capital outlay funding. No direction is provided to CSU as to how to spend this increased funding.

### California Community Colleges

- Provides \$150 million one-time Proposition 98 General Fund to develop a Guided Pathways program intended to aid students in completing degree or credentialing programs in a timely manner.
- Provides \$43.7 million one-time Proposition 98 General Fund to support deferred maintenance projects.
- Provides \$79.3 million Proposition 98 General Fund to support enrollment growth.

- Provides \$94.1 million Proposition 98 General Fund to support a 1.48% cost-of-living adjustment.
- Reduces Proposition 98 General Fund spending by \$56.6 million to reflect unused enrollment growth funding in 2015-16.
- Reduces Proposition 98 General Fund spending by \$147.7 million to reflect increased local property tax revenues.
- Provides \$3.8 million Proposition 98 General Fund to offset decreased student enrollment fee revenues.
- Provides \$23.6 million Proposition 98 General Fund to support increased community college operating expenses in areas such as employee benefits, facilities, professional development and other general expenses.
- Provides \$20 million one-time Proposition 98 General Fund to provide another round of Innovation Awards, which will provide grants to campuses to support innovative practices in areas determined by the Chancellor.
- Provides \$10 million Proposition 98 General Fund to provide system-wide access to online courses.
- Provides \$6 million one-time Proposition 98 General Fund to develop an integrated library system that will allow all community college students access to a cloud-based library system.
- Provides \$52.3 million in Proposition 39 funding to support energy efficiency projects.
- Provides \$378,000 General Fund and two new Vice Chancellor positions to improve student success, address equity issues and developed the Guided Pathways program.

**California Student Aid Commission**

- Phases out the Middle Class Scholarship program. Students who received the grant in 2016-17 would continue to receive aid in 2017-18, but no new students would be eligible for funding. Provides \$74 million for the program, instead of the \$117 million required by statute.
- Adjusts Cal Grant program costs by decreasing General Fund support by \$52.4 million in 2016-17 and \$24.5 million in 2017-18. This adjustment is based on caseload projections.

**Hastings College of Law**

- Provides \$1.1 million General Fund to continue the Administration's funding agreement with Hastings.

## CAP AND TRADE

Proposes a \$2.2 billion Cap and Trade plan, after legislation is enacted with a two-thirds vote extending the Air Resources Board’s authority to administer the program beyond 2020. The Governor’s spending proposal builds upon investments made in the 2016 Cap and Trade agreement and includes \$500 million for the Administration’s proposed transportation package. The proposal also reflects \$900 million, or 60 percent of the auction proceeds, being continuously appropriated for high-speed rail, affordable housing, sustainably communities, and public transit. The chart below shows the various spending proposals.

**2017 18 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	\$375
	State Transit Assistance	Low Carbon Transit Operations	\$75
	Transportation Agency	Transit and Intercity Rail Capital Program	\$150
	Strategic Growth Council	Affordable Housing and Sustainable Communities Program	\$300
Transportation Package	Transportation Agency	Transit and Intercity Rail Capital Program	\$500
	Caltrans	Active Transportation	
50 Percent Reduction in Petroleum Use	Air Resources Board	Low Carbon Transportation	\$363
Transformational Climate Communities	Strategic Growth Council	Transformative Climate Communities	\$142
		Technical Assistance & Outreach	
Short Lived Climate Pollutants	Air Resources Board	Black Carbon Woodsmoke	\$95
	Cal Recycle	Waste Diversion	
	Department of Food and Agriculture	Dairy Digesters	
Carbon Sequestration	CAL FIRE	Healthy Forests	\$127.5
		Urban Forestry	
	Department of Food and Agriculture	Climate Smart Agriculture - Healthy Soils	
	Natural Resources Agency	Urban Greening	
Energy Efficiency/ Renewable Energy	Department of Community Services and Development	Energy Efficiency Upgrades/ Weatherization	\$27.5
	Department of Food and Agriculture	State Water Efficiency and Enhancement Program	
<b>Total</b>			<b>\$2,155</b>

## TRANSPORTATION

Includes a 10-year transportation funding proposal that the Administration first proposed in September 2015. The proposal provides almost \$43 billion in funding from a combination of new revenues, additional Cap and Trade investments, accelerated loan repayments, and savings from efficiencies and accountability measures at Caltrans. The expenditure components of this package are below:

