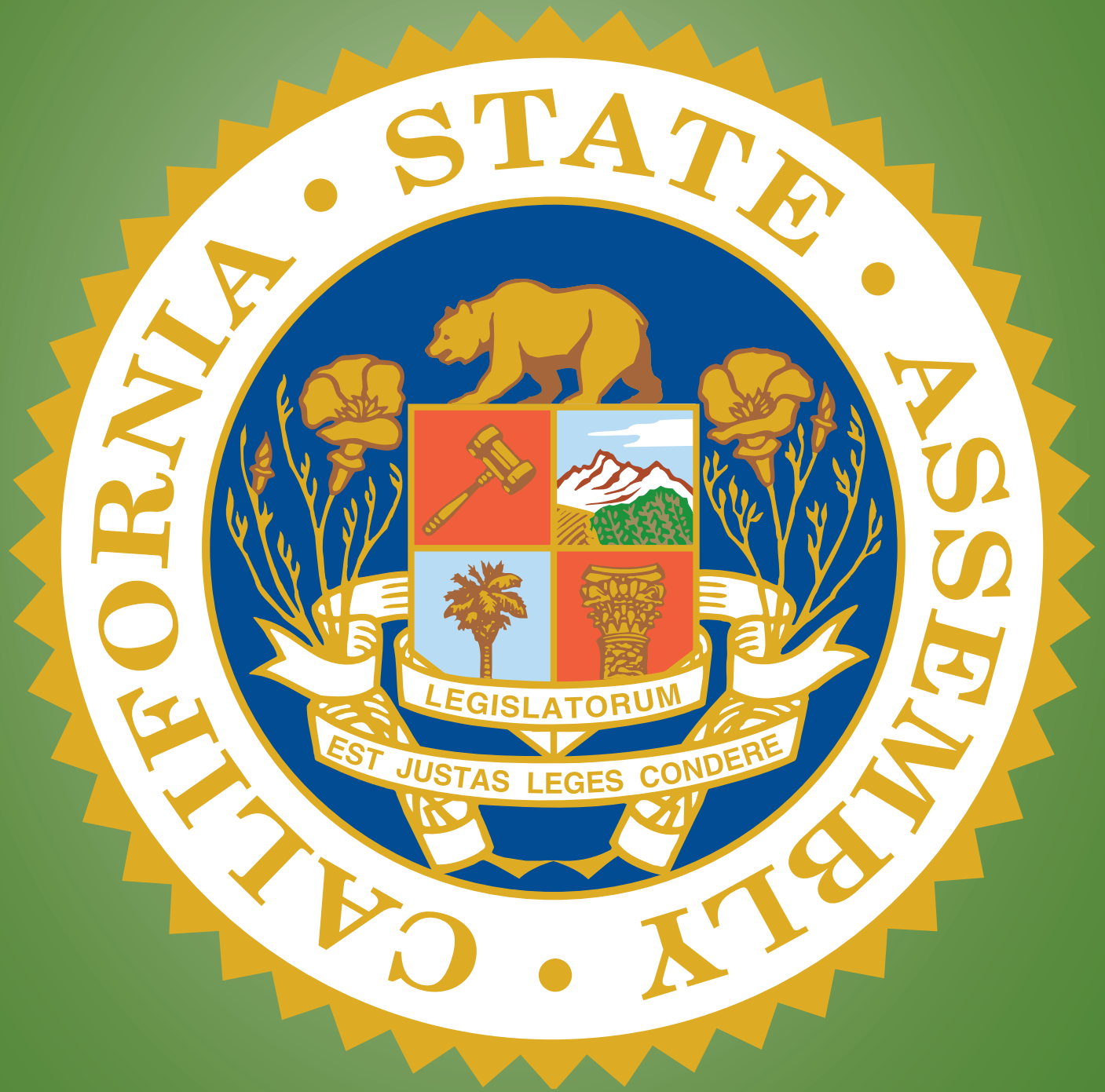


ASSEMBLY BUDGET COMMITTEE  
PRELIMINARY REVIEW OF THE GOVERNOR'S PROPOSED  
2016-2017  
STATE BUDGET ACT



SHIRLEY N. WEBER, PH.D.  
ASSEMBLY BUDGET COMMITTEE CHAIR



February 5, 2016

Dear Colleagues and Friends:

I am pleased to present to you the Assembly Budget Committee's annual ***Preliminary Review of the Governor's Proposed 2016-17 State Budget.***

The ***Preliminary Review*** outlines and provides background for Governor Brown's major budget proposals and puts them in some perspective. It is organized by traditional topics of interest to us all, and highlights major provisions.

Crafting the state budget is perhaps the Legislature's greatest responsibility. Writing this year's budget will involve no less than making monumental decisions on the future of state government's role in educating our children, rebuilding our transportation infrastructure, protecting our unique environment and taking care of our aged and disabled residents.

The ***Preliminary Review*** is intended to serve as an effective tool for those interested in participating in this year's budget proceedings.

We hope that you find the ***Preliminary Review*** useful in understanding and discussing the Budget. If you have any questions or need additional information, please do not hesitate to contact me or the Assembly Budget Committee staff.

Sincerely,

A handwritten signature in blue ink, appearing to read "Shirley N. Weber".

Shirley N. Weber, Ph.D., Chair



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## OVERVIEW

On January 7, 2016 Governor Brown submitted his proposed 2016-17 budget to the Legislature.

The Governor's proposed budget reflects the continued fiscal health of the state and the fourth straight year of balanced budgets and increased support for critical programs throughout the budget.

Including the General Fund, special funds, and selected bond funds the proposed budget totals \$170.7 billion. Of this amount, \$122.6 billion is from the General Fund for 2016-17. This amounts to an increase of \$7.2 billion, or 6.2%, from the projected spending level for 2015-16 at the time the Budget Act of 2015 was passed.

The Governor's proposed budget includes total reserves of \$10.2 billion, which is 8.3 percent of proposed General Fund spending. The reserves include \$2.2 billion in the regular budget reserve and \$8 billion in the Rainy Day Fund (Prop 2 Budget Stabilization Account). The \$8 billion includes \$6 billion required by the Constitution and an additional \$2 billion proposed to be deposited by the Governor.

Of the \$122.6 billion in General Fund spending, the Governor proposes about \$6.2 billion in additional discretionary allocations. The bulk of these allocations are proposed to build reserves (\$3.1 billion) and for one-time spending (\$2.3 billion). The proposed budget only includes about \$800 million in new discretionary commitments.

### Proposed New Discretionary Allocations

**Building Reserves:**

- Extra Rainy Day Fund Deposit: \$2.0 billion
- Increased Regular Reserve: \$1.1 billion

**One-Time Spending:**

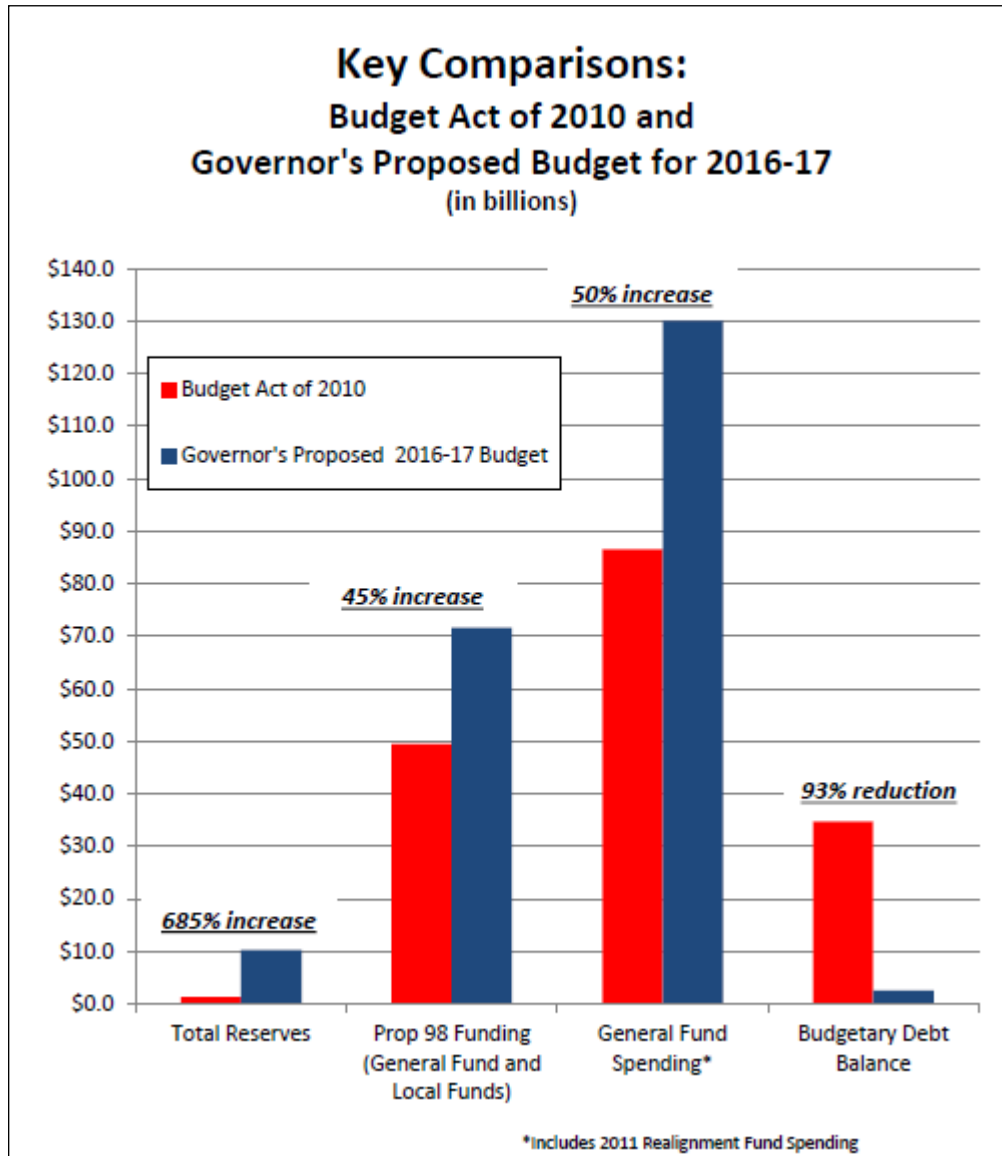
- Replace and Maintain State Buildings: \$1.5 billion
- Deferred Maintenance: \$0.5 billion
- County Jail Grants: \$0.3 billion

**On-Going Spending:**

- Various proposals: \$0.8 billion

**Total: \$6.2 billion**

Compared with the Budget Act of 2010 – the last budget enacted prior to any current Assemblymember or the current Governor taking office – the Governor's proposed budget shows significant improvements. The chart below shows major increases in overall General Fund spending, Proposition 98 spending, and total reserves, while the budgetary debt balance has dropped dramatically.

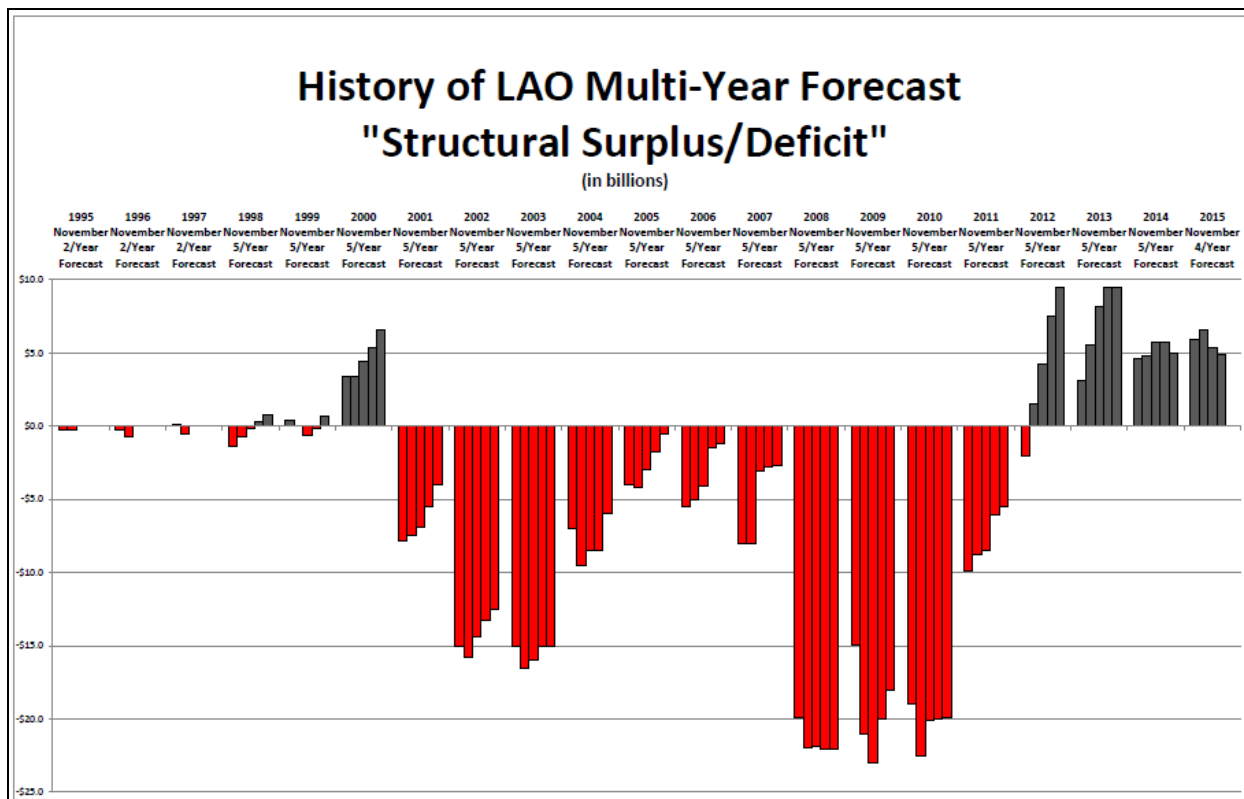


### **Turning Decade of Deficits into Stable Budget**

While the Governor's proposed budget reflects a healthy state fiscal condition, it was not long ago that the state was mired in decade of red ink.

From 2001 through 2010 each year's budget was precariously balanced with cobbled-together solutions that never erased persistent structural deficits. The decade was bookended by recessions. The state had not gotten its head above water after the Dot-Com recession when the Great Recession hit, bringing devastation to every corner of the budget.

The chart below documents the annual multi-year forecast by the LAO in their Fiscal Outlook published each November. The chart shows the difficulties and failings of the past decade that began to turn around in 2011 and has since had healthy surpluses with a balanced budget projected into the future.





**Not Repeating the Mistakes of the Past**

When recessions hit and how hard they hit the economy are largely outside the control of state government. But making smart budgeting decisions can prepare for economic downturns and minimize the impacts on the budget and government services.

Unfortunately, significant mistakes were made during the difficult times of the past decade. Most notably:

- *Committing spiking revenues to ongoing purposes.* Revenue volatility is often cited as a problem for the state budget. But in fact, volatile revenues are only a problem if they lead to volatile spending. Too often in the past revenues that turned out to be temporary spikes were committed to permanent tax cuts or ongoing spending.
- *Partisan Political Fights.* In the past, final budget agreements had to be reached between both political parties due to the Governor being from one party while the Legislature being controlled by the other and/or the 2/3 vote requirement needed to pass the budget. This often led to an “arms race” situation where one party’s demands for increased tax cuts and spending increases were met the with other party’s demand for different tax cuts and spending increases. This usually resulted in shortsighted final budget agreements that left the budget overcommitted in the out years and with both parties having strong arguments to blame the other party for the state’s problems.

In recent years the mistakes of the past have not been repeated.

- *Rainy Day Fund.* Rather than assuming spiking revenues will always remain, Proposition 2 (proposed by Assembly Democrats, championed by the Governor, and approved by the voters) takes spiking capital gains revenues off the table and instead uses them to pay down debts and build reserves.

Under the Governor’s proposed budget, the Rainy Day Fund will be \$8 billion in 2016-17, growing to \$11.3 billion by 2019-20.

With the Rainy Day Fund, the state is able to take advantage of the spiking revenues to avoid volatile spending by using spiking revenues from one year to avoid deep cuts in down years.

- *One-Party Accountability.* While bipartisan participation remains in the budget process, with the Governor and Legislative control being of the same party (along with Proposition 25 lowering the vote requirement to pass the budget), the days of parties leveraging each other at the expense of fiscal responsibility are over.

As a result, the budget has been enacted on time each of the past five years and has reflected fiscal restraint with an eye on the ongoing budget condition. With one party responsibility, the decade of red ink has turned into a balanced budget projected into the future.

By avoiding the mistakes of the past, rather than simply bouncing from one recessionary period to the next, slashing critical programs and never getting above water, the budget has responsibly increased spending, is balanced into the future, and is in the best condition in decades to withstand an economic downturn.

### **Legislature's Impact in Crafting the Budget**

The Governor's budget proposals both in January and in May understandably garner significant public attention.

But, with the budget now in the hands of the Legislature, the public process for crafting the budget begins. It is expected that there will be over 100 public budget hearings combined between the Assembly and the Senate again this year.

The Governor's minimalist approach to budget proposals is conducive to the Legislature making improvements and resulting in a strong final agreement that strikes the right balance between making needed new commitments and responsibly protecting against future economic downturns.

Exactly what the specific improvements will be will be determined through the public legislative process. The needs are great: improving education – early education through higher education; reducing poverty; expanding health access; rebuilding crumbling infrastructure; lowering prison population and improving public safety; and protecting the environment and combatting global warming.

The figure below includes a few of the many major budget improvements first put forward by the Legislature and included in the budget agreements over the past couple of years.

## **Major Budget Accomplishments of Recent Years First Proposed By Legislature**

### **✓ Rainy Day Fund**

Captures spiking revenues to protect against economic downturn

### **✓ Earned Income Tax Credit**

Benefits lowest income workers, lifts families from poverty

### **✓ Early Education**

Expands preschool and child care slots to over 100,000 low income children

### **✓ Middle Class Scholarship**

Lowers UC and CSU fees by up to 40%

### **✓ Medi-Cal for All Children**

Expands Medi-Cal to all children, regardless of immigration status

### **✓ CalWORKs Grant Increase and Housing Support**

Provides 10% grant increase and housing support to stabilize housing

### **✓ Immigration Services**

Provides legal assistance for unaccompanied minors and naturalization services

### **✓ In Home Supportive Services**

Restores seven percent hours reduction

### **✓ Veterans Services**

Reduces backlog to enroll CA veterans in federal services

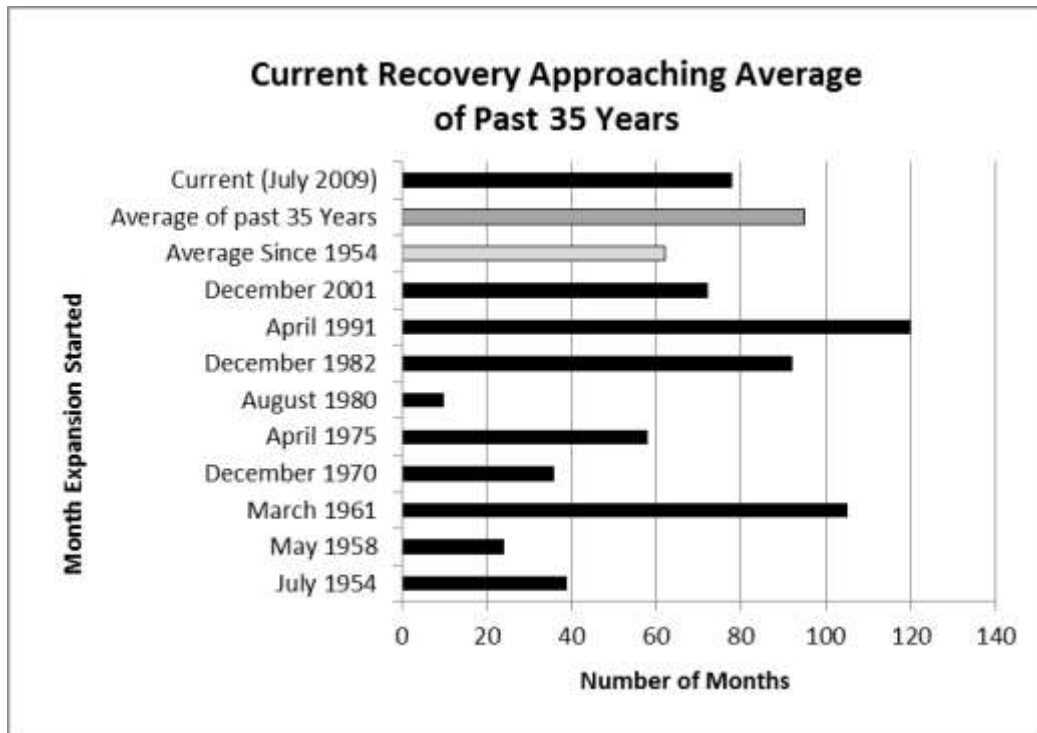
### **✓ Arts Funding**

Provides \$7 million in new on-going Arts Council funding

### **Protecting Against Economic Downturns**

Both the Legislative Analyst and the Department of Finance have begun to analyze California's ability to withstand the next economic downturn.

While no one can predict when the next recession will hit, there is certainty that another recession will occur at some point. The Department of Finance reports that the current recovery has already exceeded the length of the average recovery of the past 60 years, suggesting that a recession may be more imminent. On the other hand, the current recovery is still below the average recovery of the past 30 years, suggesting there may be more to prepare.



The LAO made clear in their November Fiscal Outlook that “(t)he state is better prepared for an economic downturn than it has been at any point in decades.” The LAO has analyzed the impacts of both an economic slowdown scenario and a recession scenario on the baseline budget. Under the “slowdown” scenario the budget would remain structurally balanced throughout the forecast period. Under the “recession” scenario, all budget shortfalls would be covered with reserves until 2019-20, when \$2.4 billion of solutions would be required to balance the budget.

While the state fares well under both of these scenarios, it is important to note that these are based off of the baseline budget of the Budget Act of 2015, and with no additional commitments, such as those proposed by the Governor or added by the Legislature.

The Department of Finance has modeled a recession scenario hitting in 2017 which would result in a loss of \$55 billion through 2019-20. Offsetting for reduced Prop 98 and Prop 2 costs, this would leave the state with a total shortfall of \$28.9 billion through 2019-20.