**Governor's Transportation Package**  
(Dollars in Millions)

Investment Category	Program	2017-18 Amount	Annualized Amount <sup>1/</sup>
Local Streets and Roads / Partnership Programs	Active Transportation Program	\$100	\$100
	Local Road Maintenance & Repairs	\$206	\$1,163
	Local Partnership Grants <sup>2/</sup>	\$0	\$250
	SB 375 Local Planning Grants	\$25	\$25
	Corridor Mobility Program	\$275	\$275
Transit	Transit Capital <sup>3/</sup>	\$485	\$400
State Highway Repair and Maintenance <sup>4/</sup>	Pavement <sup>3/</sup>	\$129	\$997
	Bridges and Culverts	\$91	\$554
	Traffic Management Systems	\$12	\$100
	Maintenance	\$120	\$120
Trade Corridors	Improved Goods Movement <sup>3/</sup>	\$358	\$250
<b>Total</b>		<b>\$1,801</b>	<b>\$4,234</b>

<sup>1/</sup> Excludes one-time loan repayments totaling \$706 million.  
<sup>2/</sup> Provides up to \$250 million per year beginning in 2018-19.  
<sup>3/</sup> The 2017-18 totals include anticipated loan repayments.  
<sup>4/</sup> Annualized amounts include \$100 million per year in Caltrans efficiency savings.

**Caltrans**

- Proposes savings from administrative efficiencies of \$100 million annually at Caltrans through activities such as streamlined project delivery, advanced mitigation, and extending public private partnerships.
- Provides \$12 million from the State Highway Account to begin a multi-year effort to replace a broad range of IT equipment.
- Includes \$4 million from the State Highway Account over three years for Caltrans to upgrade and improve its Information Technology Cyber Security Program.

**California Highway Patrol**

- Provides \$2.8 million (Motor Vehicle Account) for the CHP to replace its older phone systems at the CHP Academy and the Dignitary Protection Section-North Command with Voice over Internet Protocol (VoIP) systems.
- Includes \$1.8 million from the Motor Vehicle Account and 14 positions to establish a Privacy and Risk Management Program to protect personally identifiable information stored within CHP's IT systems and to address other information technology needs.
- Establishes a cloud-based disaster recovery system, to replace CHP's tape-based system, and provides \$1.2 million (Motor Vehicle Account) and two positions.

**Department of Motor Vehicles**

- Provides \$8.6 million from the Motor Vehicle Account for the extension of 91 positions to continue processing and investigating license applications for the workload associated with the expanded eligibility for driver's licenses.
- Includes \$1 million from the Motor Vehicle Account for the implementation of new legislation. Specifically, \$730,000 and five positions for inspecting ignition interlock devices and nearly \$300,000 for investigator travel, casework, and overtime, and a data aggregation tool to search website for patterns of suspicious sale activity, as part of the joint task force to address unlicensed auto dismantling businesses.

## HUMAN SERVICES

### Department of Social Services

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

- Corresponding to the actions in the Health area regarding the ceasing of the Coordinated Care Initiative (CCI), repeals the IHSS maintenance-of-effort (MOE), returning the the prior state-county sharing ratios. The county share will return to 35% of program costs and this change will result in a General Fund reduction of \$626.2 million in 2017-18. Additionally, the Statewide Authority will be nullified, returning the responsibility of collective bargaining to the counties.
- Includes an increase in expenditures of \$56.8 million (\$26.4 million General Fund) to reflect the impact of the state minimum hourly wage from \$10.50 to \$11.00, effective January 1, 2018.

#### CalWORKs

- Proposes no major changes to the program and implements the repeal of the Maximum Family Grant (MFG) rule that became effective January 1, 2017 as part of the 2016 Budget.
- Includes a one-time General Fund decrease of \$265.9 million resulting from additional county savings related to federal health care reform. Actual statewide indigent health savings in 2014-15 were higher than previously estimated. Pursuant to current law, these additional county savings are redirected to the CalWORKs program to offset General Fund costs.
- Includes a decrease of \$5.3 million General Fund to reflect the impact of the state minimum hourly wage from \$10.50 to \$11.00, effective January 1, 2018.

#### Supplemental Security Income/State Supplementary Payment

- Includes one-time savings of \$45 million General Fund in the current year from halting implementation of the Housing and Disability Advocacy Program includes in the 2016 Budget.
- Passes through the federal cost-of-living adjustment (COLA) for SSI/SSP recipients, 0.3 percent for 2017 and a projected 2.6 percent for 2018. These changes keep the SSI/SSP grant levels at their minimum as allowed under federal law for both couples and individuals in order to maintain eligibility for

Medicaid funding. With the projected federal COLA for January 1, 2018, grants will rise by \$20 and \$29 for individuals and couples, respectively.

- In addition to the federal COLA discussed above funds a one-time state discretionary COLA that went into effect as part of the 2016 Budget on January 1, 2017. This costs \$73.2 million General Fund and provided a 2.76 percent COLA to the SSP portion of the grant. Today, as a combined result of the federal and one-time state COLAs, maximum grant levels are \$895.72 per month for an individual and \$1,510.14 per month for couples.

#### Foster Care and Child Welfare

- Includes \$217.3 million (\$163.2 million General Fund) to continue implementation of the Continuum of Care Reform (CCR), as required in Chapter 773, Statutes of 2015 (AB 403). The reforms emphasize home-based family care, improved access to services, and increasing the role of children, youth, and families in assessment and case planning. CCR's implementation date was January 1, 2017 and the Governor's Budget revises caseload movement to reflect the pace of implementation.

#### Department of Developmental Services

- Continues the planned closure activities for, and the work to develop safety net community services associated with, the three remaining developmental centers at Sonoma, Fairview, and the general treatment area of Porterville.
- Includes an increase of \$597,000 (\$554,000 General Fund) and four positions to provide increased oversight of community housing projects, funding through the Community Placement Plan, and to maintain focus on the development of community housing to support the developmental center closures.
- Includes an increase of \$47.9 million General Fund to reflect the impact on providers of the increasing state minimum wage.

#### Department of Rehabilitation

- Reflects a decrease of \$705,000 General Fund in 2017-18 to reflect the elimination of ongoing funding first included in the 2016 Budget Act to provide funding support for three independent living centers.

#### Human Services Automation

- Includes \$175.9 million (\$88 million General Fund) for the Child Welfare Services New System to support an increase in project activity, which includes increased

funding for county engagement as individual digital services are designed, developed, and implemented.

- Includes \$38.5 million (\$7.5 million General Fund) for migration of 39 counties using the Consortium IV system to the LEADER Replacement System.

## HEALTH

### Department of Health Care Services

#### Medi-Cal

- Estimates and assumes caseload to be 14.3 million in 2017-18, a 1.8 percent increase over the 2016-17 caseload.
- Assumes costs of \$20.1 billion (\$888 million General Fund) in 2016-17 and \$18.9 billion (\$1.6 billion General Fund) in 2017-18 for the 4.1 million Californians in the optional Medi-Cal expansion authorized through the Affordable Care Act.
- Proposes to cease operation of significant components of the Coordinated Care Initiative (CCI) for General Fund savings of \$626.2 million in 2017-18. These components include removing In Home Supportive Services (IHSS) benefits from plan capitation rates, eliminating the statewide authority for bargaining IHSS workers' wages and benefits, and re-establishing the state-county share of cost arrangement for the IHSS program that existed prior to the CCI.
- Allocates \$1,237,400,000 of Proposition 56 (2016 tobacco tax) revenue to cover growth costs in Medi-Cal, estimated to be 82 percent of the tax revenue per the Act's requirements.
- Includes the following major adjustments and assumptions to the Medi-Cal budget:
  - Reflects a current year shortfall of \$1.8 billion General Fund primarily due to a one-time retroactive payment of drug rebates to the federal government and a miscalculation of costs associated with the CCI.
  - Assumes Managed Care Organization Tax funding for Medi-Cal of \$1.1 billion in 2016-17 and \$1.6 billion in 2017-18.
  - Maintains an augmentation to counties for Medi-Cal eligibility administration of \$655.3 million (\$217.1 million General Fund) in 2017-18. Maintains \$1.5 million (\$731,000 General Fund) to develop a new budgeting methodology for counties' eligibility administration costs.
  - Includes \$279.5 million General Fund to provide full-scope benefits to 185,000 children who are gaining coverage regardless of their legal status.