Applying this shortfall to the LAO's forecast, this shortfall would largely be covered by reserves, even after accounting for the Governor's proposed new spending and an assumed increase of spending added by the Legislature.

Under the Governor's more restrained out-year forecast, there would be annual shortfalls but they would be in the low billions and not require the devastating cuts or middle class tax increases that past recessions caused.

But, whether based on the harshest or the most positive assumptions, two things are clear: 1) California is already prepared to avoid the devastating impacts of past recessions; and 2) more work needs to be done to further protect against future economic downturns.

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This report is aimed at providing an initial look at the Governor's proposed budget for 2016-17 in the context of recent policy challenges in California. The report is divided by policy areas into sections that are designed to first provide context regarding challenges faced by the State, and second, discuss options for moving forward in light of the Governor's proposed budget. This initial report is intended to provoke questions and discussion as the Assembly embarks upon its public process to craft California's spending plan for 2016-17.



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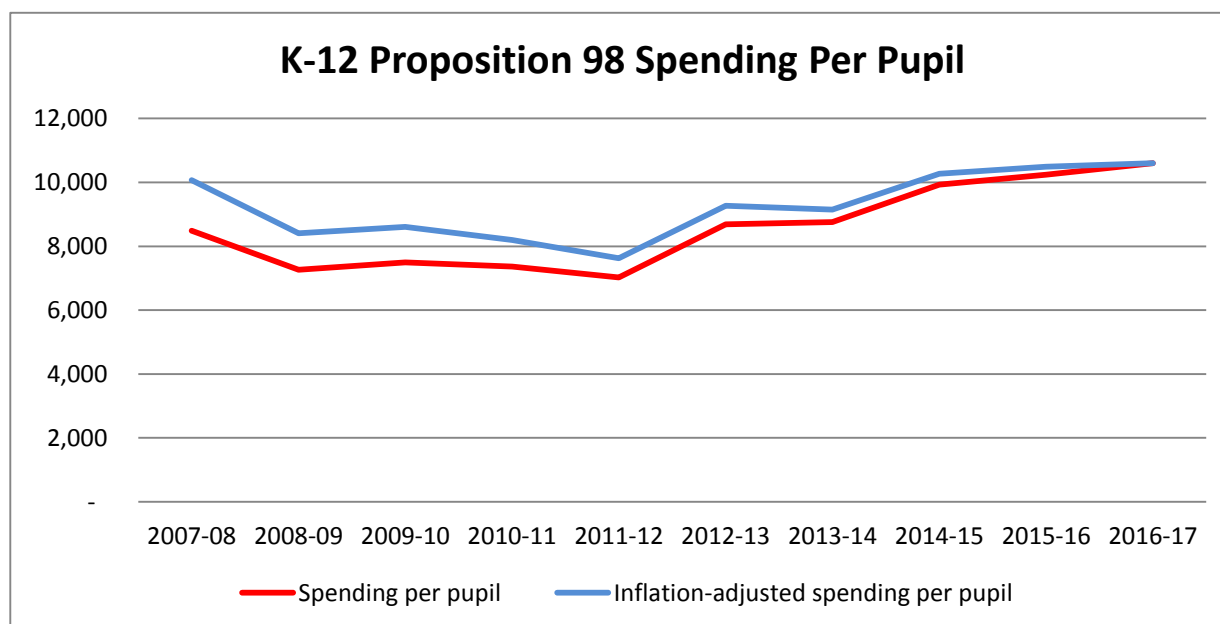
## K-12 EDUCATION

California's public education system is the largest in the nation, consisting of approximately 6.2 million students in over 10,000 schools within 1,000 districts and 58 County Offices of Education. California also employs approximately 295,000 public school teachers.

California's schools are funded through state, local and federal funds. State funding makes up the largest portion of funding for schools (63 percent). Local funding, such as property taxes, makes up 26 percent of school funding and federal funds contribute 11 percent. Most of this funding is used for instruction, including providing teacher salaries and benefits. Other costs include construction and maintenance of facilities, student services (such as transportation, school meals and counselors), and administration.

Aggregate level of state funding for schools and community colleges is largely driven by formulas created through Proposition 98, passed by voters in 1988. Proposition 98 created a minimum funding level for schools, referred to as the "minimum guarantee." The Proposition 98 minimum guarantee is determined by a series of formulas, or "tests," outlined in the State Constitution. These tests take into account multiple factors including K-12 enrollment, per capita personal income, and per capita General Fund revenue. Due to Proposition 98, approximately 40 percent of the state's budget is dedicated to California's schools and community colleges.

Even with the requirements of Proposition 98, funding for schools has been volatile in recent years. During the Great Recession, state revenues declined and education funding was reduced by approximately 20 percent. Since the recession, education funding has improved considerably due to the recovering economy and the passage of Proposition 30. The Governor's budget assumes that schools and community colleges will receive \$71.6 billion in 2016-17, \$3.2 billion above the level enacted in the 2015-16 Budget. As shown in the chart below, per-pupil spending under the Governor's plan is expected to be \$10,591 in 2016-17, a significant increase since 2011-12.



Source: Legislative Analyst's Office

Despite the volatile funding, California has instituted a number of major education reforms in recent years. In 2013, California enacted a new school finance system through the “Local Control Funding Formula,” or LCFF. The purpose of the LCFF was to create a more simple and equitable formula that is intended to improve student outcomes by shifting decision making to the local level and redistributing resources to students that require additional services. The LCFF consists of a base grant for all students, supplemental funding for English learners, low-income and foster youth, and concentration funding for districts with high proportions of students that qualify for supplemental funding. However, because the state could not fully fund the LCFF when it was enacted, the state set target rates which would be funded over the next several years. The Department of Finance estimates that the LCFF will be fully funded by 2019-20, one year earlier than originally projected.

In conjunction with the LCFF, the state established a new system for school accountability. Under the new system, school districts, County Offices of Education and charter schools are required to complete a Local Control Accountability Plan (LCAP), outlining their locally developed goals and actions in eight state priority areas. The plans, which are completed every three years and updated annually, require districts to describe how they are enhancing services to English learners, low-income and foster youth students.

In addition to the LCFF and LCAP, California has adopted new curriculum standards in many of the core subject areas. In 2010, California adopted the Common Core State Standards (CCSS) in English language arts and math. California adopted new English Language Development standards for English learners, which are aligned to the CCSS. Additionally, in 2013, California adopted new curriculum standards for science, called the Next Generation Science Standards (NGSS).

This section will outline the current issues in K-12 education, how the Governor responded to some of these issues in his January budget proposals and considerations for the Legislature when crafting the 2016-17 budget.

## Major Issues in K-12 Education

- **Temporary tax extension proposed.** Proposition 30, passed by voters in 2012, temporarily increased the state sales tax rate for all taxpayers and the personal income tax (PIT) rates for upper-income taxpayers. Proposition 30 has generated between \$6 billion and \$10 billion in revenue per year, primarily going to K-14 education. These temporary tax increases are scheduled to begin to phase out in 2016-17, and will fully expire in 2018-19 (state sales tax increase expires in 2016-17, and PIT increase expires in 2018-19). Without these additional revenues, education funding is projected to be flat after 2018 or decline in the event of another recession. The California Teachers Association and the California Hospital Association together have submitted an initiative to extend the PIT rate increases on high income earners for an additional 12 years. The initiative would provide K-12 schools and community colleges with first call on the money to fund the Proposition 98 minimum guarantee. Then a portion of the remaining revenue would fund health care for children and their families through hospitals and Medi-Cal providers. The backers of the initiative must collect 585,407 signatures by June to qualify for the November ballot. The fate of this initiative may have a significant impact on long-term education funding.
- **Funding for school facilities needed.** Another issue that voters may have the final word on is a new school facilities bond. The last bond was approved by voters in 2006, and there is currently no remaining bond authority despite schools having billions of dollars in projects waiting to be funded. Governor Brown has been critical of the school facilities grant program, arguing that districts should take on school construction costs, with the state providing assistance to only those that do not have means or local bond capacity. After multiple failed Legislative attempts to get a new school facilities bond on the ballot, various education and building advocates qualified a \$9 billion school bond for the November 2016 ballot. The Governor has openly criticized this bond and has suggested working with the Legislature on a much smaller bond, including reforms to the program, to be put on the June ballot.
- **Questions remain on LCFF transparency.** The LCFF legislation charged the State Board of Education (SBE) with adopting regulations around how supplemental and concentration funds can be spent. This was not an easy task. The SBE held numerous hearings with hours of public comment on the issue. The SBE adopted final regulations last January, which sought to provide local educational agencies with significant financial flexibility, while also ensuring that supplemental and concentration funding is being spent on the students generating the funding. Many education leaders are still paying close attention to this issue and may be pushing for more transparency.



- **State's accountability system still being implemented.** California's new accountability system consists of the Local Control Accountability Plan (LCAP), Annual Update, evaluation rubrics, and the California Collaborative for Educational Excellence (CCEE) support system. School districts, charter schools and county offices of education already have begun setting goals under this new system through the LCAP and Annual Update, however, the evaluation rubrics and intervention structure is still evolving. The State Board has until October 1, 2016 to complete the evaluation rubrics, which will help districts in measuring their improvement and help the state determine when to intervene. The purpose of the CCEE is to provide assistance for low performing schools and intervene when necessary, although the details for this body are still being developed.
- **New federal accountability rules.** In December 2015, Congress passed and the President signed the Every Student Succeeds Act (ESSA). This new federal law provides states much more authority than the previous No Child Left Behind (NCLB) Act of 2002. Under ESSA, states are given discretion on setting goals, holding schools accountable and intervening in low-performing schools. However, states must identify the lowest performing schools in need of intervention, which requires the state to have a rating system. California's rating system, the Academic Performance Index (API), was suspended two years ago when the state was shifting to a new student assessment system. The API used a single number, comprised mostly of test scores. The State Board hopes to shift to a "dashboard" of metrics to show a more complete picture of a school. It is unknown if a dashboard will meet the federal requirements. The State Board will be working to align state and federal accountability requirements this year.
- **Eliminating the "wall of debt."** In recent years the state has nearly eliminated the \$11.5 billion in outstanding obligations owed to schools. These obligations included payment deferrals (\$6.2 billion), unpaid mandate claims (\$4.5 billion), the Emergency Repair Program (ERP) (\$462 million) and the Quality Education Investment Act (QEIA) (\$410 million). Currently, the state owes approximately \$2.6 billion in unpaid mandate claims for K-14 education, but has paid off all other obligations.
- **Teacher protections challenged in the courts.** There are currently two lawsuits pending in the courts that could bring about huge changes for teacher unions in California. The 2010 *Vergara v. California* decision challenged multiple teacher protection laws in California, including teacher tenure (giving teachers due-process rights after two years of probation), the teacher dismissal process, and the layoff process (requiring layoffs to be made based on seniority). Los Angeles Superior Court Judge Rolf Treu argued that these laws violated the rights of low-income and minority students to an equal opportunity to receive a good education. Governor Brown and the California Teachers Association appealed the court's decision. The appeal is expected to be heard this year. Another controversial lawsuit before the U.S. Supreme Court is *Friedrichs v. CTA*. In this case, 10 California teachers and teacher groups sued the California Teachers Association and the state of California over the law requiring teachers to pay "fair share" fees to unions to cover the costs of bargaining. The plaintiffs argue that these mandatory fees violate their free speech rights. Overturning this statute would not only affect teachers unions, but could result in a huge drop in

membership for all public employee unions in California. The U.S. Supreme Court will likely make a decision on this case this spring.

- **Teacher recruitment and retention efforts needed.** With the number of teaching credentials issued in California declining for the tenth consecutive year, in addition to declining enrolment in teacher preparation programs, many education leaders are increasingly concerned about the state's teacher shortage. In the past, the state has instituted various state programs aimed at recruiting and retaining teachers, including the Assumption Program of Loans for Educators (APLE) loan forgiveness program, the Governor's Teaching Fellowship grant program, the Beginning Teacher Support and Assessment (BTSA) mentoring program for new teachers, and other incentives such as raising beginning teacher salaries. Funding for these and other programs has been eliminated or consolidated into the LCFF over the years. However, due to the pressing need for more credentialed teachers, the Legislature may consider funding new or existing programs to address this problem.
- **New student testing system.** Following California's adoption of the common core state standards in English language arts and math, the state also shifted to a new student assessment system. This system implemented new computer based assessments in English language arts and math, aligned to the new content standards, and suspended assessments in other subject areas, such as history social-science and the arts. In March, the Superintendent of Public Instruction must present the Legislature with a recommended plan for giving state standardized tests in subject areas other than English language arts and math. The Legislature must decide how to test students in these subject areas.
- **Proposition 47 savings directed at schools.** Proposition 47, approved by the voters in 2014, reduced penalties for certain non-serious and non-violent property and drug offenses and requires state savings from the proposition to be transferred into a new fund, the Safe Neighborhoods and Schools Fund. This funding can be used on (1) mental health and substance use services, (2) truancy and dropout prevention, and (3) victim services. Proposition 47 requires that 25 percent of the fund go to the Department of Education to administer a grant program to reduce truancy, high school dropout, and student victimization rates. However, the details of this grant program have yet to be determined. The Director of Finance is required to calculate the state savings compared to 2013-14 on or before July 31, 2016. The Governor's January budget estimates the total savings attributed to Proposition 47 is \$29 million in 2016-17 and \$57 million in ongoing savings. The Governor's estimate would result in \$7.3 million available for education related programs in 2016-17.
- **State Preschool expansion.** The 2014 Budget Act included a commitment from the Legislature to provide subsidized state preschool for all low-income four-year olds in the state, but did not provide a specific timeline. The 2015 Budget Act made progress toward this goal by adding 9,500 additional preschool slots. However, an estimated 22,000 low-income four-year-olds are currently not being served by either preschool, transitional kindergarten or Head Start. AB 47 (McCarty, 2015) sought to establish a deadline for providing preschool for all low-income four-year-olds, but Governor Brown vetoed the bill, arguing that it was unnecessary and the expansion of preschool should

be considered in the budget process. This will likely be a topic of discussion during this year's budget process.

- **State Child Development System has significant unmet need.** California's early childhood education and child development programs still have not recovered from reductions made during the Great Recession. In California, 39.6 percent of children aged three to five are not enrolled in a preschool, head start, day care, or kindergarten. Many California families cannot afford care for their children, or struggle and compromise quality with care they can afford. Despite several large investments in early education made in the last two budget cycles, the state will serve 58,000 fewer children in early education and child development program in 2016 than in 2008. In addition, a long-term freeze on reimbursement rates has eroded the buying power of state programs to the extent that these programs do not cover the cost of care in some high-costs counties and families cannot always access the highest quality care.

## Governor's January Budget Proposals in K-12 Education

### K-12 EDUCATION

#### Major Provisions

- **Proposition 98.** The Governor's budget includes a total of \$5.4 billion in new Proposition 98 funding, including increases to the minimum guarantee in prior years. The total Proposition 98 funding level in 2016-17 is \$71.6 billion, \$3.2 billion higher than the 2015 Budget Act. According to the Administration's revised estimates, the 2014-15 minimum guarantee increased by \$387 million and the 2015-16 minimum guarantee increased by \$766 million from the June 2015 estimate. Additionally, the Governor proposes to make a \$257 million "settle-up" payment to pay down Proposition 98 funding the state owes from 2009-10.
- **Local Control Funding Formula.** The Governor's budget provides \$2.9 billion to further implement the LCFF. This represents 49 percent of the remaining "gap funding" needed to reach full implementation of the LCFF and represents a 7 percent increase from 2015-16. The total amount provided for LCFF in the Governor's plan is \$55.5 billion in 2016-17. The total cost to fully fund LCFF this year would be \$58.5 billion. The Department of Finance (DOF) estimates that the LCFF will be fully funded by 2019-20.
- **Education Mandate Backlog.** The state currently owes approximately \$2.6 billion in prior year mandate costs that accumulated due to the state deferring costs. The Governor's budget proposes to dedicate \$1.4 billion to further reduce the K-14 education mandate backlog (\$1.3 billion for K-12 schools and \$76 million for community colleges). This funding would be distributed to schools on a per student basis. Because not all districts have outstanding claims, the DOF estimates that this payment would reduce the backlog by \$786 million. After this payment, the DOF estimates that the remaining K-14 education mandate backlog would be \$1.8 billion.

The Governor's budget summary suggests several areas that this funding could be used for, including content standards implementation, technology, professional development, induction programs for beginning teachers and deferred maintenance. However, funding freed up from this payment could be used for any educational purpose.

- **Career Technical Education.** The Governor's budget maintains the Career Technical Education Incentive Grant program established in the 2015 Budget Act, which allocates \$900 million over three years (\$400 million in 2015-16, \$300 million in 2016-17 and \$200 million in 2017-18). School districts, charter schools, county offices of education and Regional Occupational Centers and Programs operated by joint powers agencies can apply for grants (individually or as a consortium). Funding is set aside for small, medium and large sized applicants, based on average daily attendance. The Superintendent of Public Instruction, in collaboration with the executive director of the SBE, is charged with awarding the grants. Priority is given to applicants that do not currently operate a CTE program and those serving low-income students, English learners, foster youth and those at risk of dropping out. Additionally, applicants located in rural locations and areas with high unemployment also will receive special consideration. Grantees are required to dedicate matching funds and commit to funding the program after the grant expires. The CDE has awarded the first round of grantees and funding will go out in February.
- **School Facilities.** The Governor's budget includes no specific proposal related to school facilities. Similar to recent years, the Governor's budget summary highlights the Governor's concerns with the existing school facilities program, including that the program is overly complex, creates an incentive to build new schools that might not be needed, allocates funding inequitably, and does not provide sufficient flexibility for districts to design facility plans based on local needs. The Governor's budget summary makes the following statement regarding a new school facilities program:  
  
*"California needs a new program that corrects the deficiencies of the existing program. A proposed \$9 billion school bond for the November 2016 ballot makes no changes to the existing program and it would add an additional \$500 million a year in General Fund debt service. The Administration will continue a dialogue with the Legislature and education stakeholders to shape a future state program focused on districts with the greatest need, while providing substantial new flexibility for districts to raise the necessary resources for their facilities needs."*
- **Academic and Behavioral Support.** The Governor's budget dedicates \$30 million in one-time Proposition 98 funds to assist local educational agencies in providing academic and behavioral supports for students, known as Multi-Tiered System of Supports (MTSS). The 2015 Budget Act provided \$10 million for this purpose, as part

of a package of special education actions adopted in response to the 2015 California Statewide Special Education Task Force Report. This spring the CDE will select and allocate funding to one county office of education or two applying jointly to develop statewide resources, provide trainings, and allocate grants to improve academic and behavioral needs. The additional \$30 million proposed in the Governor's budget would allow the selected county office(s) of education to provide more grants and support to local educational agencies.

- **Charter School Grants.** The budget includes \$20 million in one-time Proposition 98 funding to support start-up costs for new charter schools in 2016 and 2017. Beginning in 2010, the state received a five year federal grant totaling \$300 million, which provides grants of up to \$575,000 to plan and implement new charter schools. In 2015-16, approximately \$40 million was available to new charters for this purpose. However, California was not awarded the federal grant for the next round of funding beginning in 2016-17. The Administration proposes providing \$20 million in one-time funding in the absence of the federal grant.
- **Proposition 47.** The January budget estimates \$7.3 million will be available through Proposition 47 to support education programs to reduce truancy and support students at risk of dropping out of school or are victims of crime. The Administration does not have a proposal on how this funding should be spent.

### **Other Key Issues**

- **Energy Efficiency Projects.** The budget includes a total of \$419 million in energy efficiency funds through Proposition 39. The California Clean Energy Jobs Act (Proposition 39), passed by voters in 2012, required most multistate businesses to determine their California taxable income using a single sales factor method, in turn, increasing the state's corporate tax revenue. Half of these revenues must be used to support projects that will improve energy efficiency and expand the use of alternative energy in public buildings. The budget proposes to allocate the funding as follows:
  - \$365.4 million to K-12 schools and \$45.2 million to community colleges for energy efficiency project grants,
  - \$5.4 million to the Conservation Corps for technical assistance to K-12 school districts, and
  - \$3 million to the Workforce Investment Board for job training programs.
- **School Attendance.** The budget includes a decrease of \$150.1 million in 2015-16 for school districts and county offices of education due to a decrease in projected average daily attendance (ADA) from the 2015 Budget Act, and a decrease of \$34.1 million in 2016-17 due to further projected decline in ADA. The Governor's budget provides an increase of \$61 million to support projected charter school ADA growth and a decrease of \$15.5 million to support a projected decrease in Special Education ADA in 2016-17.



- **Cost of Living Increases.** The Governor's budget includes \$23 million for a 0.47 percent cost-of-living adjustment (COLA) for education programs funded outside the LCFF. These programs include special education, child nutrition, state preschool, foster youth services, American Indian education centers and American Indian early childhood education programs. The budget also includes \$1.7 million to provide a COLA and make attendance adjustments for county offices of education.
- **Local Property Tax Adjustment.** The budget includes a decrease of \$149.4 million in Proposition 98 General Fund for school districts and county offices of education in 2015-16 due to higher property tax revenues and a decrease of \$1.2 billion in Proposition 98 General Fund in 2016-17 as a result of increased property tax revenues due to the end of the "triple flip."

## EARLY CHILDHOOD EDUCATION

### Major Provisions

- **Early Childhood Education Block Grant.** The Governor's budget proposes consolidating \$1.6 billion in Proposition 98 funding from the State Preschool Program (\$878 million), transitional kindergarten (\$726 million), and the Preschool Quality Rating and Improvement System Grant (\$50 million) to create an Early Childhood Education Block Grant. The intent of the block grant is to provide local education officials with more flexibility in designing preschool programs for four-year-olds and young five-year-olds that addresses local needs and prioritizes low-income and at-risk children. The Administration proposes that block grant funding be distributed based on factors such as population and need, similar to the LCFF. The proposal also includes a hold-harmless provision to ensure that no local educational agency receives less funding than they do currently. The Governor's budget does not provide further details of the proposal, but the Administration intends to engage stakeholders during the spring budget process and will release more details at the May Revision.
- **Child Care Vouchers.** Currently, California provides subsidized child care through both vouchers that families can use to choose a child care provider and through child care centers contracted directly with the Department of Education. The Governor's 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.
- **Full-Year Implementation of 2015 Budget Act Changes.** The budget includes an increase of \$16.9 million non-Proposition 98 General Fund and \$30.9 million Proposition 98 General Fund, reflecting full-year implementation of the child care and preschool investments made in the 2015 Budget Act. These investments include 7,030 full-day State Preschool slots, a 4.5 percent increase to the Regional Market Reimbursement Rate and a 5 percent increase for license-exempt providers. Many of these changes were implemented later in the fiscal year.

## DEPARTMENT OF EDUCATION: STATE OPERATIONS

### **Major Provisions**

- The Governor's budget provides \$254,000 non-Proposition 98 General Fund to develop new resource tools for educating students who are deaf and hard of hearing, as outlined in SB 210, Chapter 652, Statutes of 2015.
- The budget dedicates \$207,000 non-Proposition 98 General Fund to develop new guidelines for identifying and educating students with dyslexia, as required in AB 1369, Chapter 647, Statutes of 2015.
- The budget includes \$54,000 in one-time non-Proposition 98 General Fund for the CDE to provide technical support for the Educator Effectiveness grants provided through the 2015 Budget Act.
- The Governor's budget provides \$30,000 in one-time non-Proposition 98 General Fund to develop child abuse prevention best practices required through AB 1058, Chapter 748, Statutes of 2015.
- The budget includes \$25,000 in non-Proposition 98 General Fund for the Homeless Youth Assessment Fee Waiver Program, as required in SB 252, Chapter 384, Statutes of 2015.

## COMMISSION ON TEACHER CREDENTIALING

### **Major Provisions**

- The Governor's budget continues a two-year investment in a new accreditation data system. The 2015-16 budget dedicated \$5 million (\$3.5 million in 2015-16 and \$1.5 million in 2016-17) in non-Proposition 98 General Fund for the Commission on Teacher Credentialing (CTC) to build a data system as part of a more streamlined accreditation system for teacher preparation programs.
- The budget also maintains a two-year investment to update the teacher and administrator performance assessments. The 2015-16 budget also provided \$5 million (\$4 million in 2015-16 and \$1 million in 2016-17) in non-Proposition 98 General Fund for the CTC to align the teacher performance assessments to the new content standards and develop an administrator performance assessment.

## Staff Comment and Analysis of Governor's Budget Proposal

The Governor's proposed budget is a great start for education. The budget includes \$5.4 billion more for education in 2016-17. The Governor makes a significant investment in LCFF implementation using ongoing funding and dedicates one-time funding for one-time purposes, such as mandate debt and career technical education. This section highlights issues for the Legislature to consider when crafting the 2016-17 budget.

- **How can the state best expand access for early childhood education?** The Governor's proposal on early childhood education seeks to restructure the current early education delivery system in order to target resources on preschool for low-income children. The Governor's proposal lacks many important details, which the Administration intends to work on through a stakeholder process. Initial questions and concerns about the Governor's proposal include:

Stop the Insanity! The Governor proposes a disruptive and ambitious "blow up the boxes" reform to early education. This reform effort follows a series of "blow up the boxes" early education reform efforts floated by the Department of Finance and others over the last decade - eliminating child care in 2009, realigning programs to counties in 2011, eliminating transitional kindergarten in 2013, establishing universal pre-K in 2014, and now creating a new early education block grant categorical in 2016. Unfortunately, the disruptive nature of the proposal overshadows the nuanced discussion about the State's role going forward in this program and getting consensus on our collective programmatic goals for the program. There is no reason why a path forward in early education must first start with a dramatic uprooting of programs that have functioned well for decades, some for over 70 years. Any reform should prioritize stability for children, families and providers, so they have time to benefit from the change.

Impact on Proposition 98. Consolidating funding for transitional kindergarten into the block grant would have a significant impact on the Proposition 98 minimum guarantee. Excluding ADA for transitional kindergarten students would reduce the minimum guarantee by approximately \$400 million in 2016-17. Although the Administration intends to hold districts harmless, they do not specifically address the impact on the minimum guarantee.

Transitional Kindergarten. Currently, transitional kindergarten is offered for all five-year-olds with birthdays between September 1<sup>st</sup> and December 1<sup>st</sup> regardless of income. Approximately 77,000 students were enrolled in transitional kindergarten in the 2014-15 school year. Under the Governor's proposal, districts would no longer be required to offer transitional kindergarten, and instead could offer preschool for low-income children. This proposal would essentially displace some higher income five-year-olds currently eligible for public school in order to serve more low-income four-year-olds. Although providing preschool for more low-income children may be a goal of the Legislature, this could be achieved without displacing higher income children currently eligible for transitional kindergarten.



Quality. The focus of the Legislature in recent years has been to improve the quality of early childhood education programs. How will the Governor's proposed block grant proposal ensure high quality programs? What would be the minimum state requirements for this new program (such as curriculum standards, class sizes and teacher qualifications)?

Impact on three-year-olds. The Governor's proposal would consolidate the State Preschool program into the block grant in order to provide locally determined preschool for low-income four-year-olds. However, the State Preschool program currently serves three and four-year-olds. The DOF indicates that these three year olds can be served through the state's general child care program. More details are needed in order to determine how this program would impact three year olds.

Funding. The Governor's proposal seeks to model the block grant on the tenets of the LCFF, distributing the funding based on population and need. The proposal also seeks to hold districts harmless to ensure that no local educational agency receives less funding than prior years. However, the Administration does not provide any additional funding for the block grant. How can both of these goals be met without additional funding?

Role of the State. The Governor's proposal shifts all early childhood education programmatic responsibility from the State to local school districts. There are trade-offs with providing local districts more responsibility and authority over the program. While the local districts could modify existing programs to make the programs better suited to the needs of their communities, it may make it difficult for the state to continue efforts to increase program access and quality. If the goal of the state is to get better value for the existing investment, the Governor's proposal may allow districts to stretch these dollars further. However, if the goal of the state is expand and increase investment over time to address the unmet need, this reform effort will make it difficult to see progress from any investment.

Impact on current programs. Although the details of this proposal have not been developed, the Legislature should consider how this proposal would impact current early education programs and how the state can mitigate disrupting services and existing providers.

Early childhood education has been a high priority for the Legislature in recent years, especially expanding access for low-income children. The Legislature may wish to expand access in alternative, less disruptive ways than the Governor is proposing.

- **Options for eliminating mandate debt faster.** The Governor's approach for paying down the mandate backlog on a per student basis is reasonable since most schools were required to do the mandated activity even if they did not file a claim seeking reimbursement. The state has used this approach in the past when making payments to the mandate backlog. However, the Legislative Analyst's Office estimates that it would cost over \$150 billion to eliminate the entire backlog using this approach. The Legislature may wish to consider providing the mandate reimbursement only to those

local educational agencies with outstanding claims. Using this approach, the state could retire the education mandates backlog much more quickly.

- **School facilities funding still needed.** The Governor's budget highlights his concerns with the current school facilities program, but proposes no solution. The Legislature and Governor will need to act quickly in order to pass a bill to place an alternative school bond on the ballot in June.
- **Proposition 47 and the minimum guarantee.** Proposition 47 sets aside 25 percent of the savings achieved through the proposition for education programs. Under the Governor's budget, this funding is counted toward the Proposition 98 minimum guarantee. Since these funds were meant to supplement existing education programs, the Legislature could instead dedicate these funds on top of the minimum guarantee.
- **The Governor's budget silent on teacher shortage.** The Governor's budget does not address California's teacher shortage. The Legislature could consider investing in teacher recruitment and retention programs to address this growing need.





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## HIGHER EDUCATION

California's higher education system is governed by the Master Plan of Higher Education (1960), which promises a high quality, affordable higher education for all California citizens who can benefit from it. The Master Plan also delineates different missions for each of the three segments – the University of California, the California State University, and the California Community Colleges.

**The University of California (UC)** provides undergraduate and graduate instruction; it has jurisdiction over professional training including law, medicine, dentistry and veterinary medicine, and it serves as the State's primary agency for research. According to Master Plan goals, the top 12.5 percent of graduating public high school students are eligible for admission to UC.

**The California State University (CSU)** provides undergraduate and graduate instruction through the master's degree in the liberal arts and sciences and professional education including teacher education. The system is also authorized to offer selected doctoral programs jointly with UC and private institutions and support research. According to Master Plan goals, the top 33.3 percent of graduating public high school students are eligible for admission to CSU.

**The California Community Colleges (CCC)** provides academic and vocational instruction at the lower division level. Studies in these fields may lead to the Associate in Arts or Associate in Science degree. The colleges also engage in promoting regional economic development and conducting research on student learning and retention.

**The California Student Aid Commission (CSAC)** also plays an integral role in implementing the goals of the Master Plan, with CSAC providing and overseeing the state's financial aid programs, including Cal Grants and the Middle Class Scholarship.

This issue area also includes the **UC Hastings College of Law**, a law school located in San Francisco, and the **California State Library**, which is the central reference and research library for state government and the Legislature; collects and preserves historical items; provides technical assistance to California's public libraries; and directs state and federal funds to support local public libraries and statewide library programs and services.

## Major Issues in Higher Education

- **There Are Not Enough Seats at UC or CSU.** Demand for spots at both the University of California and California State University is soaring. UC recently announced that applications for Fall 2016 topped 200,000 for the first time. Neither segment, however, is meeting this demand. Beginning during the Great Recession and continuing now, UC has aggressively marketed itself to out-of-state and international students, who pay \$24,708 more in tuition annually. This effort has squeezed out California enrollment, as the chart below indicates.

**UC Undergraduate Applications and Enrollment**

	Fall 2013	Fall 2014	Fall 2015	% Change
<b>Applications</b>	174,767	183,272	193,873	11%
<b>California Enrollment</b>	166,254	168,624	167,959	1%
<b>Nonresident Enrollment</b>	21,754	26,188	30,907	42%

At CSU, applications also have reached record-breaking highs. CSU has continued to turn away thousands of qualified applicants – 30,665 in Fall 2014. Seventeen of CSU's 23 campuses have more eligible applicants than they have seats, which CSU refers to as "impacted" campuses.

	Fall 2012	Fall 2013	Fall 2014
<b>Admitted</b>	194,564	212,152	212,538
<b>Qualified But Not Admitted</b>	22,123	26,430	30,665

The 2015 Budget Act made a significant effort to address this access crisis, by providing enrollment funding that will lead to 10,000 new California residents being admitted to UC by 2018-19 and more than 10,000 new students admitted to CSU in Fall 2015. Nonetheless, access to UC and CSU remains the most pressing issue in higher education.

- **California is Not Producing Enough Educated Workers.** This access crisis must be considered in conjunction with increasing calls for more workers with degrees to meet the state's economic needs. Using recent employment trends and forecasts, the Public Policy Institute of California (PPIC) reported in an October 2015 study that California will have a shortage of 1.1 million bachelor's degrees by 2030 to meet state workforce needs. PPIC reported that demand for college educated workers will increase in most occupational categories, and current degree attainment trends, in combination with the expected retirement of the relatively well-educated Baby Boomer generation, will leave the state short of the educated workforce it needs.

Another 2015 report, by the group California Competes, found that California faces an educational gap of 2.4 million bachelor's degrees and 2-year degrees by 2025 if it expects to meet a target of 55% of adults with such degrees. This target was developed based on economic and workforce trends.

Both reports note that California must make major changes to increase degree production to both improve the overall economy and increase individuals' well-being. College graduates have seen lower rates of unemployment and higher wages than other workers, even during the Great Recession.

- **Low- and Middle-Income Students Are Struggling to Pay for Tuition and Living Expenses.** Average annual tuition and fees at UC are \$12,294. At CSU, these costs are \$5,472. At community colleges, a full-time student will pay on average \$1,380. Tuition and fees, however, are not the whole story. Living expenses for full-time California college students are much more than just tuition: UC estimates its “total cost of attendance” for 2015-16 is \$33,600 for an undergraduate student living on campus. At CSU, that estimate ranges from \$19,493 at Fresno State to \$27,451 at San Diego State.

While the state's and segments' robust financial aid programs provide significant help to low-income and middle-income students in covering tuition, there is less support for living expenses. The Cal Grant B stipend, which was increased for the first time in a decade in the 2014 Budget Act, provides \$1,656 for the lowest-income students in the system. Federal Pell Grants and institutional aid offered by UC and CSU can help offset some costs, but not all. Notably, community college students, who are typically the poorest students in higher education, tend to receive the least amount of support for living expenses, largely because community colleges do not have the same institutional aid that UC and CSU provide. Research done by The Institute for College Access and Success (TICAS) notes that the net price of college, when adding up average tuition and living expenses and financial aid, can be higher for community college students than it is for UC or CSU students.

Lack of support to cover living expenses leaves students in a bind: they must work more or borrow more. Average California college student debt was more than \$21,382 in 2014, according to a recent TICAS study. And there is overwhelming data that students who work more than 20 hours a week have much lower college completion rates.

The state must look for ways to offer broader support to students to help them stay in college and complete their program without accumulating crippling debt.

- **Graduation Rates Can Improve.** One solution to producing more degrees and increasing access to higher education is to improve student outcomes and ensure students complete degree programs in a timely manner. This is a major concern for the Administration, and all three public higher education segments are using significant resources to improve graduation rates and time-to-degree rates. The three segments report the following outcomes information:

- UC states that about 62% of the 2010 cohort of students graduated within 4 years, and six-year graduation rates are over 80%. UC notes that while four-year graduation rates for low-income students are lower than other students, six-year graduation rates are about the same. About 55% of the 2012 cohort of students who transferred from community colleges graduated within two years.
- CSU reports that about 19% of its 2010 cohort graduated within 4 years, and the system reports a 55% graduation rate within 6 years. There is an achievement gap of 10% or more for low-income students at CSU, when comparing both 4- and 6-year graduation rates. About 27% of community college transfer students graduate within 2 years, while about 60% graduate within 3 years.
- According to the 2015 Student Success Scorecard, about 47% of students complete their program within 6 years. Students who enter community colleges prepared to do college-level work have much higher graduation rates: 70%; compared to 39% for students who enter needing remedial education. About 50% of students seeking a career technical education complete their program within 6 years.

All three segments have ongoing programs to improve outcomes and time-to-degree. Based on a 2015 agreement between the Administration and UC President Janet Napolitano, UC is working on improving pathways for community college students to transfer more easily to UC, developing three-year degree programs and exploring efforts to increase the use of summer school. CSU has launched the 2025 Graduation Initiative, which sets system-wide and campus-specific targets for improved graduation rates through the use of curriculum redesign, enhanced student support programs and other evidence-based practices. The state provides community colleges with \$285 million Proposition 98 General Fund for the Student Success and Support Program and \$155 million Proposition 98 General Fund for Student Equity Plans; both programs seek to improve outcomes and close achievement gaps by investing in tutoring, supplemental instruction, and coordination with local education agencies to improve transitions from high school to community college.

Boosting graduation rates is a key component to improving access and keeping state and student costs down.

## Governor's January Budget Proposal in Higher Education

The *Governor's Budget Summary* includes a big-picture discussion of the Administration's priorities for higher education: maintaining affordability for students, improving student success and completion, and improving alignment between K-12 and higher education segments, as well as coordination among the segments.

Below are descriptions of new proposals for the 2016-17 budget for the three segments and other higher education issue areas.

### UNIVERSITY OF CALIFORNIA

The Governor's budget includes \$29.8 billion all funds for the University of California in 2016-17, an increase of 3.1 percent from the current year. Of this funding, \$3.4 billion is direct General Fund support, or about 11.5% of UC's overall budget. Another \$943 million is provided by the state to UC students via the Cal Grant financial aid program.

#### **Major Provisions**

- **Continues Small Increase in General Fund Support.** Direct General Fund support to UC increases by \$125.4 million over the current year, continuing the Administration's recent practice of 4% to 5% annual increases for UC (and CSU.) The Budget Summary notes the Administration expects UC to continue work on reforms agreed to between the Governor and UC President Napolitano, as mentioned earlier in this section. As in the previous year, budget bill language requires the UC Board of Regents to submit a sustainability plan by Nov. 30, 2016 outlining enrollment and expenditure projections for the next three years, but there is no further direction to UC on how it should use state funding.
- **Provides Funding for Pension Liability.** The Budget provides \$171 million of Proposition 2 funding to address some of the unfunded liability of the UC Retirement Plan. This is the second of three proposed payments from Proposition 2 to UC to address this liability, and like the payment approved last year, requires the UC Regents to adopt a pension reform by June 30 that will cap pensionable earnings at the same level as other state workers.

#### **Other Key Issues**

- **Deferred Maintenance.** The Budget proposes \$35 million in one-time General Fund to support various deferred maintenance projects at UC campuses. Funding was also provided last year for this purpose, which UC distributed to campuses for projects ranging from roof repair to fire alarm replacements. UC has reported in the past that it has an annual shortfall of \$200 million for basic maintenance and \$250 million for deferred maintenance and capital renewal needs.



- **Energy Projects.** The Budget proposes \$25 million in one-time Cap and Trade funds to support various energy efficiency projects at UC campuses. UC has requested \$69.1 million, which it would match with \$81 million of university funds, to meet its goal of carbon neutrality by 2025. UC proposes using this funding for energy efficiency improvements, solar installations, and biogas development, which seeks to convert agricultural waste into energy.

## CALIFORNIA STATE UNIVERSITY

The Governor's budget includes \$9.3 billion all funds for California State University in 2016-17, an increase of 2 percent from the current year. Of this funding, \$3.2 billion is direct General Fund, or about 33.9% of CSU's overall budget. Another \$734 million is provided by the state to CSU students via the Cal Grant financial aid program.

### **Major Provisions**

- **Continues Small Increase in General Fund Support.** Direct General Fund support to CSU increases by \$148.3 million over the current year. This funding includes \$125.4 million, which continues the Administration's recent practice of 4% to 5% annual increases for CSU (and UC), \$15 million available as a result of change to the Middle Class Scholarship program, and \$7.9 million for leave revenue bond payments that were previously agreed to by the Administration. The Budget Summary notes the Administration expects CSU to continue work on its Graduation Initiative. As in previous year, budget bill language requires the CSU Board of Trustees to submit a sustainability plan by Nov. 30, 2016 outlining enrollment and expenditure projections for the next three years, but there is no further direction to CSU on how it should use state funding.

### **Other Key Issues**

- **Deferred Maintenance.** The Budget proposes \$35 million in one-time General Fund to support various deferred maintenance projects at CSU campuses. Funding also was provided last year for this purpose, which CSU distributed to campuses for projects ranging from roof repair to fire alarm replacements. CSU has reported that it has roughly \$2 billion in deferred maintenance needs.
- **Energy Projects.** The Budget proposes \$35 million in one-time Cap and Trade funds to support various energy efficiency projects at CSU campuses.

## CALIFORNIA COMMUNITY COLLEGES

The Governor's budget includes \$9 billion all funds for California Community Colleges in 2016-17, an increase of 3.4 percent from the current year. Of this funding, \$5.4 billion is Proposition 98 General Fund.

### **Major Provisions**

- **Supports 2% Enrollment Growth.** The Budget provides \$114.7 million Proposition 98 General Fund to support 2% growth in full-time equivalent enrollment. This amounts to about 50,000 students. The 2015 Budget Act allowed for 3% enrollment growth.
- **Enhances Career Technical Education Programs.** The Budget proposes an increase of \$200 million in ongoing Proposition 98 General Fund to support the Strong Workforce program. Details of how this new funding will be distributed will be available once the Administration releases trailer bill language in February, but the Budget Summary notes that the funding will expand access to career technical education (CTE) and to implement a regional accountability structure that follows recommendations from a recent CTE task force. The Administration states that regions aligned with Workforce Innovation and Opportunity Act regions will develop plans to increase CTE offerings based on regional workforce needs. The funding could be used for program development, equipment, and even to pay for faculty with specialized skills. This money will be distributed through the already existing Economic and Workforce Development categorical program. Additionally, the budget proposes \$48 million ongoing Proposition 98 General Fund for CTE Pathways Program and to eliminate the sunset date on this program.
- **Boosts and Reforms Remedial Education Support.** The Budget increases support for the Basic Skills categorical program by \$30 million ongoing Proposition 98 General Fund, bringing total spending on this program to \$50 million. This funding supports remedial math and English courses and students. The Administration intends to propose new restrictions on how the new funding should be spent in trailer bill language. The Administration states that the new language will focus spending on evidence-based practices, similar to one-time funding provided in the 2015 Budget Act, and may include some element of outcomes-based funding.
- **Funds Deferred Maintenance and Instructional Equipment.** The Budget provides \$283 million for maintenance, instructional equipment and drought response activities. This is one-time funding, although \$255 million is from ongoing sources.
- **Supports New Round of Innovation Awards.** The Budget proposes \$25 million Proposition 98 General Fund for a second round of innovation awards. The 2014 Budget Act provided \$50 million General Fund for this program, which sought to reward higher education segments for specific programs that eased transfer, increased graduation rates or reduced time to degree. This proposal would be open

only to community colleges and would provide incentive funding for colleges seeking to implement programs that meet some of the same goals through the use of technology. Similar to the previous program, colleges would submit proposals for the funding, and a committee chaired by the Department of Finance would select winners.

- **Creates New Zero-Textbook-Cost Degree Program.** The Budget proposes \$5 million Proposition 98 General Fund to support colleges in efforts to create two-year degree programs that have no textbook costs for students. Forthcoming trailer bill language will provide more details, but the Administration states that colleges will submit proposals for this program and then receive funding.

### **Other Key Issues**

- **Increases Funding for Institutional Effectiveness Division.** The Budget proposes an increase of \$10 million Proposition 98 General Fund to support Chancellor's Office efforts to help districts and colleges improve student outcomes and administrative efficiencies. Of this amount, \$2 million will provide local technical assistance and \$8 million will help the Chancellor's Office develop and disseminate effective practices, policies and curriculum in support of the Strong Workforce program. This proposal brings funding for these purposes from \$17.5 million in the current year to \$27.5 million.
- **Supports System-wide Data Security Improvements.** The Budget proposes \$3 million Proposition 98 General Fund to address system-wide data security efforts. The funding will be provided through the Telecommunications and Technology Infrastructure categorical program.
- **Provides Proposition 39 Funding.** The Budget provides \$45.2 million in Proposition 39 funding to support energy efficiency projects at campuses. The 2015 Budget Act provided \$39.7 million for these projects.
- **Provides Cost-of-Living Adjustments.** The Budget proposes a .47 percent cost-of-living adjustment to community college apportionments, which amounts to \$29.3 million Proposition 98 General Fund, and to four categorical programs: the Disabled Student Programs and Services program, the Extended Opportunities Programs and Services programs, the Special Services for CalWORKS Recipients program, and the Child Care Tax Bailout program. The increase to the categorical program totals \$1.3 million Proposition 98 General Fund. Additionally, the Budget provides \$1.8 million Proposition 98 General Fund to support an hourly rate increase for the apprenticeship program.