- Assumes \$48 million in General Fund savings by transitioning coverage for all new qualified eligible adults from Medi-Cal to a Health Benefits Exchange plan.
- Assumes over \$1 billion in General Fund savings in 2017-18 from the extension of the hospital quality assurance fee.
- Proposes to abolish the Major Risk Medical Insurance Fund and transfer the fund balance of approximately \$65 million to the Health Care Services Plans Fines and Penalties Fund to support remaining participants in the Major Risk Medical Insurance Program as well as Medi-Cal enrollees.
- Anticipates increased substance use disorder treatment services via participation of 6 counties in 2016-17 and an additional 10 counties in 2017-18 in the Drug Medi-Cal Organized Delivery System Pilot, at a cost of \$19.9 million (\$3.1 million General Fund) in 2016-17 and \$661.9 million (\$141.6 million General Fund) in 2017-18.
- Includes \$4.5 million General Fund to continue implementation for the new federal Medicaid Managed Care Regulations.

**Non-Medi-Cal**

- Includes \$5 million in 2016-17 for the public information program required by Proposition 64 that legalized the recreational use of marijuana.

**Department of Public Health**

- Directs \$223.5 million in Proposition 56 (tobacco tax) revenue to the department's dental, law enforcement and tobacco prevention programs.
- Provides an increase of \$1.1 million for the Los Angeles County Licensing and Certification contract to cover the costs of increased salaries, and imposes new requirements on the Los Angeles County contract to better control future cost increases.
- Includes \$1 million for the licensing and regulation of medical cannabis product manufacturers.

**Department of State Hospitals**

- Transfers authority for in-patient services at three prison-based psychiatric facilities from the Department of State Hospitals to the California Department of Corrections and Rehabilitation, and assumes the transfer of \$250.4 million and 1,977.6 positions for this purpose.
- Expands capacity to serve Incompetent to Stand Trial (IST) referrals from courts by 60 beds at a cost of \$10.8 million General Fund, by establishing an Admission, Evaluation, and Stabilization Center within a county jail in Southern California.

**Office of Statewide Health Planning and Development**

- Eliminates \$33.4 million General Fund in 2017-18 and all future funding (totaling \$100 million) that the 2016 Budget Act includes to support health care workforce initiatives.

**California Health Facilities Financing Authority**

- Eliminates \$17 million one-time General Fund that the 2016 Budget Act includes to support children's mental health crisis services grants, leaving approximately \$11 million in Mental Health Services Act (Proposition 63) funding for the program.

# NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION

## Drought and Tree Mortality

- Includes \$178.7 million total funds for Emergency Drought Response, fire response, and wildlife preservation at five departments, as detailed in this table from the Department of Finance Summary document:

Figure RES-01  
**Emergency Drought Response**  
(Dollars in Millions)

<i>Investment Category</i>	<i>Department</i>	<i>Program</i>	<i>Amount</i>
Protecting Water Supplies and Water Conservation	Department of Water Resources	Local Assistance for Small Communities	\$5.0
	Water Board	Water Rights Management	\$5.3
	Department of Water Resources	Drought Management and Response	\$7.0
	Department of Water Resources	Save Our Water Campaign	\$2.0
Emergency Response	Department of Forestry and Fire Protection	Enhanced Fire Protection	\$91.0
	Office of Emergency Services	California Disaster Assistance Act	\$52.7
	Office of Emergency Services	State Operations Center	\$4.0
Protecting Fish and Wildlife	Department of Fish and Wildlife	Emergency Fish Rescues and Monitoring	\$8.2
	Department of Water Resources	Delta Smelt Resiliency Strategy	\$3.5
<b>Total</b>			<b>\$178.7</b>

- Appropriates \$248 million of Proposition 1 funding for integrated regional management projects.
- Provides \$80 million Proposition 1 funding to fund a ten year plan to restore the Salton Sea and the surrounding Colorado River.

**Public Utilities Commission**

- Includes nearly \$1 million from various funds to implement a new proceeding to update and implement the new *ex parte* rules and reporting requirements pursuant to SB 215 (Leno, Chapter 807, Statutes of 2016), to fulfill the statutory mission to transcribe complete records of all proceedings and testimony, and to provide timely responses to public records requests and subpoenas, and to public contract and contract process audit information as required by AB 1651 (Oberholte, Chapter 815, Statutes of 2016).

**Department of Resources and Recycling and Recovery**

**Beverage Container Recycling Program**

- Proposes a policy framework for reforming the Beverage Container Recycling Program which faces a structural deficit and other challenges. The Administration intends to use a collaborative stakeholder process to develop a comprehensive reform package based on the principles of 1) improving the recycling and remanufacturing segments of the current system, 2) rebalancing program responsibilities and financing among all program participants, and 3) enhancing adaptability and sustainability of the program.

**Department of Fish and Wildlife**

- Provides \$12.4 million in additional revenue by increasing commercial fish landing fees to support the Department's commercial fishing program. Also increases revenue for the program through a one-time redirection of \$10.6 million from the Lifetime License Account.

**Department of Parks and Recreation**

- Maintains current service levels at state parks through a one-time increase of \$12.6 million from the State Parks and Recreation Fund and \$4 million from the Environmental License Plate Fund. These increases will allow the Department to continue implementation of recommendations from the Parks Forward Commission and the Legislature. The Administration notes that the Department has made significant progress in implementing reforms, including a structural reorganization, establishment of a new Office of Partnerships to better support partnership arrangements, and the launch this spring of Service Based budgeting, which will improve internal and external budget processes.

## **PUBLIC SAFETY**

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

- Includes total funding of \$11.3 billion (\$11 billion General Fund and \$307 million other funds) for the Department of Corrections and Rehabilitation (CDCR).

#### Proposition 57

- Includes \$5.7 million for CDCR to implement Proposition 57. Specifically, these resources include additional case records staff to review inmate files related to the new credit earning structure and parole process, parole workload due to additional releases from prison, and Board of Parole Hearing workload for the increased number of inmates considered for release.
- States the Department's intention to use authority provided by Proposition 57 to promulgate regulations to note only continue the court-ordered credit increases, but increase earning potential and provide more equality in the credit structure.

#### Division of Juvenile Justice

- Includes \$4.9 million to reactivate two living units within the Division of Juvenile Justice to account for the anticipated increase in juvenile court commitments as part of the anticipated changes due to Prop 57.

#### Division of Rehabilitative Programs

- Includes \$440 million General Fund for the Division of Rehabilitative Programs in order to fund various programs and services that promote positive in-person behavior and support inmate rehabilitative efforts to provide a better opportunity for successful reintegration into society upon release.
  - Continues funding for various programs and services designed for long-term inmates that have unique needs due to their lengthy periods of incarceration
  - Adds funding for a Long-Term Offender Program at Richard J. Donovan Correctional Facility
  - Expands the Pre-Employment Transitions Program to all institutions to provide employment preparation, job-readiness, and job search and prerequisite skills for the current job market

- Expands the Offender Mentor Certification Program to train an additional 64 long-term and life-term inmates to become mentors for alcohol and drug counseling
- Expands programs and college courses offered in the evenings to maximize availability of limited program space and enable inmates with in-person jobs to also participate in these programs
- Continues the community reentry program, which allows offenders to be linked to various community-based support services
- Includes plans for a 300-bed program that will provide six-month transitional housing in locations in communities where life-term inmates will be released to assist them in successfully reentering society

#### California Leadership Academy

- States the Administration's commitment to working with external stakeholders to solicit interest from private investors to fund this program, as a General Fund commitment cannot be made at this time.
- Makes no significant changes to the California Leadership Academy program.

#### Segregated Housing Unit Conversions

- Proposes to convert beds previously used as segregated housing at Pelican Bay to level II housing and those at Corcoran to level IV housing.

#### Proposition 47

- Estimates ongoing savings as a result of Proposition 47 to be approximately \$69 million.