## CALIFORNIA STUDENT AID COMMISSION

The Governor's budget includes \$2.3 billion all funds for the Student Aid Commission in 2016-17, an increase of 8 percent from the current year. Of this funding, \$1.4 billion is from the General Fund. The Governor proposes no new policy changes in this area.

### **Key Issues**

- **Cal Grant Caseload Changes.** The Budget proposes \$2.1 billion in spending on Cal Grants in 2016-17, and notes a decrease of \$48.5 million General Fund in the current year and an increase of \$88.7 million General Fund in 2016-17 to reflect caseload revisions.
- **TANF Reimbursements.** The Budget proposes a decrease of \$304.6 million General Fund for the Cal Grant program and an increase of the same amount in federal Temporary Assistance for Needy Families to support Cal Grants. TANF support for Cal Grants grow to \$840.5 million in 2016-17.
- **Middle Class Scholarship Adjustment.** The Budget increases spending by \$34 million General Fund in 2016-17 to implement growth in the program as described in statute. General Fund support for the program will be \$116 million in 2016-17. Recipients will receive discounts of up to 30% off of UC or CSU tuition.

## CALIFORNIA STATE LIBRARY

The Governor's budget includes \$51.6 million all funds for the California State Library in 2016-17, a decrease of .6 percent from the current year. Of this funding, \$30.9 million is General Fund.

### **Major Provision**

- **Increases the California Library Services Act program.** The Budget includes \$1.75 million on-going and \$3 million in one-time General Fund to augment the California Library Services Act program. This will bring total funding up to \$6.65 million General Fund. The program is designed to encourage inter-library cooperation and allows different public library systems to share materials and allows customers the ability to borrow materials from libraries outside of their service area.

## UC HASTINGS COLLEGE OF LAW

The Governor's budget includes \$74.2 million all funds for Hastings College of Law in 2016-17, an increase of 2.3 percent from the current year. Of this funding, \$11.7 million is General Fund.

### **Major Provision**

- **Continues Small Increase in General Fund Support.** The Budget includes an increase of \$1 million General Fund, which is consistent with the Administration's proposals for the other higher education segments. The Governor's Budget Summary notes the Administration expects Hastings to hold tuition levels flat in 2016-17.

## **Staff Comment and Analysis of Governor's Budget Proposal**

Largely due to the advocacy of the Assembly, the 2015 Budget Act made significant investments in higher education. That budget will allow 5,000 more Californians to attend UC in Fall 2016, and allowed CSU to enroll 10,000 more Californians last fall. Additionally, the budget provided more support to students via financial aid programs, by adding 3,250 competitive Cal Grant slots and creating a new stipend for full-time community college students funded through Proposition 98 funds.

The Governor's Budget for 2016-17 continues these important actions but does not provide significant new proposals to address the access crisis at UC or CSU, nor does it offer any enhancements to financial aid programs. The Assembly must review the Governor's budget proposals and seek to determine ways to address its top priorities of access and affordability.

- **Budget Fails to Address UC and CSU Access as a Key Priority.** The budget does not specifically propose any new enrollment for Californians at UC and CSU. It does add last year's funding increases into the bases of UC and CSU, but there is no subsequent proposal to further grow enrollment. This is a missed opportunity to build on momentum to help more Californians gain access to the state's public universities. The Assembly must continue its conversation with the segments and the Administration on providing specific enrollment targets for UC and CSU. Funding should be tied directly to enrollment, as is done in the community college budget. Additionally, the Assembly must consider other challenges associated with enrollment growth: student housing at UC campuses must be increased, for example, and the Assembly may wish to discuss with CSU how impactation practices affect Californians' ability to attend CSU campuses closest to home.
- **The Administration Continues No-Accountability Budgeting for UC and CSU.** Historically, UC and CSU budgets contained legislative direction on how state funding should be spent by directing some funding to enrollment targets and other programs, such as student outreach services or research efforts. This practice was largely

abandoned during the Great Recession, as the Legislature conceded that it needed to provide the segments with flexibility as budgets were cut. The current Administration, however, has largely refrained from providing direction to the segments even as budgets have grown in recent years. Thus, both UC and CSU receive about \$3 billion General Fund from the state with little accountability mechanisms in place for how money is spent. The only direction provided is narrative discussions in the Governor's Budget Summary. These suggestions are not effective governance or oversight of taxpayer dollars. The Assembly must continue to press the Administration to provide more specific direction to the segments on state priorities, such as access. Budget language can be written to provide clear enrollment targets and research priorities, while still allowing the segments plenty of leeway in how this funding is spent.

- **No New Financial Relief for Struggling Students.** California students need more help to afford college. While robust, the state's financial aid programs can be strengthened to help more students with both tuition and living expenses. For example, while the Cal Grant B stipend was increased in the 2014 Budget Act, its current amount - \$1,656 – is hardly enough to meet textbook, housing, food and transportation costs. Food pantries offering free goods to hungry students are now the norm at most UC and CSU campuses. And while last year's budget increased the number of competitive Cal Grants, there are still more than 300,000 applicants vying for only 25,750 awards annually. The Governor's Budget provides no new funding to address these issues. The Assembly must continue to ensure that a reviving economy and strong state revenues help more students get through college without having to work or borrow significantly.
- **Focus on Career Technical Education (CTE) is Important.** The Governor's Budget provides significant new ongoing funding for community college CTE programs. This seeks to address a long-term problem: CTE programs typically have high start-up costs and must continually evolve to meet regional workforce needs. Past state focus has been too centered on one-time grant programs that are not sustainable. The Governor is calling for \$248 million in increased ongoing support for these programs. The Assembly should work with the colleges and Administration to ensure the regional framework envisioned is efficient and localized, leverages all available federal and state dollars, and provides enough support for innovative programs that lead students into living-wage jobs. This should be a top priority for the Assembly this year, as Proposition 98 growth allows for an important ongoing investment.
- **Enough with the Innovation!** The Administration is seeking to revive its Innovation Awards program and proposes adding another grant program regarding zero-textbook-cost degrees. Both proposals require community colleges to submit grant proposals, with the Administration controlling determinations about who wins money and who doesn't. The Innovation Awards were rejected by the Legislature last year, due to several concerns: it was unclear how small amounts of funding could make major changes to higher education systems, it limited the Legislature's ability to determine funding, and many of the programs funded in the previous year were already well-established and not necessarily in need of a small boost in state funding. Both of the

current proposals may have similar drawbacks. The Assembly may wish to consider the best way to spend "innovation" funding: there is now ample data as to best practices in the areas of improving graduation rates, reducing time-to-degree, reducing student costs, or encouraging intersegmental coordination. Instead of small grant programs, the Assembly could simply use the funding to support specific, evidence-based programs that can be scaled up to have system-wide impacts.





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## HEALTH

This year, as always, the Medi-Cal Program will dominate budget discussions on health. As recently stated in the *Sacramento Bee*, if the Medi-Cal program were a state, its budget would be the fourth largest of all fifty states, with proposed funding of \$85 billion total funds (\$19 billion General Fund). Medi-Cal now insures a full third of Californians -- 13.5 million people and half of all births in the state. Yet, while all of these 13.5 million people have a Medi-Cal card, they do not necessarily have real access to high quality care. The sheer size and complexity of the Medi-Cal program make it very challenging for the Legislature, and others, to measure and evaluate its effectiveness, the quality of its services, and actual access to care. Nevertheless, discussions on the impact that low provider rates have on access, and efforts to increase those rates, have dominated the health budget discussions of the past few years. These discussions have yet to result in rate increases, other than for dental care and for the Program of All-Inclusive Care for the Elderly (PACE).

This year also brings the continued implementation of the Affordable Care Act (ACA), most of which occurs outside of the state budget, through the state's independent Health Benefits Exchange, "Covered California," which is expected to have enrolled 1.5 million Californians into health insurance coverage by July 2016. Within the state budget, the ACA mandated improvements to Medi-Cal and, as well, authorized an eligibility expansion to Medi-Cal. These reforms are largely responsible for pushing Medi-Cal enrollment to 13.5 million, from a prior enrollment of approximately 8 million.

Finally, 2016 can and should be the year that California becomes a national, and even international, leader in public health. Obesity-related health conditions, such as diabetes and heart disease, continue to sicken millions of Californians and drive up health care costs. Yet, health care costs and the extent of illness could be managed, and even minimized, by the state investing in evidenced-based public health strategies such as taxes and labeling on unhealthy beverages, and health education. Similarly, with mass shootings on the rise, public health research has the potential to unearth life-saving gun safety strategies. Yet, in general, California has a public health infrastructure that was built for a time when California had a significantly smaller population that probably never imagined a world dominated by childhood obesity, climate change, and gun violence.

The role of the state budget in health is multifaceted, involving a large number of state departments that fall under the jurisdiction of several different Budget Subcommittees. For example, state employee health care, operated by PERS, is overseen by Subcommittee #4. The prison health care system is overseen by Subcommittee #5 which covers criminal justice. By comparison, the jurisdiction of Subcommittee #1 focuses on health care services for low-income Californians and public health. Specifically, Subcommittee #1 covers the following health-related departments: Emergency Medical Services Authority (EMSA), Health Care



Services (DHCS), Managed Health Care, Mental Health Services Oversight & Accountability Commission, Office of Statewide Health Planning & Development (OSHPD), Public Health, and State Hospitals. The January budget includes no significant proposals or budgetary adjustments for EMSA and OSHPD.

## Major Issues in Health

- **Are Medi-Cal Rates Too Low to Ensure Access to Care?** There have been various reductions to Medi-Cal fee-for-service rates over the past decade, most notably a ten percent across-the-board reduction included in AB 97, budget trailer bill of 2011. A combination of research and anecdotal information points to California having the lowest, or nearly lowest, Medicaid rates of any state. Federal Medicaid law requires states to be able to maintain sufficient access to services in order to implement a rate reduction, and the federal government approved of the AB 97 rate cut based on evidence, provided to them by DHCS, of sufficient access.

As a result of health care reform, the elimination of the Healthy Families Program, and other policy reforms, Medi-Cal enrollment has grown dramatically, adding millions more to the program who need to access the same quantity of providers and services which arguably were in short supply even when there were far fewer people needing them. DHCS has pushed hard over the past several years to move as much of the program as possible into managed care. Now, an estimated 70-80 percent of the Medi-Cal population is enrolled in Medi-Cal managed care. Nevertheless, the fee-for-service Medi-Cal rates still apply to several components of the program, including: 1) the 20-30 percent still in fee-for-service who make up an especially vulnerable segment of the Medi-Cal population, many of whom avoided managed care due to continuity of care needs; 2) most dental care; and 3) California Children's Services (CCS), which provides specialty care to children with significant chronic health conditions. Although it cannot be denied that significant resources are flowing into Medi-Cal as a result of the ACA, this investment may be a waste if Medi-Cal enrollees cannot truly access care.

- **Denti-Cal: An Under-Resourced and Under-Utilized Program.** Medi-Cal benefits include dental care, under the "Denti-Cal" program, which remains predominantly a fee-for-service program. Only two counties have dental managed care programs: Sacramento County only has managed care; and Los Angeles County residents can choose between managed care and fee-for-service (and most choose fee-for-service). In 2010, First 5 Sacramento published a scathing report on the low quality and utilization of care in Sacramento's pediatric dental managed care program. Two years later, a follow-up study and report was done on pediatric dental fee-for-service care, which also proved to be highly underutilized. Similarly, the Bureau of State Audits published an audit in December 2014 that found insufficient access to providers, low reimbursement rates, low utilization rates, and inadequate monitoring of the program by DHCS. Finally, and most recently, Sacramento advocates contracted for a follow-up study to the first report, which points to progress but much improvement still needed.

Generally, substantial evidence exists that kids (and adults) in Medi-Cal do not get the quantity or quality of dental care they need and are guaranteed under the program. This was true prior to moving nearly a million kids from the former Healthy Families Program into Medi-Cal. Fortunately, the following improvements and reinvestments to the program have occurred over the past few years that may prove to be significant: 1) DHCS implemented a wide array of improvements to the Sacramento County dental managed care program, some mandated through budget trailer bill and others administratively authorized; 2) partial dental benefits for adults were restored in the 2013 Budget Act, beginning May 1, 2014; and 3) the 2015 Budget Act restores the ten percent provider rate cut, adopted in 2011, beginning July 1, 2015.

**Public Health Saves Lives AND Money.** It is a well-known fact that health insurance status is a much less significant determinant of a person's actual health than many other aspects of a person's life, namely their socio-economic status and life-style. Yet, California invests close to nothing in public health strategies that address the real determinants of health. This year's January budget includes \$2.9 billion for the Department of Public Health (DPH), of which only \$130 million is state General Fund. Federal funds make up the largest single source of funds in the department's budget, at \$1.7 billion. Not only is the amount of General Fund (and the percentage of the department's overall budget that is General Fund) tiny, but it also shrunk approximately 65 percent during the recessionary years. This General Fund supported a wide array of programs at the department designed to prevent and reduce AIDS and other sexually transmitted infections, teen pregnancy, asthma, diabetes, poor birth outcomes, and injury prevention.

California was once the shining castle on the public health hill, but has fallen from grace, and now suffers the financial and quality of life burdens of unnecessarily high levels of morbidity and mortality. Fortunately, modest restorations have begun. In 2014, the Assembly approved of a \$55 million General Fund public health reinvestment. However, the final 2014 Budget Act includes just restorations of \$4 million for the Black Infant Health Program and \$3 million for new HIV Demonstration Projects. The 2015 Budget Act includes these reinvestments: 1) \$3 million General Fund for needle exchange programs; 2) \$2.2 million for Hepatitis C linkages to care projects; and 3) \$2 million for HIV Pre-Exposure Prophylaxis Demonstration Projects.

Nevertheless, DPH still lacks sufficient resources and flexibility to set clear public health priorities for the state. Public health holds great potential to reduce gun violence, yet the department's injury control section was eliminated during the recession. Likewise, climate change has begun to be recognized as one of the greatest public health challenges of our time; yet again, DPH lacks the resources, flexibility and vision to shift gears, re-order priorities, and be responsive to today's world. From a budgetary perspective, California has no choice but to invest in public health. High cost chronic diseases, such as diabetes, cancer and heart disease, threaten to significantly destabilize California's economy and take resources away from other state priorities. From a quality of life perspective, California should reclaim its golden image of youthfulness and good health. What ARE California's public health priorities? Do we put our money where our mouth is?

## Governor's January Budget Proposals in Health

### DEPARTMENT OF HEALTH CARE SERVICES

For 2016-17, the Governor's Budget proposes \$87.7 billion for the support of DHCS programs (primarily Medi-Cal). Of this amount, approximately \$600 million is budgeted for state operations, while the remaining is for local assistance. The proposed budget reflects nearly an 8 percent (\$7.3 billion) decrease from the current year budget which reflects a reduction in Medi-Cal costs, specifically a reduction in managed care costs. The vast majority of DHCS's budget is for the Medi-Cal Program, for which the January budget proposes \$85 billion (\$19 billion General Fund), a \$7.3 billion (7.9%) decrease from the current year, after a \$1.4 billion (8.2%) General Fund increase.

#### Medi-Cal Major Provisions

- **1115 Waiver.** California received approval for its federal 1115 Waiver renewal, called "Medi-Cal 2020," 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 described below. The Medi-Cal 2020 Waiver includes the following key elements:
  - 1) **Public Hospital Redesign and Incentives in Medi-Cal (PRIME)** — This program builds on the state's Delivery System Reform Incentive Program (DSRIP). Under PRIME, Designated Public Hospital (DPH) systems and District Municipal Public Hospitals (DMPHs) will be eligible to receive incentive payments for meeting certain performance measures. Over the course of the five-years, federal funding for PRIME for DPHs is \$3.27 billion, and for DMPHs is \$466.5 million.
  - 2) **Global Payment Program (GPP)** — GPP transforms traditional hospital funding for DPHs from a system that focuses on hospital-based services and cost-based reimbursement into a value-based payment structure. The federal funding for GPP will be a combination of the Designated State Health Program (DSH) funding for participating DPHs and \$236 million in federal funding for the first year from the prior Safety Net Care Pool. The non-DSH funding for years two through five will be determined following an independent assessment of uncompensated care due to be completed in the spring of 2016.
  - 3) **Dental Transformation Initiative (DTI)** — The DTI provides incentive payments to Medi-Cal dental providers who meet certain requirements and benchmarks. Over the course of the waiver, up to \$750 million in annual funding is available under DTI. The non-federal share for DTI will be funded through State General Fund savings achieved through limited continuation of DSH funding.
  - 4) **Whole Person Care (WPC) Pilots** — WPC allows for county-based pilots to target high-risk populations and integrate physical and behavioral health along with other critical social services. The waiver renewal authorized up to \$1.5 billion in federal funding over the five-years; WPC Pilot lead entities will provide the non-federal share.

- 5) The 1115 waiver renewal also contains several independent analyses of the Medi-Cal program and evaluations of the waiver programs, including an assessment of access in the Medi-Cal managed care program and studies of uncompensated care in California hospitals.
- **Managed Care Organization Tax.** The budget includes a General Fund offset of \$1.3 billion in 2016-17 from proposed reforms to the Managed Care Organization (MCO) Tax, to comply with federal law, and also proposes to use \$236 million of this revenue to fund restoration of the 7 percent across-the-board reduction to authorized In-Home Supportive Services (IHSS) hours of service.
  - **Children's Health & Disability Program (CHDP) Elimination.** SB 75 (Chapter 18, Statutes of 2015) requires the expansion of full-scope Medi-Cal benefits to children under the age of 19 regardless of immigration status, essentially shifting this population from the California Children's Services State-Only and Child Health and Disability Prevention (CHDP) programs to Medi-Cal. When this expansion is implemented, the Administration is proposing to sunset the CHDP program. The functions applicable to Medi-Cal will continue as part of the Early and Periodic Screening, Diagnosis and Treatment program.

#### **Other Key Issues in Medi-Cal**

- **Coordinated Care Initiative.** The budget 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.
- **Undocumented Children's Coverage.** The budget 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.
- **Substance Use Residential Treatment Costs.** The Medi-Cal estimate assumes an expansion of residential treatment services for substance use disorders at a cost of \$90.9 million (\$32.5 million General Fund).
- **Performance Outcome System.** The budget 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.
- **County Administration.** The Medi-Cal estimate increases funding by \$169.9 million (\$57 million General Fund) in 2016-17 to counties for the administration of Medi-Cal eligibility determinations.
- **Medi-Cal Expansion.** The Medi-Cal estimate assumes net costs of \$4 billion (\$1.9 billion General Fund) in 2016-17 for the cost of the ACA mandatory Medi-Cal

expansion and \$14.1 billion (\$740.2 million General Fund) in 2016-17 for the state's share of costs for the optional expansion.

- **Resources Requests.** DHCS is requesting approximately \$6.7 million General Fund and 67 new positions, including the conversion of 18 existing limited-term positions to permanent, to support workload associated with, among other activities, all of the following:
  - 1) Every Woman Counts Program
  - 2) California Community Transitions Demonstration Project
  - 3) Health Homes Program
  - 4) Outreach and Enrollment
  - 5) Dental Program Integrity
  - 6) Federally Qualified Health Centers (SB 147, Hernandez, Chapter 760, Statutes of 2015)
  - 7) Electronic Medical Records
  - 8) Medi-Cal Eligibility Systems
  - 9) Robert F. Kennedy Farm Workers Medical Plan (SB 145, Pan, Chapter 712, Statutes of 2015)
  - 10) Specialty Mental Health Services Oversight
  - 11) Foster Care Training on Psychotropic Medications
  - 12) Residential Treatment Facilities (AB 848, Stone, Chapter 744, and AB 403, Stone, Chapter 773, Statutes of 2015)

## DEPARTMENT OF PUBLIC HEALTH

The Governor's proposed 2016-17 budget provides the Department of Public Health (DPH) approximately \$2.9 billion overall, representing a \$12 million (total funds), or 0.4 percent, decrease from the current year DPH budget. General Fund dollars of \$130 million make up just 4.4 percent of the department's total budget while federal funds make up approximately 57 percent of the total department budget.

### Major Provisions

- **Clinical Laboratory Funding.** The Governor 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.
- **Medical Marijuana.** The budget 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 DPH for the licensing and regulation of medical marijuana product manufacturers and testing laboratories, as is statutorily required by: AB 243 (Wood, Chapter 688), AB 266 (Bonta, Chapter 689), and SB 643 (McGuire, Chapter 719), Statutes of 2015.



**Other Key Issues**

**Richmond Laboratory Capital Outlay.** The Governor's Budget reflects a re-appropriation of \$3.8 million from a Capital Outlay Project approved in Fiscal Year 2015-16 to upgrade the Bio-Safety Level 3 (BSL-3) certified Viral and Rickettsial Disease Laboratory. The Construction Phase of the laboratory upgrade was delayed. The upgrades are needed to ensure Public Health is able to prepare for, identify, and respond to deadly emerging viral diseases. The upgrades will also ensure Public Health retains its BSL-3 Certification from the federal Center for Disease Control and Prevention and the National Institutes of Health.

- **Resources Requests.** In addition to the proposals described above, DPH is requesting approximately \$30.2 million (\$0 General Fund), 26.5 new permanent positions and the conversion of 20 existing limited-term positions to permanent. These resources are being requested to support workload associated with, among other activities, the following:
  - 1) Pre-Exposure Prophylaxis HIV Demonstration Projects, as required by 2015 budget trailer bill;
  - 2) Licensing & Certification – timely investigations of complaints, as required by 2015 budget trailer bill, and quality improvement projects;
  - 3) End of Life Options – the creation of a DPH database, as required by AB X2 15 (Eggman, Chapter 1, Second Extraordinary Session, Statutes of 2015);
  - 4) Sexual orientation & gender identity data collection, as required by AB 959 (Chiu, Chapter 565, Statutes of 2015);
  - 5) Health disparities based on race and ethnicity, as required by AB 532 (McCarty, Chapter 433, Statutes of 2015);
  - 6) Disease outbreaks and prevention;
  - 7) Teen pregnancy & sexually transmitted infections prevention;
  - 8) Biomonitoring program;
  - 9) Women Infants & Children (WIC Program) -- Children's enrollment, Electronic Benefits Transfer and Management Information System;
  - 10) Active Transportation; and
  - 11) Children's exposure to lead.