#### Inmate Health Care and Mental Health Services

- Augments the inmate medical care program by \$33.3 million, including:
  - \$2.1 million to dedicate property controller positions to oversee all health care assets at the institutions
  - \$5.4 million for Registered Nurses to triage and remedy medical appeals
  - \$8.9 million for additional Licensed Vocational Nurses to distribute medication to inmates

- \$13.8 million to expand California Prison Industry Authority janitorial services to space constructed through the Health Care Facility Improvement Program and Statewide Medication Distribution improvements
- \$3.1 million for Certified Nursing Assistants to provide one-on-one surveillance of inmates on suicide watch
- Includes \$11.4 million to add 72 Intermediate Care Facility beds at the California Medical Facility.
- Provides funding for two Capital Outlay projects to provide 50 additional beds at the California Institution for Men and 50 at the Richard J. Donovan Correctional Facility, for a total of 100 additional mental health crisis beds by Summer 2021.

### **Local Public Safety**

- Includes \$114.9 million in order to continue funding for the Community Corrections Performance Incentive Grant.
- Provides \$11 million General Fund for county probation departments to supervise the temporary increase in the average daily population of offenders on Post Release Community Supervision as a result of the implementation of court-ordered measures and Proposition 57.

### **State Penalty Fund**

- Eliminates funding for the following programs in order to minimize the number of programs supported by the fund:
  - Motorcyclist Safety Program, California Highway Patrol
  - Local Public Prosecutors and Public Defenders Training program, Office of Emergency Services
  - Internet Crimes Against Children Task Forces, Office of Emergency Services
  - California Gang Reduction, Intervention, and Prevention Program, Board of State and Community Corrections
- Repeals the statutory provisions related to suspending drivers licenses for failure to pay fines and penalties.

**Judicial Branch**

- Includes total funding of \$3.6 billion (\$1.7 billion General Fund and \$1.9 billion other funds) for the Judicial Branch, including \$2.8 billion to support trial court operations.
- Includes the following specific adjustments:
  - \$7.1 million General Fund for trial court employee health and retirement benefit costs
  - \$55 million General Fund to backfill a continued decline of fines and penalty revenues expected in 2017-18
  - \$4.1 million General Fund in 2017-18 and \$896,000 in 2018-19 to replace the Sustain Justice Edition Case Management System in nine small superior courts across California
- Proposes to amend statute so that Judicial Officers receive the proportional equivalent of the salary increases that have been provided retroactively to July 1 to state workers.
- Proposes to reallocate four vacant superior court judgeships to areas of the state where workload is highest without increasing the overall number of judges.

## GENERAL GOVERNMENT

### Employee Compensation and Collective Bargaining

- Includes \$1.2 billion (\$602 million General Fund) for employee compensation health care costs for active state employees, and retiree health care prefunding for active employees.

### State Retirement Contributions

- Includes \$5.2 billion (\$2.8 billion General Fund) for state contributions to CalPERS for state pension costs, and \$672 million General Fund for California State University retirement costs. These estimates include the effect of the recent CalPERS board decision to reduce the current rate to 7 percent over the next three budget years.
- Includes \$2.8 billion General Fund for state contributions to CalSTRS. The budget assumes CalSTRS will adopt new mortality assumptions, implement a discount rate reduction, and exercise its authority to increase state contributions by 0.5 percent.

### Secure Chose Retirement Savings Program

- Provides an initial \$15 million General Fund loan to fund the necessary start up and administrative costs to implement the program.

### Civil Service Improvement

- Proposes \$2.8 million in reimbursement authority for the Department of Human Resources to expand the capacity of the statewide training center, providing additional streamlined and tailored instruction for civil service employees.
- Proposes trailer bill language to further ongoing class consolidation efforts, which will increase promotional opportunities for employees, along with other changes.

### Public Utilities Commission

- Includes nearly \$1 million from various funds to implement a new proceeding to update and implement the new *ex parte* rules and reporting requirements pursuant to SB 215 (Leno, Chapter 807, Statutes of 2016), to fulfill the statutory mission to transcribe complete records of all proceedings and testimony, and to provide timely responses to public records requests and subpoenas, and to

public contract and contract process audit information as required by AB 1651 (Obernolte, Chapter 815, Statutes of 2016).

### **State Fleet Zero-Emission Vehicles**

- Commits the state to further increasing the percentage of zero-emission vehicles purchased for use in the state fleet, starting at 15 percent in 2017-18 and reaching 50 percent by 2019-20. The Governor's Budget includes \$6.6 million (\$3.3 million General Fund) for engineering assessments associated with electric vehicle charging infrastructure at state facilities.

### **Cannabis Regulation**

- Includes \$52.2 million for the regulation of cannabis in 2017-18 to fund regulatory activities, processing of licenses, and enforcement. Specifically,
  - Department of Consumer Affairs - \$22.5 million to enhance the Bureau of Medical Cannabis Regulation within DCA
  - Department of Public Health – \$1 million for the licensing and regulation of medical cannabis product manufacturers
  - Department of Food and Agriculture - \$23.4 million to provide Cannabis Cultivation Program administrative oversight, promulgate regulations, issues licenses, and perform EIR.
  - Board of Equalization - \$5.3 million in 2017-18 to notify businesses of the new tax requirements and update its information technology systems to register businesses and process tax returns from retail sales.
  - Department of Health Care Services – \$5 million in 2016-17- for public information program specified in Proposition 64.

### **Debt Service**

- Estimates General Fund debt service in 2017-18, will increase by \$151 million over current-year expenditures, to a total of \$5.5 billion.

### **California Five-Year Infrastructure Plan**

- States that the 2017 Five-Year Infrastructure Plan will be released, but proposes limited investments in the most critical infrastructure projects.

**Minimum Wage**

- Includes \$217 million General Fund to fund state costs associated with the rising minimum wage. This includes state employee wages and increased payments to In-Home Supportive Services providers, child care providers, and community-based service providers for residents with developmental disabilities.

**Department of Industrial Relations**

- Expands the Division of Apprenticeship Standards roles in the following ways:
  - Strategic Enforcement of Labor Standards – provides \$4.6 million Labor Enforcement and Compliance Fund, increasing to 411.4 million by 2020-21, to implement a strategic enforcement effort to combat labor law violations.

**Information Technology Security**

- Includes \$9.9 million (\$5.3 million General Fund) to strengthen the state's information technology security operations across various departments.

## LOCAL GOVERNMENT

### Housing

- Eliminates the one-time \$400 million General Fund set-aside for affordable housing.
- Provides that the Administration is committed to working with the Legislature on the development of a legislative package to further address the state's housing shortage. Such a package should include additional reforms and any new funding should not rely on the General Fund. The Administration offers the following principles:
  - Streamline Housing Construction – reduce local barriers to limit delays and duplicative reviews, maximize the impact of all public investments, and temper rents through housing supply increases
  - Lower Per-Unit Costs – Reduce permit and construction policies that drive up unit costs
  - Production Incentives – Those jurisdictions that meet or exceed housing goals, including affordable housing, should be rewarded with funding and other regulatory benefits. Those jurisdictions that do not build enough to increase production should be encouraged by tying housing construction to other infrastructure- related investments.
  - Accountability and Enforcement – Compliance with existing laws – such as the housing element – should be strengthened
  - No Impact on the General Fund – No new costs, or costs pressures, can be added to the state's General Fund, if new funding commitments are to be considered. Any permanent source of funding should be connected to these other reforms.

### Redevelopment Agencies

- States that cities will receive an additional \$733 million in general purpose revenues in 2016-17 and 2017-18 combined, counties \$869 million and special districts \$260 million.
- Anticipates additional ongoing property tax revenues of more than \$900 million annually will be distributed to cities, counties and special districts.

- Projects that Proposition 98 General Fund savings are expected to be \$1.4 billion in 2017-18, and on an ongoing basis.

**Local Update of Census Address Program**

- Includes \$7 million General Fund for the Local Update of Census Address Program, which will provide grants ranging from \$7,500 to \$125,000 to cities and counties to encourage their voluntary participation for the Census Bureau's Master List of addresses.

## REVENUES

### Revenues

- Projects an overall revenue decrease of \$5.8 billion below the 2016 Budget Act before transfers to the Rainy Day fund. The reduction in the General Fund revenue forecast reflects lower growth in wages, proprietorship income, consumption, and investment. The projected decrease since the 2016 Budget Act is due to lower forecast in all three major revenue sources.

### Personal Income Tax

- Estimates personal income tax (PIT) revenues will decrease in 2016-17 by 0.3 percent, from \$83.4 billion to \$83.1 billion from what was assumed in the 2016 Budget Act.
- Forecasts that PIT revenues will decrease in 2017-18 to \$85.9 billion, 1 percent lower than what was assumed in the 2016 Budget Act.