## DEPARTMENT OF MANAGED HEALTH CARE

The Department of Managed Health Care (DMHC) receives no General Fund and is supported primarily by an annual assessment on each HMO. The annual assessment is based on the department's budget expenditure authority plus a reserve rate of 5 percent. The assessment amount is prorated at 65 percent and 35 percent to full-service and specialized plans respectively. The amount per plan is based on its reported enrollment as of March 31st of each year. The Knox-Keene Act requires each licensed plan to reimburse the department for all its costs and expenses. The Governor's 2016-17 budget proposes \$76.6 million, an increase of \$2.5 million (3.4%) over current year spending, for the Department's overall budget.

### **Major Provisions**

- **Infrastructure and Support Services.** The DMHC requests 2.0 permanent positions and \$247,000 for 2016-17 and \$234,000 for 2017-18 and ongoing to ensure the DMHC can address the administrative workload resulting from program expansions resulting from the implementation of the ACA and conforming state legislation.
- **Federal Mental Health Parity.** The DMHC requests \$529,000 for 2016-17 and 2017-18 for clinical consulting services to assist the DMHC in revising current compliance filing instructions and forms, conducting review of commercial plans' classification of benefits and non-quantitative treatment limits, and resolving clinical issues arising in compliance filings with the Mental Health Parity and Addiction Equity Act and its Final Rules.
- **Vision Services (AB 684).** The DMHC requests 2.0 permanent positions and \$308,000 for 2016-17 and \$292,000 for 2017-18 and ongoing to address the increased workload resulting from the implementation of AB 684 (Chapter 405, Statutes of 2015). AB 684 authorizes the establishment of landlord-tenant relationships between a registered dispensing optician (RDO), an optometrist, and an optical company, as long as the lease agreement includes specified conditions. Additionally, AB 684 authorizes an RDO or optical company to operate, own, or have an ownership interest in a health care service plan (health plan) licensed under the Knox Keene Health Care Service Plan Act of 1975 (Knox Keene Act), as amended, if the health plan does not directly employ optometrists who provide services to enrollees.
- **End of Life Option Act (AB X2 15).** The DMHC requests two-year limited-term expenditure authority of \$244,000 for 2016-17 and \$244,000 for 2017-18 to meet the Department's operational needs in order to address the short-term workload resulting from the implementation of AB X 2 15 (Chapter 1, Second Extraordinary Session, Statutes of 2015).
- **Outpatient Prescription Drug Formularies.** The DMHC requests limited-term resources of \$733,000 for 2016-17; \$700,000 for 2017-18; \$558,000 for 2018-19; and \$558,000 for 2019-20 to meet the Department's operational needs in order to address

the short-term workload resulting from the implementation of AB 339 (Gordon, Chapter 619, Statutes of 2015). The passage of AB 339 allows California to build on the federal guidance and existing general anti-discrimination provisions with more robust, specific, and enforceable parameters for drug benefit designs.

- **Limitations on Cost Sharing: Family Coverage (AB 1305).** The DMHC requests limited-term expenditure authority of \$196,000 for 2016-17 and \$188,000 for 2017-18 to meet the Department's operational needs to implement AB 1305 (Bonta, Chapter 641, Statutes of 2015). AB 1305 makes two changes to existing law: 1) For non-grandfathered family coverage, AB 1305 prohibits a health plan from imposing a maximum out-of-pocket limit for an individual within a family that is greater than the maximum out-of-pocket limit for individual coverage for that product; and 2) if a non-grandfathered health plan contract for family coverage includes a deductible, an individual within a family shall not have a deductible that is greater than the deductible for individual coverage for that product, except for a high deductible health plan.
- **Provider Directories (SB 137).** The DMHC requests 8.0 permanent positions and \$1,436,000 for 2016-17; \$1,366,000 for 2017-18; and \$1,181,000 for 2018-19 and ongoing to address the increased workload resulting from the Implementation of SB 137 (Hernández, Chapter 649, Statutes of 2015). SB 137, effective July 1, 2016, expands upon existing provider directory requirements by establishing clear and specific requirements for publishing and maintaining health plans' provider directories, including content, updating and reporting standards.
- **Large Group Rate Review (SB 546).** The DMHC requests 4.0 permanent positions and \$682,000 for 2016-17 and \$644,000 for 2017-18 and ongoing to address the increased workload resulting from the implementation of SB 546 (Leno, Chapter 801, Statutes of 2015). SB 546 establishes additional rate review requirements for the large group market.

## DEPARTMENT OF STATE HOSPITALS

The Governor's proposed 2016-17 Department of State Hospitals (DSH) budget includes total funds of \$1.7 billion dollars, of which \$1.6 billion is General Fund. The difference is primarily in the form of "reimbursements" from counties which pay the state hospitals for civil commitments. The proposed 2016-17 budget is a 0.4 percent decrease from current year funding.

### **Major Provisions**

- **Restoration of Competency Expansion.** The budget proposes to expand 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.



- **Injury and Illness Prevention Plan.** DSH requests authority to transition 5.0 existing two-year limited term positions into 5.0 permanent positions and an ongoing General Fund augmentation of \$522,000 to implement new Hospital Injury and Illness Prevention Plans (IIPP) required under a settlement agreement with the Department of Industrial Relation's Division of Occupational Safety and Health (Cal/OSHA). One position will be dedicated to the implementation of a new IIPP at each of the five State Hospitals.
- **Unified Hospital Communications Public Address System.** DSH requests \$6.5 million General Fund and 2 full-time permanent positions in 2016-17 (\$1.6 million in out-years) for the first phase in the development of a Unified Hospital Communications (UHC) system to provide continuity and standardization throughout the state hospitals. Specifically, this request addresses the Public Address (PA) systems and related Local Area Network (LAN) systems at DSH-Coalinga and DSH-Patton.
- **Patient Management Unit.** DSH requests \$1.1 million in ongoing General Fund authority to transition 10.0 two-year limited-term positions to permanent full-time positions for the ongoing operation of the Patient Management Unit (PMU) to provide oversight and centralized management of patient admissions and collection of data and reporting on patient population trends.
- **Third Party Patient Cost Recovery.** DSH requests \$3.2 million (\$2.8 million ongoing and \$400,000 one-time) in General Fund authority to transition 15.0 limited-term positions to permanent full-time positions to continue improvements to the patient cost recovery system, including accounts management, billing and collection, litigation and court appearances, assets determination, policies and procedures, compliance and auditing as well as oversight functions.

### **Other Key Issues**

- **State Hospitals Capital Outlay.** The budget requests resources for facility improvement construction projects including the following:
  - **Metropolitan: Secured Bed Capacity.** The proposed \$31.2 million is to increase the secured bed capacity at Metropolitan State Hospital. This project will increase capacity to house forensic inmates by securing 505 beds by constructing a secured fence for two buildings at the hospital.
  - **Statewide: Enhanced Treatment Units.** DSH is proposing a \$12.3 million renovation to provide Statewide Enhanced Treatment Units (ETU) at state hospitals. DSH is proposing a retrofit of existing facilities in order to provide Statewide ETU rooms system wide.
  - **Patton: Fire Alarm System Upgrade.** This fire/life/safety project is for \$554,000 to remove and replace deficient SimplexGrinnell Fire Alarm Control Panels and associated components in four patient occupied buildings at Patton State Hospital which have reached the end of their usable life and are no longer serviceable.

- **Atascadero: East West Corridor Seismic Upgrade.** At a cost of \$5.3 million, this seismic project will correct the structural deficiencies in the main East-West corridor at Atascadero State Hospital. Because this section of the hospital is designated a Risk Level V on the Division of the State Architect's Seismic Risk Assessment scale, DSH is proposing to seismically retrofit it to lower the risk of injury or death in the event of an earthquake.
- **Coalinga: Courtyard Expansion.** At a cost of \$603,000, this project will design and construct a secure treatment courtyard at Coalinga State Hospital. The current main courtyard is undersized and cannot serve as an area of refuge in the event of a fire. Additionally, the current courtyard does not provide sufficient space for group exercise, social interactions, and other outdoor activities. This project will erect a new courtyard that will have enough open-air space to accommodate the full capacity of the facility in the event of a fire and will allow for outdoor activities.

## **MENTAL HEALTH SERVICES OVERSIGHT & ACCOUNTABILITY COMMISSION**

The Mental Health Services Oversight & Accountability Commission (MHSOAC) proposed 2016-17 budget is \$42.9 million, a \$6.7 million (13%) decrease from current year funding. All of the funding for the MHSOAC is Proposition 63 (Mental Health Services Act) state administration funding. The substantial (13%) decrease in funding from the current year to the proposed budget does not reflect any policy changes, but rather has resulted from the phasing in of the triage grants program, which resulted in the need to re-appropriate a larger amount of funding from prior years into the 2015-16 budget than into the 2016-17 budget.

### **Major Provisions**

- **Triage Grants.** The MHSOAC requests reappropriation of funds from Fiscal Years 2013-14, 2014-15, and 2015-16, to support Triage Personnel Grants until Fiscal Year 2017-18, allowing counties to spend the Triage Grant funding until the end of the current grant cycle.
- **Prevention and Early Intervention.** The MHSOAC is requesting \$396,000 and three positions to support administration of regulatory authority under AB 82 (Committee on Budget, Chapter 23, Statutes of 2013), and to provide technical assistance to counties for program improvement. AB 82 mandated the Commission to promulgate and implement regulations for Prevention and Early Intervention Programs and Innovation Programs.

## Staff Comment and Analysis of Governor's Budget Proposal

The Governor's proposed budget in health keeps an appropriate focus on the implementation of the ACA, including substantial resources to expand Medi-Cal. Further, the budget includes no real reductions in services, yet seems to reflect a fairly narrow view of the state's obligations and opportunities in health. The following are some areas in which more discussion and resources are warranted:

- **Medi-Cal Rates Remain Unaddressed by Governor.** Raising Medi-Cal rates is clearly not a priority for this Administration, despite the fact that it has been a high priority for the Legislature, providers, and low-income advocates. The Governor's budget includes no rate increases. It is challenging to imagine how access to providers and services could be adequate given the significant expansion to the program that occurred while reimbursement rates were cut and benefits were scaled back.
- **Denti-Cal Remains Unable to Effectively Serve 13.5 Million People.** The Governor's budget contains just one provision designed to improve dental care for the 13.5 million people on Medi-Cal, which is the Dental Transformation Initiative, a component of the new 1115 waiver. Given the severity of the problems of dental care in Medi-Cal, the Legislature may wish to look at ways to continue to reinvest and rebuild this critical component of Medi-Cal such as by considering additional rate increases and restoring the remainder of the adult dental benefit that was not restored in 2013.
- **California Could Lead the World Through Public Health.** The Governor's budget includes only one new General Fund initiative of \$1.6 million for clinical laboratories, thereby bypassing a significant opportunity for California to lead the nation into a healthier, safer era. By making a significant investment in public health, the state could do all of the following:
  - 1) California could show the nation how to reduce health care costs (including in Medi-Cal) by reducing chronic diseases such as diabetes and heart disease;
  - 2) California could set a national example of reducing school absences, thereby minimizing the achievement gap and reducing poverty, by addressing the most common childhood ailments such as asthma and oral health problems;
  - 3) California was once the world's leader in responding to the AIDS epidemic, and could choose to be a world leader on HIV/AIDS again by becoming the first state to achieve 0 new HIV cases; and
  - 4) Finally, while Congress and other states continue to be beholden to and strangled by the gun lobby, California could become a national leader on reducing gun injuries and deaths by investing in critically-needed public health research on guns, an urgent matter of public safety.

The Legislature should consider how to restore California's standing in the world as a public health leader. California's Department of Public Health could be transformed into the "CDC of the West." States and nations across the globe look to California for leadership on these issues, and expect cutting edge efforts to be born and nurtured here in this great state.





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## HUMAN SERVICES

The Human Services field is comprised of programs that provide services and supports to vulnerable, underserved populations, toward better life, social, and economic outcomes in the community. Some of the major Human Services programs include:

- In-Home Supportive Services (IHSS), which provides in-home services that enable eligible individuals to remain safely in their own homes as an alternative to out-of-home care.
- Supplemental Security Income/State Supplementary Payment (SSI/SSP), which is a cash assistance program for low-income aged, blind, or disabled persons who meet the program's income and resource requirements.
- California Work Opportunity and Responsibility to Kids (CalWORKs), which is California's version of the federal Temporary Assistance for Needy Families program, intended to provide assistance to meet basic needs, such as shelter, food, and clothing for low-income families with minor children.
- CalFresh, formerly known as the Food Stamp Program and federally referred to as the Supplemental Nutrition Assistance Program (SNAP), which provides a benefit amount to eligible low-income households, posted to a debit card, for the purpose of purchasing food.
- Child Welfare Services (CWS), which provides emergency response, family maintenance, family reunification, and permanent placement and prevention services to protect abused, neglected, or exploited children.
- Community Care Licensing (CCL), which is a regulatory enforcement program with the responsibility of protecting the health and safety of children and adults residing in or spending a portion of their time in out-of-home care.
- Developmental Services, which includes the administration of the Developmental Centers and Regional Centers in the state, through which care, treatment, and habilitation services are provided to residents and consumers who have one or more developmental disabilities.

These programs and many more like them, led by the state departments covered in this section, implement programs intended to provide resources to Californians in need of basic safety net supports to navigate daily life.

California remains challenged by high rates of poverty (including senior and child poverty), vast income inequality, limited economic mobility, and alarming trends of homelessness and hunger. The Public Policy Institute of California reports that in 2013, the most recent year where census information is available, 21.% of Californians were living in poverty. Poverty was highest among children at 23.9%, among older adults it was 19.1%, and among adults ages 18-64 it was 20.3%. Minorities, notably Latinos (29.6%) and African Americans (21.7%), had much higher poverty rates than whites (14.1%). Most poor families in California are working, with 78% of poor Californians living in families with at least one adult working, excluding families made up only of adults age 65 and older.

The Human Services budget in California has responded to these needs by making additional targeted, meaningful investments in the recent years of the economic recovery. In the aftermath of the recessionary reductions, some of these investments aimed to restore lost ground, while others are responding to newer, unique challenges associated with an enduring underclass of Californians who continue to grapple with educational and employment barriers, intergenerational poverty, and the hardships imposed by disability and aging.

Some of the accomplishments of recent budgets include the following (reflecting full-year General Fund budgeted costs at the time of approval):

**2013**

- CalWORKs – 5 Percent Grant Increase (\$150 million, source is realignment growth dollars)
- CalWORKs – Funding for Early Engagement Strategies (\$96.6 million)

**2014**

- CalWORKs – Another 5 Percent Grant Increase (\$150 million, source is realignment growth dollars)
- CalWORKs – Housing Support Program (started at \$20 million, was increased in 2015)
- CalWORKs and CalFresh – Drug Felon eligibility (\$42.8 million)
- In-Home Supportive Services (IHSS) – Overtime implementation (\$345 million)
- Developmentally Disabled (DD) Services – Early Start restoration (\$15.8 million)
- Child Welfare Services (CWS) – Increase foster care payments for Approved Relative Caregivers (\$30 million)
- Child Welfare Services – Create county capacity to serve Commercially Sexually Exploited Children (\$14 million)
- Legal Services – Create a program for Undocumented Unaccompanied Minors (\$3 million)

**2015**

- Creation of the State Earned Income Tax Credit (EITC) (\$380 million)
- CalWORKs – Augment Housing Support Program (added \$15 million for new total of \$35 million)
- One CA – Create immigration services program (\$15 million)
- IHSS – Restore 7 Percent Services Hours (\$225.9 million)
- CWS – Augment Foster Parent Recruitment, Retention, and Support (\$15 million)
- Aging – Partial restoration for Ombudsman Program (\$1 million)

## Major Issues in Human Services

- **Continued Work to Reduce Poverty.** California's working poor continue to struggle with making ends meet given high housing, transportation, and child care costs. As part of the 2015 Budget, the state adopted a California version of the Earned Income Tax Credit (EITC), which will go into effect this year. This will provide a refundable tax credit for wages and focuses on the lowest-income households. The credit matches 85 percent of the federal credit at the lowest income levels, providing an average benefit of \$460 annually for 825,000 families representing over 2 million individuals, with a maximum benefit of \$2,653. Intent language states that the credit can be expanded in future years if budget conditions permit. Alongside the state EITC effort is the discussion on raising the minimum wage above the \$10 per hour current level to bring full-time work closer to what is required for a family to live upwards of the poverty level. These discussions continue to be central to the anti-poverty agenda in California.
- **CalWORKs Still Living Out Recessionary Reductions and Major Program Changes.** The CalWORKs program has undergone complicated, continuous change over the past six years. The changed program has a (1) shorter lifetime clock of 48 (versus the federally allowed 60) months, (2) flexibility within a new 24-Month Welfare-to-Work services clock, (3) Early Engagement programs that are intended to improve the experiences for families facing severe and multiple barriers to employment, such as homelessness and mental illness, and (4) grants that, despite some increases, remain at historic lows. One million California children rely on the program and two-thirds of the CalWORKs caseload are Latino and Black families, most of whom are headed by a single female head of household. More children are expected to be the primary recipients of CalWORKs, receiving a child-only grant, as the 24 month clock implements more fully in the current year. This will happen if the adult recipient is no longer eligible for their portion of the grant due to lack of meeting higher work standards after the 24<sup>th</sup> month.
- **IHSS Program Undergoing Vast Changes.** IHSS serves over 463,537 disabled, frail, and aged recipients across California. Like CalWORKs, IHSS has weathered major program changes and reductions over the past several budget cycles, most recently enduring a 7-8 percent across the board reduction in authorized hours. This hours reduction, serving a major blow to the program's consumers and providers, was restored in the 2015 Budget and is proposed to be restored ongoing in 2016-17, reliant on the revenues from a redesigned Managed Care Organizations (MCO) tax, discussed in more detail in the Health section of this document. Now the Federal Labor Standards Act (FLSA) regulations on overtime pay are set to take effect. As part of the 2014 Budget, an agreement on overtime management and \$172.2 million General Fund was approved, with certain restrictions on weekly hours affecting the over 380,000 providers in the program. The federal district court nullified the federal rule on overtime that would have taken effect on January 1, 2015. In August 2015, however, a U.S. Court of Appeals upheld the regulations. The ruling was appealed to the U.S. Supreme Court, but in October 2015, the Supreme Court denied the plaintiff's request for a motion to stay the appellate court's decision. The Court has not decided



whether to consider the case. Disability rights advocates have continued to express concern over vulnerable types of consumers when the law takes effect and there is continuing conversation about exemptions' policies to prevent the most adverse of consequences for consumers trying to avoid institutionalization.

- **CWS/Foster Care Embarking on Massive Program Overhaul.** In 2011, Child Welfare Services (CWS) were realigned, with constitutional changes enacted with the passage of Proposition 30, resulting in the transfer of \$1.6 billion in state funding for the CWS, foster care, and adoptions programs, to the counties. The 2011 realignment moved program and fiscal responsibility to counties, providing a dedicated source of funding with the goals of eliminating duplication of effort, generating savings, and increasing flexibility. As a federally-regulated, state-supervised, county-administered program, CWS continues to be of interest to Legislators seeking to improve permanency and well-being for children in foster care. As part of the programmatic realignment legislation, the Continuum of Care Reform effort was launched, requiring DSS to consult with a number of stakeholder organizations to develop recommendations for revisions to the state's current rate-setting system, services, and programs serving children and families across the continuum of placement settings. DSS produced the 2015 CCR Report to the Legislature, containing 19 recommendations. These segued into the Administration-sponsored Assembly Bill (AB) 403 (Chapter 773, Statutes of 2015), which was ultimately signed and for which proposals for funding are included in the Governor's Budget. The adequacy and appropriateness of the funding streams pursuant to the enacted legislation will be a subject for discussion in the budget.
- **CalFresh Responding to Poverty and Hunger in California.** Hunger remains a serious issue in California. California's underperformance on enrollment of eligible cases onto the CalFresh program has been a topic of scrutiny in recent years. However, recent policy implementations such as the Affordable Care Act, the State Utility Assistance Subsidy, Modified Categorical Eligibility and School Lunch have bolstered caseload growth. The Legislature will be interested in how these changes have altered the participation landscape for CalFresh and if there are further innovative, near-term efforts that can be undertaken to ensure that more eligible families are receiving food benefits. Proposals from advocates in the past have petitioned for additional investment in emergency food assistance and in the allowance of a market match that would augment usual food benefits for low-income families.
- **Community Care Licensing (CCL) Improvements.** As part of the 2015 Budget, the State approved the "Next Phase Quality Enhancement and Program Improvement," with \$3 million General Fund and 28.5 positions, ramping up in later years, to address a backlog of complaint cases and expand training and technical assistance in CCL. Beginning in January 2017, DSS will increase inspection frequency to every three years for all facilities, every two years by 2018 for all facility types except child care, and annually by 2019 for adult day care and residential care facilities for the elderly. The ongoing staffing costs after full implementation under this proposal would be approximately \$14 million General Fund, with a total of 145 new permanent positions approved to achieve this new licensing standard. Monitoring of this implementation

process will be important moving forward and there remains interest on moving to eventual annual inspections for all facilities.

- **Growing Senior Poverty.** During the recessionary cuts, SSI/SSP grants were brought to the federally-required maintenance of effort (MOE) floor, and in 2009, the statutory cost of living adjustments for both SSI/SSP and CalWORKs grants were removed. The Governor's Budget includes a modest increase to the SSP portion with a one-time cost of living adjustment (COLA). As a backdrop, senior poverty remains high in California, accelerated by very high rental costs. Approximately 20 percent of California's seniors, compared to 15 percent nationally, live below the poverty threshold when taking health care expenses into account, according to a report from the Kaiser Family Foundation. Grant levels and COLAs in the SSI/SSP have been priority areas of advocacy in the human services world. The U.S. Census Bureau reports that California's over age 65 population is projected to double from 3.6 million in 2000 to 7.2 million in 2025, portending higher numbers of low-income senior Californians in our future.
- **Strong Advocacy for Department of Developmental Services Rate Increase Continues.** During last year's budget discussions, the major advocate proposal put forth a ten percent across-the-board rate increase in funding to the Regional Centers and community service providers. Advocates contend that without this increase, California will jeopardize the stabilization of the community system. The Assembly may wish to consider further rate increase proposals in order to create stability in a system that protects some of the most vulnerable people in the state.
- **Case Managers.** At the forefront of last year's budget discussions regarding the Department of Developmental Services was the issue of compliance with federally mandated case manager ratios. California's caseload ratio is currently around 1:72, which exceeds the federal compliance standards by about 10 consumers per case manager. The conversation regarding case manager ratios is directly related to the rate increase discussion because regardless of whether or not provider rates are increased, the caseload ratios will still be far out of compliance. The Governor's Budget proposes funding to start to decrease caseload ratios, but the Legislature may wish to monitor this funding and its effects on caseload ratios closely.
- **Transitioning Consumers from the Developmental Centers into the Community.** In May 2015, the Governor's May Revision proposed to initiate the closure planning process for the three remaining developmental centers; Sonoma, Fairview and the General Treatment Area of Porterville. The Department submitted a closure plan for the Sonoma Developmental Center to the Legislature in October 2015, which included the goal of closing Sonoma by the end of 2018. Both Fairview and the General Treatment Area of Porterville are scheduled for closure by the end of 2021. This proposal falls in line with the Lanterman Act's goals of providing services to developmentally disabled consumers in the most integrated settings possible in the community.

## Governor's January Budget Proposal in Human Services

### DEPARTMENT OF SOCIAL SERVICES

The Governor's Budget includes \$23.8 billion all funds (\$8.0 billion General Fund) for the California Department of Social Services (DSS) in 2016-17, an increase of \$1.5 billion General Fund or 6.9 percent from the current year. A large proportion of DSS funding is comprised of federal and realigned funds.

#### **Major Provisions for CalWORKs**

- **Backfill for CalWORKs Grant Increase.** The Governor's Budget 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 table below displays the current condition of the CalWORKs grants against poverty standards.

**2016-17 Proposed Monthly CalWORKs Grant Relative to Poverty Thresholds**

	<b>Region 1 - High Cost Counties</b>	<b>Region 2 - Low Cost Counties</b>
Monthly CalWORKs grant <sup>a</sup>	\$704	\$670
Percent of FPL <sup>b</sup>	42.0%	40.0%
Percent of SPM threshold <sup>c</sup>	33.2%	31.6%

a. For a family of three with no other income.

b. Based on 2016 federal poverty guidelines.

c. Based on a weighted average of 2014 SPM thresholds for renters in California.

FPL = federal poverty level and SPM = Research Supplemental Poverty Measure

- **Changing Caseload Dynamics.** The Governor's Budget projects an average monthly caseload of 369,063 for all family cases and 43,080 for two-parent cases. This is a decrease from the prior year estimate and reflects an accelerated decline in caseload projections and lower average cost per case. Approximately 82 percent of the decrease is associated with caseload, while the remaining 18 percent represents a lower average cost per case.
- **Implementation of 24-Month Welfare to Work (WTW) Services Time Clock.** The Governor's Budget includes caseload impacts and associated grant savings that reflect further refinements to the estimate methodology and update of data sources used. The revised estimate assumes that an average of 610 cases in 2015-16 and 6,220 cases in 2016-17 will receive a grant reduction for failing to meet the federal work requirements after exhausting their WTW 24-Month Clock.

- **State Meeting Work Participation Rate (WPR) Standard.** Preliminary data indicates that California's overall WPR for federal fiscal year (FFY) 2015 is greater than the 50 percent threshold required to achieve corrective compliance for the overall rate, likely eliminating \$341 million in penalties tied to the 2008-2010 potential penalties. California must stay above the 50 percent threshold in FFY 2016 to mitigate or avoid the \$558 million in remaining potential penalties.

### **Major Provisions for SSI/SSP**

- **One-Time Provision of a State COLA.** The Governor's Budget 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 (CNI), 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 (\$4.63 is the dollar amount for the state COLA investment) and \$31 (\$11.73 is the dollar amount for the state COLA investment) for individuals and couples, respectively. The table below illustrates the effect of the additional General Fund investment proposed in the Governor's Budget.

#### **SSI/SSP Maximum Monthly Grants**

	<b>2016 Current Law Grant Levels</b>	<b>2017 Governor's Proposal</b>	<b>Difference</b>
<b>Individuals a&gt;</b>			
<b>SSI</b>	\$733.00	\$745.46	\$12.46
<b>SSP</b>	\$156.40	\$161.03	<b>\$4.63</b>
<b>Totals</b>	<b>\$889.40</b>	<b>\$906.49</b>	<b>\$17.09</b>
<i>Federal Poverty Level</i>	\$990.00	\$990.00	
<b>Percent of Poverty b&gt;</b>	<b>90%</b>	<b>92%</b>	
<b>Couples c&gt;</b>			
<b>SSI</b>	\$1,100.00	\$1,118.70	\$18.70
<b>SSP</b>	\$396.20	\$407.93	<b>\$11.73</b>
<b>Totals</b>	<b>\$1,496.20</b>	<b>\$1,526.63</b>	<b>\$30.43</b>
<i>Federal Poverty Level</i>	\$1,335	\$1,335	
<b>Percent of Poverty b&gt;</b>	<b>112%</b>	<b>114.3%</b>	

a> Individuals category refers to aged or disabled individuals living independently in his/her own household.

b> Compares grant level to federal poverty guideline from the U.S. Department of Health and Human Services in 2016.

c> Couples category refers to aged or disabled couples living in their own household.

**Major Provisions in CalFresh and Other Food Assistance**

- **Cost and Caseload Dynamics.** The 2016-17 Governor's Budget includes \$2.0 billion (\$715.3 million General Fund) for CalFresh administration in 2016-17, which represents a \$38.8 million (\$22.9 million General Fund) increase from the 2015-16 enacted budget. The non-assistance CalFresh caseload is projected to increase 6.6 percent in 2016-17 after accounting for all policy impacts on the base caseload projection. The CalFresh program is projected to reach an average of 2.2 million total households in 2015-16 and 2.3 million total households in 2016-17. The 2016-17 Governor's Budget largely represents a current-law, workload adjusted budget for CalFresh and the California Food Assistance Program (CFAP).
- **Drought Food Assistance Program (DFAP).** The Governor's Budget includes \$18.4 million General Fund in local assistance funding to operate the Drought Food Assistance Program (DFAP) through 2016-17 based on the current level of need. The Governor's Budget states that although the DFAP is considered to be a temporary program, there continues to be a demonstrated need for these services in many parts of the State. The DFAP has \$14.1 million budgeted in remaining provisional General Fund authority for 2015-16, which will fully fund the program through the end of the fiscal year.
- **Raising CalFresh Children Enrollment Budget Change Proposal (BCP).** The Governor's Budget 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, with the goal of increasing the total number of children enrolled in CalFresh by 400,000 by June 30, 2018.

**Major Provisions for In-Home Supportive Services (IHSS)**

- **Cost and Caseload Dynamics.** The Governor's Budget provides a net increase of \$129.1 million in 2015-16 due to a higher cost per hour, higher paid hours per case and an increase in the Case Management, Information and Payrolling System (CMIPS) II costs for IHSS which is slightly offset by a slower growth in caseload than projected in the enacted 2015-16 budget. The increase in 2016-17 is \$396.9 million due to the projected increase in caseload growth, higher cost per hour and higher hours per case. The IHSS average monthly paid caseload for 2015-16 is projected to increase at a slower rate (by 0.7 percent fewer cases) to 463,537 cases from the 467,000 cases projected in the 2015-16 enacted budget. The caseload is projected to increase by 5.7 percent to 489,775 cases in 2016-17.
- **Restoration in Service Hours Tied to MCO Tax.** The Governor's Budget 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.

- **Overtime in IHSS.** The Governor's Budget 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. Implementation begins on February 1, 2016 and there is a 90-day grace period to allow for providers and consumers to adjust. Starting May 1, 2016, the violations policy for non-compliance with the new rules goes into effect.
- **IHSS Case Management, Information and Payrolling System (CMIPS II) Maintenance and Operations (M&O). BCP** The Governor's Budget requests staff resources (2.0 positions) totaling \$232,000 (\$117,000 General Fund) to ensure the state's ability to address a substantial new and ongoing workload of the CMIPS II project for the Universal Assessment Tool (UAT). The UAT is a product of AB 664 (Chapter 367, Statutes of 2015), introduced in February 2015, and will be implemented in 2016-17. Existing law requires the three main Home and Community-Based Services (HCBS) programs – IHSS, Community-Based Adult Services, and Multipurpose Senior Services Program – to perform their own eligibility determinations and service assessments. The bill establishes the UAT to create a single HCBS assessment record to improve care coordination and data collection between the HCBS programs.
- **Home Care Services Consumer Protection Act (AB 1217) BCP.** The Governor's Budget requests staff resources (6.5 positions) totaling \$1.0 million General Fund to implement the licensing and registration activities of the Home Care Services Consumer Protection Act based on the anticipated operational date. A General Fund loan will cover the proposal's costs, which will be repaid with fee revenues from Home Care Organizations and Independent Home Care Aides.

### **Major Provisions for Child Welfare Services/Foster Care**

- **Cost and Caseload Dynamics.** The Governor's Budget indicates that the latest actual caseload data reveals that the total number of Aid to Families with Dependent Children-Foster Care (AFDC-FC) cases is starting to experience a slight increase. The average monthly caseload is projected to increase 0.9 percent in 2015-16 to 45,071 cases and 1.4 percent in 2016-17 to 45,702 cases. In 2015-16, there is an overall increase of \$0.6 million General Fund in the foster care budget due to an updated caseload projection for the After 18 Supervised Independent Living Placement Infant Payment, and to increased costs for the Tribal State IV-E agreements.

- **Continuum of Care Reform Implementation.** The Budget requests funding to implement several components of the Continuum of Care Reform (CCR) effort and AB 403 (Chapter 773, Statutes of 2015). The total funding investment for CCR/AB 403 implementation is proposed to be \$33.1 million total funds (\$21.5 million GF) in 2015-16, and \$88.6 million total funds (\$57.5 million GF) in 2016-17. Of this, assistance funding is \$7.3 million total funds (\$4.3 million GF) in 2015-16, and \$7.1 million total funding (\$3.4 million GF) in 2016-17, while administrative funding is \$25.8 million total funds (\$17.2 million GF) in 2015-16, and \$81.5 million total funds (\$54.0 million GF) for 2016-17. This amount includes funding for DSS and counties to implement AB 403 revisions to the services, rates, and supports for children and families in the continuum of AFDC-FC eligible placement settings. Funded activities include an increase to the Foster Family Agency social worker rate, payment for provider accreditation, case planning assessments, provider performance measures, additional social worker time for second administrative reviews for youth who remain in short-term residential treatment centers, social worker and probation officer participation in the child and family teams, and statewide implementation of the Resource Family Approval program and resource family training, recruitment, retention and support.
- **AB 403 – Continuum of Care Reform (CCR) BCP.** The Budget requests state staff resources (34.0 positions) totaling \$5 million (\$2.5 million General Fund) to accomplish the numerous goals of AB 403, such as limiting the reliance on congregate care, increasing capacity for home-based family care, increasing engagement with foster children/youth and families, and revising the rate-setting structure. Based upon the magnitude of change to the child welfare system, as well as the quantity of discrete tasks, the necessity of stakeholder engagement, and the aggressive implementation timeframe, additional staffing resources are necessary to perform Implementation. DSS seeks to establish a dedicated CCR project team to perform this significant workload, which is expected to last over a multi-year period. AB 403 workload includes: (a) Development of 228 new procedures, processes, or protocols; (b) 26 consultations with varying combinations of 18 specified or open-ended stakeholder groups; (c) Development of 19 sections of regulations; (d) Development of eight new training programs or new curriculum for existing programs; and (e) Reports to the Legislature or to publicly publish information.
- **Child Welfare Services Case Reviews BCP.** The Budget requests staff resources (7.0 positions) totaling \$791,000 (\$396,000 General Fund) to establish a Child Welfare Services Case Reviews unit in response to the federal Administration for Children and Families (ACF) notification that CDSS oversight of Child Welfare Services is inadequate and needs a proper quality assurance program as required in the Child and Family Services Review.
- **SB 238 and SB 484 – Psychotropic Medication Oversight in Foster Care BCP.** The Budget requests staff resources (5.0 positions) and contracting funding totaling \$833,000 (\$784,000 General Fund) to meet the requirements of these bills. SB 238 requires monthly county-specific reports for children in foster care who are prescribed psychotropic medications through Medi-Cal. SB 484 is intended to identify and mitigate inappropriate levels of psychotropic medication use by children in foster care residing in group homes licensed by DSS.



**Major Provisions for Community Care Licensing and State Hearings**

- **CCLD Random Inspections (Technical Fix) BCP.** The Budget requests a technical correction to the DSS 2015-16 Quality Enhancement and Program Improvement BCP. The Budget requests staff resources (20.0 positions) totaling \$2.3 million General Fund to perform annual random inspections required by SB 79 (Chapter 20, Statutes of 2015).
- **Caregiver Background Check – Arrest Only Workload BCP.** The Budget requests staff resources (5.0 positions) totaling \$892,000 (\$816,000 General Fund) to continue reviewing, investigating, and processing criminal record clearances for individuals with an arrest record seeking licensure, employment, or presence in a licensed community care facility.
- **AB 1387 – Community Care Licensing Complaints and Appeals Process, and AB 601 – Residential Care Facility for Elderly Ownership Disclosure BCP.** The Budget requests staff resources (2.0 positions) totaling \$273,000 General Fund to meet the requirements of these two bills. AB 1387 restructures the process by which licensees of facilities licensed by CDSS may appeal the assessment of a civil penalty or deficiency. AB 601 requires DSS to cross-check with CDPH to present an individual with fines, deficiencies or citations under a different license, from being approved for a license to operate a Residential Care Facilities for the Elderly.
- **State Hearings Division – Affordable Care Act Caseload BCP.** The Budget requests permanent extension of 56.0 limited term positions and permanent funding approved in 2014-15 totaling \$7.3 million (\$1.8 million General Fund) to address the fair hearing workload as a result of Affordable Care Act implementation.

**DEPARTMENT OF DEVELOPMENTAL SERVICES**

The Governor's Budget includes \$6.4 billion total funds (\$3.8 billion General Fund) for the Department in 2016-17; a net increase of \$394.4 million above the updated 2015-16 budget, a 6.6 percent total fund increase (7.4 percent General Fund increase).

The Department of Developmental Services (DDS) is responsible, under the Lanterman Developmental Disabilities Services Act (Lanterman Act), for ensuring that approximately 290,000 individuals with intellectual and developmental disabilities receive the services and supports they require to lead more independent and productive lives, and the ability to make choices and decisions about their lives.

**Major Provisions**

- **Compliance with New Home and Community Based Services (HCBS) Regulations.** The Budget requests a \$1.6 million increase (\$0.9 million General Fund increase) in Operations (OPS) to fund an additional 21 Program Evaluator positions within the regional centers to ensure HCBS program settings are integrated into the community by March 2019, as required by the new regulations. In addition, a \$15.0 million increase (\$11.0 million General Fund increase) in Purchase of Services (POS) to fund modifications to some service providers' programs that will be necessary for compliance with HCBS regulations by March 2019, to continue to receive federal HCBS funds.
- **Client Program Coordinators to Improve Caseload Ratios.** The Budget requests a \$17 million increase (\$13 million General Fund increase) to fund additional regional center Service Coordinator positions to reduce caseload ratios and thereby improve case management functions.
- **Alternative Residential Model (ARM) 4-Bed Rate Model.** The Budget requests a \$46.0 million increase (\$26.0 million General Fund increase) to fund ARM rates based on a four-resident model for Community Care Facilities vendored to serve four or fewer individuals.
- **Community Placement Plan for Developmental Center (DC) Closures.** The Budget requests a \$30.8 million increase (\$28.3 million General Fund increase) to develop resources to support the transition of DC residents into the community from Sonoma, Fairview, and Porterville General Treatment Area. This includes \$4.1 million for regional center operations, and \$26.6 million to develop community living arrangements and place consumers moving from DCs. This amount is in addition to regular Community Placement Plan proposed funding of \$68 million.
- **Sonoma DC Preliminary Advanced Closure Costs.** The Budget requests a \$3.0 million increase (\$1.9 million General Fund increase) to begin preliminary closure activities including inventorying and archiving clinical and historical records, contracting for an independent monitor as stipulated in the settlement agreement with the Centers for Medicare and Medicaid Services (CMS) regarding Sonoma decertification, and relocating residents and their belongings to community settings.
- **Upgrade of the Fire Alarm System at Porterville Developmental Center.** The Budget requests a \$6.5 million General Fund increase for the construction phase of the project to upgrade the fire alarm system at the Porterville Developmental Center – Secure Treatment Program.
- **Enhancements to the Headquarters Budget.** The Budget requests a \$5.7 million (\$4.3 million General Fund) reflecting an incremental increase in Employee Compensation, a decrease for ProRata and SWCAP, and an increase in expenditures and positions from the following four Budget Change Proposals (BCPs):

- \$2.1 million (\$1.8 million General Fund), 8.0 new positions, and the redirection of 5.0 vacant positions for staffing and contract resources needed to support the continued efforts for the closure of the Sonoma, Fairview, and Porterville GTA. This includes overseeing the development and licensing of community facilities and consumer programs, supporting layoff activities, resolving workers' compensation claims, reconciling personnel and payroll records, and collaborating and communicating with stakeholders.
- \$0.9 million (\$0.6 million General Fund) and 7.0 positions to establish a Fiscal and Program Research Unit. The new unit will compile, research, and analyze fiscal and programmatic data in response to legislative, federal government, and stakeholder inquiries regarding regional center and developmental center programs and the provision of services to persons with developmental disabilities.
- \$0.5 million (\$0.3 million General Fund) and 4.0 positions to accommodate increased workload associated with complying with the CMS' new Home and Community-Based Services regulations. The new, comprehensive regulations create additional workload for planning, training, assessing, and reporting activities to demonstrate compliance by March 2019 in order for the State to maintain \$1.7 billion annually in federal financial participation reimbursements for Purchase of Services expenditures.
- \$1.0 million (\$0.7 million General Fund) to permanently establish and retain funding for 7.0 limited-term auditor positions in the Vendor Audit Section. The positions, originally established as limited-term in FY 2014-15, will continue to provide audit coverage and oversight of the more than \$4.6 billion in vendor payments disbursed each fiscal year.

### **Other Key Provisions**

- **Minimum Wage Increase.** The Budget requests a \$62.4 million increase (\$35 million General Fund increase) in Purchase of Services (POS) to fund the requirements of Assembly Bill 10 (Chapter 351, Statutes of 2013) that increased the State minimum wage from \$9.00 to \$10.00 effective January 1, 2016.
- **Update on Federal Labor Regulations.** The Budget requests a \$54.2 million increase (\$29.2 million General Fund increase) in POS to reflect full year implementation of the Fair Labor Standards Act (FLSA) to include home care workers in overtime compensation.
- **Implementation of Behavioral Health Treatment (BHT) Services by Department of Health Care Services (DHCS).** The Budget requests a \$4.5 million decrease (\$2.2 million General Fund decrease) in POS to reflect a reduction in expenditures for the consumers who began receiving BHT services in September 2014 from DHCS as a Medi-Cal benefit per Senate Bill 870 (Chapter 40, Statutes of 2014).

- **Various Employee Compensation and Staff Benefit Contribution Increases.** The Budget requests a \$14.2 million increase (\$9.4 million General Fund increase) for 2015-16 employee compensation augmentations approved through the collective bargaining process, as well as increases in retirement and other staff benefit employer contribution rates.
- **Staffing Adjustments.** The Budget requests a \$8.8 million decrease (\$4.9 million General Fund decrease) and a total reduction of 129.2 positions (63.1 Level of Care and 66.1 Non-Level of Care) based on an estimated population decline of 188 DC residents transitioning into the community. The reduction reflects adjustments to staffing for specialized support and closure activities.
- **Office of Protective Services' Records Management System.** The Budget requests a \$0.4 million increase (\$0.3 million General Fund increase) to fund the acquisition of a Records Management System that will enable the Department's Office of Protective Services to efficiently and effectively report, manage, and track DC investigations, including within the Porterville DC-Secured Treatment Program (PDC-STP) and Canyon Springs Community Facility which are not slated for closure.
- **Developmental Centers Workers' Compensation Cases.** The Budget requests a \$2.3 million net decrease (\$1.0 million General Fund increase) in appropriation from \$17.3 million (\$9.1 million General Fund) to \$15 million (\$10.1 million General Fund) to fund the settlement of remaining open permanent and stationary Workers' Compensation claims associated with current and former employees assigned to work at the various DCs and the State Operated Community Facilities. DDS requests that this \$15 million level of funding continue throughout the DC closure timeline.
- **Replace Personal Alarm Locating System at Porterville DC.** The Budget requests a \$1.8 million General Fund increase to replace the Personal Alarm Locating System in the Porterville Developmental Center – Secure Treatment Program areas.
- **DC Audit Findings.** The Budget requests a \$3.8 million General Fund increase payable to the Department of Health Care Services for audit findings estimated to be payable in the Budget Year.
- **Acute Crisis Unit at Sonoma DC – Full Year Adjustment.** The Budget requests a \$1.0 million net increase (\$1.4 million General Fund increase) to fund the full year costs associated with staffing the unit for a full fiscal year. The initial request made during the 2014 May Revision was limited by statute to only reflect one-half of the 2014-15 fiscal year staffing costs. This increase is necessary to fund the full fiscal year.
- **Key Staff Functions to be Centralized at Headquarters.** The Budget requests a \$1.0 million decrease (\$0.8 million General Fund decrease) and 9.0 position reduction due to DDS revising the November 2014 assumption that identified Lanterman DC Post-Closure activities, and now requests that these and other positions throughout the DC system be transferred to HQ and centralized as the department moves forward with closing multiple facilities with overlapping timelines.