### Sales and Use Tax

- Projects sales and use tax (SUT) revenues will decrease in 2016-17 by 2.9 percent, from \$25.7 billion to \$25 billion from what was assumed in the 2016 Budget Act.
- Estimates SUT revenues will decrease in 2017-18 to \$26.2 billion to \$25.2 billion, 3.9 percent lower than what was assumed in the 2016 Budget Act.

### Corporation Tax

- Estimates corporation tax will decrease by 5.5 percent to \$10.4 billion in 2016-17 from the 2016 Budget Act.
- Projects corporation tax will decrease by 5.8 percent to \$10.9 billion in 2017-18 from the 2016 Budget Act.

**SUMMARY OF CHARTS**

**2017-18 Governor's Budget  
General Fund Budget Summary  
(in millions)**

	<b>2016-17</b>	<b>2017-18</b>
	<hr/>	<hr/>
<b>Prior Year Balance</b>	<b>\$5,023</b>	<b>\$1,027</b>
Revenues and Transfers	\$118,765	\$124,027
<b>Total Resources Available</b>	<b>\$123,788</b>	<b>\$125,054</b>
Non-Proposition 98 Expenditures	\$72,431	\$71,169
Proposition 98 Expenditures	\$50,330	\$51,351
<b>Total Expenditures</b>	<b>\$122,761</b>	<b>\$122,520</b>
<b>Fund Balance</b>	<b>\$1,027</b>	<b>\$2,534</b>
Reserve for Liquidation of Encumbrances	\$980	\$980
Special Fund for Economic Uncertainties	\$47	\$1,554
<b>Budget Stabilization Account/Rainy Day Fund</b>	<b>\$6,713</b>	<b>\$7,869</b>

**General Fund Expenditures by Agency**  
(in millions)

	2016-17	2017-18	Change Dollar Change	2016-17 Percent Change
Legislative, Judicial, Executive	\$3,500	\$3,322	-\$178	-5.1%
Business, Consumer Services & Housing	\$493	\$388	-\$105	-21.3%
Transportation	\$225	\$243	\$18	8.0%
Natural Resources	\$3,110	\$2,811	-\$299	-9.6%
Environmental Protection	\$90	\$89	-\$1	-1.1%
Health and Human Services	\$35,263	\$33,994	-\$1,269	-3.6%
Corrections and Rehabilitation	\$10,889	\$11,088	\$199	1.8%
K-12 Education	\$50,589	\$52,169	\$1,580	3.1%
Higher Education	\$14,527	\$14,627	\$100	0.7%
Labor and Workforce Development	\$177	\$122	-\$55	-31.1%
Governmental Operations	\$1,772	\$741	-\$1,031	-58.2%
General Government:				
Non-Agency Departments	\$787	\$691	-\$96	-12.2%
Tax Relief/Local Government	\$459	\$435	-\$24	-5.2%
Statewide Expenditures	\$880	\$1,800	\$920	104.5%
<b>Total</b>	<b>\$122,761</b>	<b>\$122,520</b>	<b>-\$241</b>	<b>-0.2%</b>

**General Fund Revenue Sources**

(in millions)

Change from 2016-17

	2016-17	2017-18	Dollar Change	Percent Change
Personal Income Tax	\$83,136	\$85,866	\$2,730	3.3%
Sales and Use Tax	\$24,994	\$25,179	\$185	0.7%
Corporation Tax	\$10,389	\$10,878	\$489	4.7%
Insurance Tax	\$2,309	\$2,368	\$59	2.6%
Liquor Tax	\$370	\$372	\$2	0.5%
Cigarette Tax	\$79	\$65	-\$14	-17.7%
Motor Vehicle Fees	\$24	\$24	0	0.0%
Other	\$648	\$431	-\$217	-33.5%
<b>Subtotal</b>	\$121,949	\$125,183	\$3,234	2.7%
Transfer to the Budget Stabilization Account/Rainy Day Fund	-3,184	-1,156	2,028	-63.7%
<b>Total</b>	\$118,765	\$124,027	\$5,262	4.4%