## DEPARTMENT OF REHABILITATION

The Governor's budget proposes total spending of \$443.9 million (\$59.9 million General Fund), an increase of 0.6 percent from the current year. Proposed staffing totals 1,778 personnel. The Department of Rehabilitation (DOR) works in partnership with consumers and other stakeholders to provide services and advocacy resulting in employment, independent living, and equality for individuals with disabilities.

### **Key Provisions**

- **Competitive Integrated Employment.** The Budget requests authority to redirect \$1.5 million in federal funds in order to fund 11 permanent full-time positions to establish a new Vocational Rehabilitation Service Delivery team to support competitive integrated employment consistent with the mandates of the Workforce Innovation and Opportunity Act.
- **Supplemental Funding for Traumatic Brain Injury Fund.** The Budget requests authority to redirect \$360,000 to the Traumatic Brain Injury (TBI) Fund from the Driver Training Penalty Fund in order to fully fund services that are legislatively mandated of the TBI program. This reallocation of funds will ensure that Californians with TBI continue to receive essential services.
- **Compliance with Federal Rehabilitation Services Administration.** The Budget requests redirection of \$653,000 in existing Federal Funds in order to address the increased mandated workload in accounting, budgeting, information systems, federal reporting and oversight of federal grants. The Department notes that lack of compliance with the new federal mandates could result in enforcement action and loss of federal funds, which would impair DOR's ability to provide quality, effective services to Californians with disabilities.

## DEPARTMENT OF AGING

The Governor's Budget includes \$201.6 million all funds (\$33.7 million General Fund) for the California Department of Aging (CDA) in 2016-17. This represents a slight decrease of \$.4 million General Fund or .2 percent from the current year. A large proportion of funds for CDA come from the federal government, including Older Americans Act funding and grant funds. Federal funds are projected to be \$150 million in 2016-17, slightly lower than the current year.

### **Major Provisions**

- CDA contracts with agencies that operate the Multipurpose Senior Services Program (MSSP), which is scheduled to transition to managed care in the Coordinated Care Initiative (CCI) counties. MSSP's planned transition, with the hopes of minimizing disruptions for consumers, continues to be a timely area of inquiry for the Legislature.

**Key Provisions**

- **Information Technology (IT) Branch Staffing BCP.** The Budget requests authority for 3 permanent positions, utilizing \$423,000 in existing expenditure authority for its IT Branch to bring staffing up to the minimum level necessary to meet State IT requirements, ensure a stable network environment and mitigate security concerns to an acceptable level. This request will be funded using a combination of existing CDA funding sources including Older Americans Act federal funds and Medi-Cal (General Fund and FFP). CDA's IT Branch has been minimally staffed over the years and has never been augmented to keep up with workload associated with major technological changes, especially in the area of security-related requirements and reporting to control agencies about them. At the same time, budget cuts have resulted in the loss of IT resources and positions. Currently the Branch has 7 positions.
- **Community-Based Adult Services (CBAS) Branch Request for Additional Staffing to Comply with State and Federal Mandates BCP.** The Budget requests an augmentation of \$705,000 in funding (\$319,000 General Fund and \$386,000 in Reimbursements from DHCS) for its CBAS Branch to support four additional positions (three Associate Governmental Program Analysts (AGPA), and one Nurse Evaluator II (NE II),) needed to ensure compliance with current state statutes as well as new federal requirements for CBAS provider certification. Currently, CDA is not meeting statutory requirements for timely provider certification, which places participant health and safety at risk and results in CBAS providers being out of compliance with the contractual requirements of their managed care plans. Without these additional resources, CDA will also not be able to implement and monitor compliance with new federal regulations.

**DEPARTMENT OF COMMUNITY SERVICES AND DEVELOPMENT**

The Department of Community Services and Development (CSD) leads the development and coordination of effective and innovative programs for low-income Californians. The Governor's budget proposes total spending of \$335.2 million (\$7.5 million General Fund) for CSD, a decrease in overall spending of 11.8 percent from the current year.

**Key Provisions**

- **Community Services Block Grant Performance Management and Accountability System BCP.** The Budget requests position authority for 5 permanent positions to perform newly required federal mandates, which will become effective FFY 2016. These mandates require annual monitoring of all Community Service Block Grant (CSBG) eligible entities and require CSD to collect and analyze intricate data and report the findings back to the federal awarding agency. This proposal does not require any additional spending authority and will be funded from CSBG federal funds (\$440,000 in 2016-17 and \$421,000 ongoing), which support programs and activities that serve the low-income population of California.



- **Support for Low-Income Weatherization Program (LIWP) BCP.** The Budget requests \$75 million from the Greenhouse Gas Reduction Fund in 2016-17 to continue supporting the Low-Income Weatherization Program (LIWP) activities promoting greenhouse gas emission reductions in the residential sector and energy savings for low-income households. The \$75 million funding will be allocated to State Operations (\$4.7 million) and Local Assistance (\$70.3 million) to further support existing weatherization and solar programs benefiting low-income communities.
- **Migrant and Seasonal Farmworkers (MSFW) Drought Emergency Assistance Program BCP.** The Budget requests \$7.5 million General Fund in 2016-17 to continue emergency supportive services for one additional fiscal year to vulnerable, low-income populations, including Migrant and Seasonal Farmworkers (MSFW) and individuals experiencing employment impacts due to the drought disaster. The funds will be used to provide support services, such as rental/mortgage assistance, utility assistance, transportation, food referrals/resources, and job training/placement services.

## DEPARTMENT OF CHILD SUPPORT SERVICES

The Department of Child Support Services (DCSS) provides professional services to locate parents, establish paternity, and establish and enforce order for financial and medical support. The Governor's budget proposes total spending of \$1.004 billion (\$314.2 million General Fund) for the Department of Child Support Services for 2016-17, an increase of .1 percent from the current year.

- **Revenue Stabilization Funding Has Helped Ease Strain on the System.** The Department reviewed collection data for 2014-15 and found that the revenue stabilization funds are having the effect of maintaining statewide child support collections. This is a significant achievement in the context of California's slow recovery from the economic downturn and retention of revenue generating caseworker staff has had a positive impact on collections. The Legislature should continue to monitor revenue stabilization funding and revenue stabilization collections in order to ensure that counties are still performing to federal performance measures.

## HEALTH AND HUMAN SERVICES AGENCY

The Governor's budget includes \$375.8 million for the Health and Human Services Agency in 2016-17, an increase of \$10.5 million or 2.9 percent from the current year. Over 95 percent of the funds in the Agency budget are associated with the Office of System Integration, which oversees information technology systems and projects that serve various departments within the agency.



**Key Provisions for Office of Systems Integration (OSI)**

- **Appeals Case Management System (ACMS) BCP.** The Budget requests an increase of \$237,000 in OSI spending authority for the ACMS project and the conversion of 7.0 existing state positions from limited-term to permanent. The conversion of these limited-term positions previously approved in the Feasibility Study Report (FSR) to permanent tenure strengthens the project's ability to carry out the tasks necessary for a successful implementation over the next several years. The system implementation date is expected to commence in November 2017.
- **California Healthcare Eligibility, Enrollment and Retention System (CalHEERS) BCP.** The Budget requests an increase of \$8 million in OSI expenditure authority and 2.0 permanent positions in 2016-17 related to the transfer of 58.0 project staff to OSI from Covered California. The increase of \$8 million is necessary to support the continued activities for the CalHEERS system. Of this amount, \$7.7 million is related to the transfer of 58.0 Project staff positions from Covered California to OSI and the remaining \$265,201 is for new administrative positions. It is proposed that OSI not only continue to provide oversight services for the design, development, implementation and operation/maintenance of the project, but that the OSI responsibilities increase to include full day-to-day Project Management (PM) of the project staff and activities. These additional duties also require increased administrative support. The costs will continue to be reimbursed by Covered California and the Department of Health Care Services (DHCS).
- **Case Management, Information and Payrolling System (CMIPS II) BCP.** The Budget requests an increase in 2016-17 of \$4.8 million in OSI spending authority and 1.0 permanent position for the CMIPS II project, as well as \$3.9 million for data center services, and a corresponding increase of \$8.7 million in the DSS Local Assistance budget authority. The CMIPS II project costs have increased \$16.3 million in the current year due to schedule shifts, a delay in implementing changes related to the Federal Fair Labor Standards Act and workload increases in base operational costs. These increased costs have been identified in the current year DSS Local Assistance budget, and include \$11.4 million that was previously appropriated in 2014-15. The OSI will request an increase in expenditure authority consistent with provisional language in the Budget Act of 2015 (Chapter 10, Statutes of 2015).
- **Child Welfare Services New System (CWS-NS) Project BCP.** The Budget requests 1.0 new permanent positions, the conversion of 8.0 limited-term positions to permanent and a net increase of \$171,000 in the OSI spending authority for the Child Welfare Service - New System (CWS-NS) Project. To ensure the CWS-NS is procured, developed and implemented with maximum effectiveness, the Governor's Budget states that it is imperative that the project be appropriately and consistently staffed. This BCP requests an Attorney III position as OSI does not currently have a dedicated attorney for the CWS-NS Project and this poses significant risk to the State as the Project progresses through the Procurement Phase and into the Design, Development and Implementation (DD&I) phase. The Project is requesting to redirect 8.5 CWS/CMS positions to leverage existing state staff from the CWS/CMS Office and transition them to the CWS-NS Project as specific skill sets are needed.

- **Women, Infants and Children (WIC) Management Information Systems (eWIC MIS) Project BCP.** The Budget requests \$4.1 million in 2016-17 expenditure authority and 19.6 permanent positions for the new eWIC MIS Project. The California Department of Public Health (DPH), as the single State entity responsible for the federally-funded WIC Program, is proposing to contract with the OSI to assume management of the eWIC MIS Project including completing the system acquisition and managing the project through successful completion of statewide implementation. DPH will fund the project with 100% federal funding and is submitting a separate BCP to request the necessary appropriation authority. In addition, because completion of the eWIC MIS project is a critical component of meeting the federal mandate for California to issue WIC food benefits via Electronic Benefit Transfer (EBT) by October 1, 2020, DPH intends to redirect some existing positions and funding to OSI in the current year to begin their work.
- **Medi-Cal Eligibility Data System (MEDS) Modernization Multi-Departmental Planning Team BCP.** The Budget requests a total of 18.0 new permanent positions and \$3.7 million in total funds to provide dedicated staffing and resources required for the successful Agency-wide planning effort for Medi-Cal Eligibility Data System (MEDS) Modernization. DHCS requests \$3.7 million to provide for reimbursement of costs to both OSI and DSS, retaining support for 3.0 of the 18.0 positions at DHCS. Of the 18.0 positions, DSS requests 2.0 positions and \$249,000 in associated funding. Of the 18.0 positions, OSI requests 13.0 positions and \$5.5 million in expenditure authority, of which \$2.9 million funding is included in DHCS Local Assistance. These positions include a variety of Project Management (PM), technical, and program resources necessary to ensure that the modernized system is designed not only to be technically sound, but to best facilitate a health and human services system that can most effectively meet the needs of the client.

#### **Key Provisions for Office of Health Information Integrity**

- **Restructure the California Office of Health Information Integrity (CalOHII) BCP.** This is a budget reduction proposal. Based on a Zero Base Budget analysis, CalOHII requests to reduce its staffing and amend its statutory obligations. CalOHII will continue to serve as the state's authority on the Health Insurance Portability and Accountability Act (HIPAA) matters, but will reduce the scope of its activities to updating statewide HIPAA policy and monitoring progress of HIPAA impacted and covered departments. Continuation of these activities requires 4 positions {1.0 CEA, 1.0 Attorney III, 1.0 Staff Services Manager (SSM) II, and 1.0 SSM I (2-year limited term)) and limited consultant funding at a cost of \$1.7 million (\$849,000 General Fund, \$849,000 Other Funds). This proposal eliminates 5 positions and operating expenses for a net reduction of \$1.365 million (\$1.255 million General Fund, \$110,000 Other Funds).

## Staff Comment and Analysis of Governor's Budget Proposal

California continues to have the highest poverty rate in the country, higher than any other state. Families struggle in deep poverty that disproportionately affects communities of color. With a few exceptions, the Human Services departments are experiencing workload-driven budgets without major changes that would require investment. Below are a selection of ideas on what the Legislature might consider as it contemplates which investments to prioritize and discuss in the effort to address poverty and create positive social and economic outcomes for struggling Californians.

- **Help CalWORKs Families Living in Poverty.** In CalWORKs, the Maximum Family Grant rule, which denies aid to subsequent children, can be repealed, grants can be indexed to inflation and raised to be closer to the federal level, the Earned Income Disregard can be increased to reward work, housing and homelessness services can be increased, and the time clock can be extended to the federally allowed limit of 60 months. All of these strategies, among others, would provide more opportunities for families to lift themselves out of poverty. As part of the last two budgets, modest resources have been appropriated to create a CalWORKs Housing Support Program to assist with rapid rehousing and homelessness intervention efforts. This program and the implementation of the Family Stabilization component of CalWORKs is intended to provide the whole family with resources to arrest their hardships and provide stability so that these families to get on their feet with supported links to skills and employment. More efforts like these can be fostered and grown in the program to serve families. Ultimately, how CalWORKs participants and their children fare reflects the face of poverty for California.
- **Monitor Effects of Overtime in IHSS.** IHSS will undergo an enormous systems change as FLSA overtime rules take effect on February 1 and May 1 (once the grace period ends). For cases on the margin, where a provider cares for a person with high hours and acute needs or for more than one consumer, there needs to be careful attention paid to the possible disruption of services. Where simplified, presumptive exemptions can be offered, these are worthwhile to secure consumers continued support to live in their homes and communities and avoid institutionalization. DSS has approaches on exemptions that they may seek to codify in trailer bill, through which the Legislature can influence as compassionate and efficacious approach as possible to avoid bad consequences for the frail, disabled, and elderly who are reliant on the program. In addition, with the presumed support of the MCO tax, the hours reductions will no longer pose a threat to consumers and will become a relic of the recession era.
- **Protect Children in Foster Care.** The community applauds the efforts that brought AB 403 to legislative fruition, and now comes the test of implementation. AB 403 is intended to support efforts in foster care by giving families who provide care, now known as resource families, with targeted training and support so that they are better prepared to care for youth living with them. The reform also advances California's long-standing goal to decrease the state's reliance on long-term group home care by increasing youth placement in family settings and by transforming existing group home care into places where youth, who cannot transition to family-based placements, can

receive short-term, intensive treatment to allow them to do so. Whether AB 403 is properly resourced in the Governor's Budget will be an important question for the Legislature. In addition, housing for homeless foster youth and other proposals have been discussed in the past and will resurface as the conversation about child well-being and the support for foster youth continues.

- **Increase Investments for Seniors.** Advocates have called for an increase to the SSI/SSP grants to provide additional resources to those least able to improve their sources of income on their own – the aged, blind, and disabled. In addition, there has been ongoing discussion about creating more investments for Older Californians Act programs to provide proper oversight for residential facilities caring for those more frail in our community. SSI/SSP grants can and should be increased further to provide more ability for older Californians to stay in their communities and combat destitution and homelessness. Investments here tend to be challenged by selectivity and the magnitude of funds necessary to make a difference across large caseloads and among the host of aging programs that were defunded in the Great Recession. Overcoming these challenges is not easy, but is critical for budget decision-making in the annual process.
- **Department of Developmental Services Tied to Managed Care Organization (MCO) Tax Discussion.** The Governor's Budget Summary states that any additional targeted spending proposals for the Department of Developmental Services are expected to be funded from the proposed extension of the MCO tax. The Legislature should continue to advocate for a portion of the MCO tax revenue to fund improvements to developmental services, and may wish to improve upon any further funding that is allocated through the resolution of the MCO tax discussion.
- **Community Preparedness for Consumers Transitioning out of the Developmental Centers.** The Budget includes an additional \$30.8 million to develop resources to support the transition of Developmental Center residents into the community from Sonoma, Fairview, and the General Treatment Area of Porterville. This funding is in addition to the Community Placement Plan funding of \$68 million. The Legislature should continue to monitor closure activities and ensure that services are available in the community for the nearly 800 consumers who will transition out of the developmental centers.
- **What Can the Legislature Do to Promote Stability?** The Governor's Budget includes proposals which take meaningful steps to repair various aspects of the Department of Developmental Services. However, the Assembly may wish to build upon these proposals in order to provide further stability for the system. In order to reach this goal the Assembly will have to examine the merits of a targeted or broad approach to rate increases, scrutinize case manager ratios and guide the Department toward transition plans for services that may be out of compliance.





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## ENVIRONMENTAL PROTECTION, NATURAL RESOURCES, AND ENERGY

This section discusses several significant budget issues in the natural resources, environmental protection, and energy areas. Three of the issues cross-cut a number of agencies and departments — Cap and Trade expenditures, continued emergency drought response and the implementation of Water Bond, and the Medical Marijuana Regulation and Safety Act. This section also examines the Aliso Canyon methane leak, tree mortality, and the Beverage Container Recycling Fund.

### Major Issues:

- **Climate Change.** California has wide-ranging policies for dealing with climate change, including programs to promote renewable energy, energy efficiency, cleaner cars and transportation fuels, energy storage, and more sustainable land use practices. According to the Administration, the state is on track to meet the AB 32 goal of reducing greenhouse gas (GHG) emissions to 1990 levels (roughly 431 million metric tons) by 2020. However, the overwhelming scientific consensus is that continued and even steeper reductions in carbon pollutants are necessary to avoid “dangerous” climate change - meaning some of the worst and most disruptive climate impacts.

Last year, the state began investing over \$870 million from auction proceeds in low carbon transportation, sustainable communities, energy efficiency, urban forests, and high-speed rail.

**What should our Cap and Trade plan be for 2016?** In 2015, the Legislature and the Governor was unable to reach consensus on a Cap and Trade expenditure plan, appropriating only \$227 million for a “barebones” Cap and Trade plan that left \$1.6 billion in available funding in the Greenhouse Gas Reduction Fund. A key question for the current budget cycle will be whether and how a spending plan comes together.

- **Drought.** California is now experiencing its fourth dry year in a row. California's drought conditions have resulted in dangerously low levels of water in our reservoirs and groundwater aquifers and have impacted every aspect of our environment and economy. The drought has imperiled drinking water supplies, our agricultural sector, and sensitive habitats, and greatly contributed to catastrophic wildfire and significant tree mortality throughout the state. Even with El Nino conditions this winter, drought conditions will continue due to extremely low reservoir elevations, groundwater over drafting, and very dry soil and vegetation conditions statewide.



In the past two years, the Legislature and Governor have deployed significant resources to combat the drought and made progress addressing a multitude of water challenges facing the state. Since the Governor declared a state of drought emergency in January 2014, \$3.7 billion has been appropriated to assist drought-impacted communities, provide additional resources for critical water infrastructure projects, and respond to drought-related wildlife emergencies. The state has also committed an additional \$292 million (General Fund) in the current year for emergency response activities associated with catastrophic wildfires.

- **Continued Water Bond (Proposition 1) Implementation.** The 2015-16 Budget appropriated \$1.8 billion from Proposition 1, which authorized a total of \$7.5 billion in water-related funding. While most of the funds allocated were for drought-related activities, \$200 million went to non-drought related activities, including \$163 million for watershed protection and restoration projects administered by state conservancies, the Wildlife Conservation Board, and the Department of Fish and Wildlife (CDFW).

Recently, the CDFW published the selection of 24 projects that will receive funding from its Proposition 1 Restoration Grant Programs. The grants, which total \$31.4 million, are CDFW's first distribution of funds through these programs. They include approximately \$24.6 million awarded through the Watershed Restoration Grant Program to projects of statewide importance outside of the Sacramento-San Joaquin Delta and approximately \$6.8 million awarded through the Delta Water Quality and Ecosystem Restoration Grant Program for projects that benefit the Sacramento-San Joaquin Delta specifically.

- **Medical Marijuana Regulation.** California produces more marijuana from outdoor grows than any other state. Marijuana may be the state's largest cash crop, with some publications estimating its annual value at \$10-\$14 billion. Land is being converted for cannabis cultivation faster than ever before. In some watersheds, the area cultivated has doubled in the last three years. The individual and cumulative effects of cannabis cultivation on public and private lands threaten public safety, impact wildlife, pollute the land and streams, and destroy habitat. Large scale cultivation of marijuana has proliferated in remote forested areas throughout California partly in response to Proposition 215, the Compassionate Use Act (1996), which legalizes the use of cultivation for medical purposes. However, nearly all of the marijuana cultivation is occurring without regard to other applicable laws and regulations. For example, some growers are illegally diverting water from drought-stricken watersheds in order to irrigate their crops. The Medical Marijuana Regulation and Safety Act, enacted in 2015, creates a regulatory framework for the licensing and enforcement of the cultivation, manufacture, transportation, storage, and distribution of medical marijuana in California.
- **Aliso Canyon Methane Gas Leak.** On October 23, 2015, a massive natural gas leak erupted at a storage well near the Porter Ranch neighborhood of northwest Los Angeles and it remains unrepaired. The leak is one of the biggest ever recorded. It is releasing enormous amounts of methane, a strong greenhouse gas that carries 84 times the warming power of carbon dioxide in the initial decades after it is released. The plume is about 1,000-feet high and several miles long. After attempts to plug the nearly 1,000-foot-deep leak were unsuccessful, SoCal Gas began building a relief well to capture the leaking gas.



An official of the California Air Resources Board declared the leak at the company's Aliso Canyon natural gas storage facility the single biggest contributor to climate change in California. By one estimate, the leak is the greenhouse gas equivalent of driving seven million cars each day. Thousands of nearby residents have been evacuated as the blowout has been spewing roughly 62 million cubic feet of the gas into the atmosphere a day.

On January 7, 2016, the Governor declared the situation an emergency and detailed the administration's ongoing efforts to help stop the leak. The proclamation includes the following key orders:

- Requires Southern California Gas Company to maximize daily withdrawals of natural gas from the Aliso Canyon Storage Facility for use or storage elsewhere, captures leaking gas and odorants while relief wells are being completed, and identifies how it will stop the gas leak if relief wells fail to seal the leaking well, or if the existing leak worsens.
  - Prohibits Southern California Gas Company injecting any gas into the Aliso Canyon Storage Facility until a comprehensive review of the safety of the storage wells and the air quality of the surrounding community utilizing independent experts is completed, expand its real-time monitoring of emissions in the community, and convene an independent panel of scientific and medical experts to review public health concerns.
  - Requires that Southern California Gas Company covers costs related to the natural gas leak and its response, while protecting ratepayers. The state will develop a program to fully mitigate the leak's emissions of methane funded by the Southern California Gas Company.
  - Directs the state to promulgate emergency regulations for gas storage facility operators throughout the state, requiring: at least daily inspection of gas storage well heads using gas leak detection technology, regular testing of all safety valves used in wells, and a comprehensive risk management plan that evaluates and prepares for risks at each facility.
  - Directs all state agencies to utilize state personnel, equipment, and facilities to ensure a continuous and thorough state response to this incident.
- **Massive Tree Mortality.** The last four years of drought has made trees across the state susceptible to epidemic infestations of bark beetles. This has led to massive tree mortality in several regions of the state. The U.S. Forest Service estimates that over 29 million trees are dead and that tens of millions more are likely to die by the end of the year. According to the Administration, scientific measurements suggest that the scale of tree die-off is unprecedented in modern history. This scale of die-off dramatically increases the risk and intensity of wildfires across many large regions of California and presents safety risks from falling trees. More wildfires compromise our forested lands carbon sequestration capabilities. Further, wildfires contribute two-thirds of current black

carbon emissions in the state. Black carbon, a short-lived climate pollutant, is significantly more potent than carbon dioxide.

On October 20, 2015, the Governor issued a state of emergency proclamation on the tree mortality epidemic. According to the Administration, it builds on the April 2014 executive order to redouble the state's drought response, which included provisions to expedite the removal of dead and dying hazardous trees. The proclamation directs state agencies to identify high hazard zones for wildfire and falling trees that have resulted from the unprecedented die-off and prioritizes tree removal in these areas. It also calls for state agencies to take several actions to enable removal of hazard trees. The Governor has also requested urgent federal action, including additional technical assistance for private land owners, matching federal funding and expedited approval for emergency actions on federal lands.

In addition, the Governor's Office of Emergency Services and CAL FIRE have convened a Task Force on Tree Mortality comprised of state and federal agencies, local governments and utilities that will coordinate emergency protective actions and monitor ongoing conditions.

- **California Beverage Container Recycling Fund (BCRF).** The BCRF is a depository for processing fees, fines, and redemption values paid by the certain bottle distributors subject to the California Beverage Container Recycling and Litter Reduction Act. Generally, the funds are used to administer litter reduction and recycling efforts. Due to the state's high recycling rate (80 percent) and mandated program payments, expenditures for the BCRF have exceeded revenues in the last four fiscal years. Until now, the gap between expenditures and revenues has been temporarily bridged through repayments of loans, particularly to the General Fund, made from the Fund when it was operating at a surplus. The final loan repayment, amounting to \$82.3 million, was paid in full at the end of 2014-15. While CalRecycle has implemented several program reforms to address the structural deficit, actions taken thus far have secured only partial success. The gap is smaller, but the amount of money coming into the Fund is still insufficient to cover the amount being paid out.

## **Governor's January Budget Proposals**

**Cap and Trade:** The Governor proposes \$3.1 billion in expenditures and a Greenhouse Gas Reduction Fund (GGRF) Reserve of \$507.3 million. The proposed expenditures are spread across an array of programs noted in the table below:

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>

**Drought.** The Budget provides an additional \$323.1 million (\$212.1 million General Fund) on a one-time basis to continue immediate response to the drought, including the following:

- \$74.5 million (General Fund) and \$2.9 million (State Responsibility Area Fire Prevention Fund) to the Department of Forestry and Fire Protection (CAL FIRE) 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) to the Department of Water Resources 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; and
  - \$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 million (Cleanup and Abatement Account) to the State Water Resources Control Board for continued 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 (Hatchery and Inland Fisheries Fund) to the Department of Fish and Wildlife for continued fish rescue and stressor monitoring, water efficiency projects on department lands, law enforcement activities, and to provide infrastructure to protect salmon.

**Proposition 1 (Water Bond) Proposals.** The Budget provides \$465 million in Proposition 1 funds for projects to fulfill state obligations under several agreements. These projects include:

- \$250 million to the Natural Resources Agency for the state's commitments under the Klamath Hydroelectric Settlement Agreement;
- \$90 million to the Natural Resources Agency for the state's commitments under the Central Valley Project Improvement Act;
- \$45 million (\$27 million to the Department of Water Resources and \$18 million to the Department of Fish and Wildlife) to help meet the state's obligation towards the San Joaquin River Settlement; and
- \$80 million to the Department of Water Resources for projects to meet the state's commitments to restore the Salton Sea. This funding is the centerpiece of a multi-agency proposal to protect habitat and prevent dust emissions from a shrinking Salton Sea.

The Budget also provides \$11 million to the Santa Monica Mountains Conservancy (Proposition 1, Los Angeles River Allocation) for projects on the Upper Los Angeles River.

**Medical Marijuana Regulation.** The Budget includes \$12.8 million (General Fund), \$10.6 million (Medical Marijuana Regulation and Safety Act Fund), \$1.2 million (other special funds), and 126 positions to implement the regulation of medical marijuana in California. Specific proposals in the resources area include:

- \$3.3 million in reimbursement authority in 2015-16 and \$3.4 million (Medical Marijuana Regulation and Safety Act Fund) and 18 positions in 2016-17 and ongoing to Department of Food and Agriculture for Medical Cannabis Cultivation Program administrative oversight, promulgate regulations, issue medical marijuana cultivation licenses, and perform an Environmental Impact Report;
- \$700,000 (Pesticide Regulation Fund) and 3 positions to the Department of Pesticide Regulation for the development of guidelines for the use of pesticides in the cultivation of medical marijuana;
- \$7.6 million (General Fund) and 31 positions for the Department of Fish and Wildlife to expand and make permanent the statewide multi-agency task force established in 2014 to address environmental impacts of medical marijuana cultivation and work with the State Water Resources Control Board (Water Board) and Department of Food and Agriculture to regulate water diversions; and
- \$5.7 million (\$5.2 million General Fund and \$472,000 Waste Discharge Permit Fund) and 35 positions for the State Water Resources Control Board to develop and implement a regulatory program to address the environmental impacts of medical cannabis cultivation. This program will protect instream flows for fish from water diversions related to marijuana cultivation.

**Massive Tree Mortality.** The Budget does not contain a specific proposal to address the tree mortality issue. However, the Budget does include \$140 million (Greenhouse Gas Reduction Funds) for the Department of Forestry and Fire Protection (CAL FIRE) to support landscape-scale forest health and resilience programs that reduce GHG emissions through fuel reduction, reforestation projects, pest and diseased tree removal, and long-term protection of forested lands vulnerable to conversion. Funds will also support biomass energy generation projects. Priority will be given to landscape-scale forest health and resilience projects that leverage multiple sources of funds (state, local, and federal) and that combine multiple stakeholders. CAL FIRE will undertake a stakeholder process, including the Tree Mortality Task Force, to identify and prioritize these landscapes.

Following this section, significant budget proposals in the Resources area not discussed above will be summarized briefly by department.



## DEPARTMENT OF FORESTRY AND FIRE PREVENTION

The Department of Forestry and Fire Protection's (CALFIRE) budget is \$2.1 billion, which represents a 10 percent increase from last year. This increase is primarily due to the Governor's \$180 million (GGRF) proposal for healthy forests and urban forestry. A portion of the Department's budget receives special funds, with \$1.3 billion of the proposed total funding coming from General Fund.

### **Major Provisions**

The Department's drought response and cap and trade proposals are mentioned earlier in this section.

- **Fire Protection Operational Enhancements.** The Budget requests \$24.6 million to improve the efficiency and effectiveness of CAL FIRE's emergency response capability, including:
  - \$17 million (General Fund) and 61 positions, along with 34 two-year limited-duration temporary help positions, to meet the increased volume of emergency calls at CAL FIRE's Command Centers during periods of historic increased fire activity; and
  - \$7.6 million (\$7 million General Fund) and 12 positions to acquire, install, and support Automated Vehicle Location and Mobile Data Computer devices in all CAL FIRE emergency response equipment. This capability will allow CAL FIRE to efficiently and accurately locate CAL FIRE equipment and resources while in transit or on an incident.

### **Key Provisions**

- **Professional Standards Program.** The Budget requests \$4.4 million (\$4.1 million General Fund) and 14 positions to implement a centralized dedicated unit responsible for overseeing a comprehensive program addressing investigations and adverse actions.
- **Helicopter Replacement.** CAL FIRE currently operates 12 Vietnam-era military helicopters. These aging helicopters are becoming more costly to maintain and are not equipped with modern technology that enables night-flying capabilities. Replacing the existing fleet with new helicopters would enhance CAL FIRE's initial attack effectiveness, improving its ability to contain wildfires quickly before they spread. CAL FIRE has been working with the Department of General Services to complete a competitive procurement to replace these aircraft. With the current procurement schedule in the Governor's Budget, the Administration states that it anticipates a spring budget proposal for the acquisition of new helicopters.

## DEPARTMENT OF WATER RESOURCES

The Department of Water Resources' proposed budget is \$3 billion, which represents a 40 percent decrease in expenditure from last year. This decrease is primarily due to final

appropriation of Proposition 1E (2006 Flood Prevention Bond) in the 2015 Budget. Most of the Department's budget is special funds, with \$153 million of the proposed total funding coming from General Fund.

### **Major Provisions**

The Department's drought response, cap and trade, and Proposition 1 proposals are mentioned earlier in this section.

- **Flood Protection.** The Budget requests \$100 million (General Fund) to enhance flood protection in the Central Valley by repairing levees. This is part of the Governor's deferred maintenance proposal.

### **Key Provisions**

- **Delta Habitat Conservation and Conveyance Program.** The Budget requests to convert 38 limited-term positions to permanent full-time positions. The positions will be supported by continuously-appropriated State Water Project (SWP) funds. These positions will provide support for program management, design, and construction of the suite of projects known as the Bay Delta Conservation Plan (BDCP), once a successful alternative of the BDCP Environmental Impact Report/Environmental Impact Statement is selected. These positions are estimated to cost the SWP approximately \$6.9 million.
- **Manage and Prepare for Dry Periods.** The Budget requests \$3 million (General Fund) to identify water delivery operational improvements in extreme conditions and evaluate long-term climate change impacts on statewide water supplies.
- **Groundwater Management.** The Budget proposes \$2.5 million (General Fund) 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.



## DEPARTMENT OF PARKS AND RECREATION

The Department of Parks and Recreation's budget is \$589 million. This represents a 10 percent decrease from last year. The decrease is primarily due to reappropriations and carryover expenditures that are forecast to be spent in the current year. Most of the Department's budget is comprised of special funds, with \$117.5 million of the proposed total funding coming from General Fund.

### **Major Provisions**

- **Deferred Maintenance.** The Budget proposes \$60 million (General Fund) for high-priority deferred maintenance projects in the state parks system. This is part of the Governor's deferred maintenance proposal.
- **Off-Highway Vehicle Loan Repayment and Fuel Tax Transfer.** The Budget proposes 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.
- **Base Funding to Maintain Operations.** The Budget requests one-time increase of \$16,968,000 in spending authority from the State Parks and Recreation Fund to sustain its operations and maintain its base support budget.

### **Key Provision**

- **Outreach to Urban Communities.** The Budget requests \$690,000 (State Park Protection Fund) and 3 positions for a two-year pilot project to implement a community liaison project within the two largest urban population centers in the state, Los Angeles and the Bay Area. These liaisons will work with community-based organizations and nonprofit groups to create culturally relevant interpretive and environmental programs.
- **Goat Canyon Sediment Basin.** The Budget requests \$1,886,000 annually for two years (California Tire Recycling Management Fund) to maintain the Goat Canyon Sediment Basins at Border Field State Park. Funds will be used to excavate and process sediment and trash, dispose trash, export sediment, test and monitor contaminants and conditions, and maintain infrastructure.
- **McGrath State Beach Campground Relocation and Wetlands Restoration.** The Budget requests \$1 million (Proposition 40 bond funds) for preliminary plans to relocate the existing campground due to yearly flooding. The estimated total project cost is \$27.7 million.

## DEPARTMENT OF FISH AND WILDLIFE

The Department of Fish and Wildlife budget is \$586 million. This represents a four percent increase from last year. Most of the Department's budget is comprised of special funds, with \$97 million of the proposed total funding coming from General Fund.

### **Major Provisions**

The Department's drought response, cap and trade, medical marijuana regulation, and Proposition 1 proposals are mentioned earlier in this section.

### **Key Provision**

- **Ivory Sale and Importation Enforcement.** The Budget proposes \$1.7 (General Fund) to implement enforcement of Assembly Bill 96 (Chapter 475, Statutes of 2015) banning illegal trade of elephant ivory and rhinoceros horns in California to protect African elephants and rhinoceros from extinction.

## CONSERVATION CORPS

The Conservation Corps' budget is \$111 million, which represents a 17 percent increase from last year. This increase is primarily due to the Governor's \$15 million (GGRF) proposal to operate a new Energy Corps Program. The Department's budget contains \$44 million General Fund.

### **Major Provision**

The Corps' cap and trade proposal is mentioned earlier in this section.

- **Forest Health Improvement Projects.** The Budget proposes that CAL FIRE partner with the Corps on forest health projects targeting the highest fire risk areas of the state. These months-long projects necessitate establishing tent camps near the project areas. Funding is provided in the CAL FIRE budget and approximately \$5 million of work will be allocated to the Corps as projects are identified.
- **Butte Fire Center.** The Budget requests \$2.6 million in 2016-17 and \$2.3 million (General Fund) ongoing 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 corps members.

## DEPARTMENT OF CONSERVATION

The Department of Conservation's budget is \$112.8 million. This amount is nearly the same as the previous year. The Department's budget contains \$3.3 million General Fund.

### **Key Provisions**

- **Oil and Gas Training Program.** The Budget requests \$1.3 million (Oil, Gas, and Geothermal Administrative Fund) and 2 positions to develop and implement a comprehensive training program for regulatory staff.
- **Pipeline Inspections.** The Budget requests \$1.4 million (Oil, Gas, and Geothermal Administrative Fund) and 10 positions to enable the Department to test sensitive gas pipelines on a more periodic basis and accurately map pipelines to identify potential threats.

## COASTAL COMMISSION

The Coastal Commission's budget is \$23 million. This amount is nearly the same as the previous year. The Commission's budget contains \$15 million General Fund.

### **Major Provision**

- **Local Coastal Programs.** The Budget requests \$3 million (General Fund) in permanent baseline funding to continue the Commission's Local Coastal Program (LCP) and climate adaptation planning pilot program. The proposal would support 25 permanent positions to complete, update and certify LCPs for 76 coastal cities and counties.

## DELTA STEWARDSHIP COUNCIL

The Delta Stewardship Council's budget is \$26.7 million, which represents a six percent increase from last year. The Department's budget contains some special funds, with \$18 million of the proposed total funding coming from General Fund.

### **Major Provision**

- **Update of the Delta Plan.** The Budget requests \$3.6 million (General Fund) for two purposes:
  - Delta Science Program – \$2.1 million annually to bolster the Delta Science Program's mission of providing the best available science by increasing support for monitoring and science investigations, and the Delta Plan Interagency Implementation Committee's (DPIIC) High-Impact Science Actions, which were endorsed in 2015 by the 17-member panel comprised of state and federal agencies; and

- High-Priority Delta Plan Updates – \$1.45 million for the next two years to update the Delta Plan, regulations, and recommendations relative to flood management, ecosystem restoration, water supply, and the significant shift in policy from the Bay Delta Conservation Plan (BDCP) to WaterFix and EcoRestore.

None of this funding would go to complete the Bay Delta Conservation Plan (BDCP)/ WaterFix or to incorporate WaterFix into the Delta Plan if it advances.

## ENVIRONMENTAL PROTECTION PROGRAM

The Environmental Protection Program receives revenue from the sale of personalized motor vehicle license plates by the Department of Motor Vehicles. Revenues are deposited in the California Environmental License Plate Fund. For both the 2013-14 and 2014-15 fiscal years revenues in the Environmental License Plate Fund (ELPF) did not meet budgeted projections by as much \$3 million dollars and the shortfall is projected to continue into the 2015-16 fiscal year. This shortfall required adjustments in 2014-15 and 2015-16 to assure that vital ELPF funded programs continue.

### **Major Provision**

- **Environmental License Plate Fund Solution.** The Budget proposes a long term plan to balance the fund that includes several fund shifts, a fee increase, and a one-time \$2.5 million (General Fund) increase.

## CALIFORNIA ENVIRONMENTAL PROTECTION AGENCY

The California Environmental Protection Agency's budget is \$20 million, which represents a five percent increase from last year. The Agency's budget contains mostly special funds, with \$2 million of the proposed total funding coming from General Fund.

### **Key Provision**

- **California-Mexico Water Resources Improvement.** The Budget requests \$175,000 from the California Tire Recycling Management Fund for one permanent position, to support the California-Mexico Border Relations Council and its expanded roles and responsibilities, including the requirement to establish the New River Water Quality, Public Health, and River Parkway Development Program, pursuant to AB 965 (Chapter 668, Statutes of 2015).

## AIR RESOURCES BOARD

The Air Resources Board's budget is \$956 million. This amount represents a 70 percent increase from the previous year. The substantial increase is due primarily to the Governor's proposal for a one-time allocation of \$560 million (GGRF) funds for low carbon transportation programs (\$500 million), black carbon wood-smoke projects (\$40 million), refrigerant retrofit/replacement projects (\$20 million). The Board receives no General Funds.

### **Major Provision**

The Board's cap and trade proposals are mentioned earlier in this section.

- **Short-Lived Climate Pollutants.** The Governor's Budget requests \$870,000 (Cost of Implementation Account) for five positions and \$545,000 in annual contract funding to investigate, develop, implement, and enforce several key Short-Lived Climate Pollution measures.

## THE STATE WATER RESOURCES CONTROL BOARD

The State Water Resources Control Board's budget is \$1 billion, which represents a 65 percent decrease from last year. This substantial change is primarily due to the one-time allocation of approximately \$1.6 billion Proposition 1 funds in 2015-16. The Legislature provided an extended encumbrance period for this funding; therefore, it will be expended over a multiyear period. Most of the Department's budget is comprised of special funds, with \$48 million of the proposed total funding coming from General Fund.

### **Major Provisions**

The Board's drought response and medical marijuana regulation proposals are mentioned earlier in this section.

- **Site Cleanup Program Augmentation.** The Budget proposes \$2.4 million (Cleanup and Abatement Account) and 17 positions to address unanticipated workload associated with cleaning up contaminated sites for redevelopment and brownfields restoration.

### **Key Provisions**

**Water Rights Permitting and Licensing Augmentation.** The Budget requests seven positions and \$851,000 (Water Rights Fund) to reduce a significant backlog of applications to appropriate water (permits), registrations, petitions to change existing rights, wastewater change petitions, and licensing of water rights.

## DEPARTMENT OF TOXIC SUBSTANCES CONTROL

The Department of Toxic Substances Control's budget is \$217 million, which represents a five percent decrease from last year. Most of the Department's budget is comprised of special funds, with \$29 million of the proposed total funding coming from General Fund.

### **Key Provisions**

- **Enhanced and Streamlined Permitting.** The Budget proposes \$1.2 million (Hazardous Waste Control Account) and continuation of 8 limited-term positions on a permanent basis to continue working on the backlog of continued permits.

## THE DEPARTMENT OF PESTICIDE REGULATION

The Department of Pesticide Regulation's budget is \$97 million, which represents a six percent increase from last year. The Department receives no General Funds.

### **Key Provisions**

The Department's medical marijuana regulation proposal is mentioned earlier in this section.

- **Food and Safety Program.** The Budget requests \$391,000 (Department of Pesticide Regulation [DPR] Fund) ongoing, as well as three positions and vehicles to address workload issues associated with the Department's Food Safety Program.
- **Continuing the Air Monitoring Network.** The Budget proposes \$468,000 (DPR Fund) ongoing and one position to continue the monitoring of ambient air pesticide concentrations (including soil fumigants) and calculate the human health risk from exposure to multiple pesticides for long time periods (e.g., annual and lifetime).
- **Mitigation of Pesticide Impacts on Workers.** The Budget requests \$482,000 (DPR Fund) and two positions to address the growing need to develop strategies to mitigate pesticide impacts on workers and bystanders.
- **Pollinator Protection Risk Evaluation.** The Budget proposes \$335,000 (DPR Funds) and two positions to address the increasing workload with pollinator protection issues associated with bee mortality.

## DEPARTMENT OF FOOD AND AGRICULTURE

The Department of Food and Agriculture budget is \$439 million, which represents a two percent decrease from last year. Most of the Department's budget is comprised of special funds, with \$80 million of the proposed total funding coming from General Fund.

### Key Provisions

The Department's drought response, cap and trade, and medical marijuana regulation proposals are mentioned earlier in this section.

- **Avian Influenza Prevention.** The Budget requests \$192,000 (General Fund) and one position for the Animal Health and Food Safety Services Division to meet current and continued threats to animal health and the food supply posed by unprecedented Highly Pathogenic Avian Influenza outbreaks.
- **Citrus Pest and Disease Prevention Program.** The Budget requests \$1 million (Department of Agriculture Account, Department of Food and Agriculture Fund) in 2016-17 and 2017-18 respectively to enhance the Asian Citrus Psyllid and Huanglongbing Mitigation Project.
- **Prevention of Animal Homelessness and Cruelty Program.** The Budget proposes \$194,000 (Prevention of Animal Homelessness and Cruelty Fund) to implement the provisions of Chapter 557, Statutes of 2015 (AB 485), which allows a taxpayer to designate that a specified amount in excess of their tax liability be transferred to the Fund to be distributed to eligible animal control agencies and shelters for the sole purpose of supporting spay and neuter activities that would result in the prevention and elimination of cat and dog cruelty and homelessness.

## PUBLIC UTILITIES COMMISSION

The Governor's budget includes \$1.8 billion (all funds) for the Public Utilities Commission (PUC) in 2016-17, an increase of \$260.5 million or 16.9 percent from the current year. The PUC budget receives no General Fund support.

### Major Provisions

- **Increase Universal Lifeline.** The Budget includes \$281.6 million to meet the projected increase in Universal Lifeline wireless claims. This increase reflects an increase to the Universal Lifeline Service Charge from 43.8 to 5.5 percent that occurred on October 1, 2015.
- **Implementation of SB 350 and AB 802.** The PUC proposes \$3.4 million and 23 positions to implement the renewable portfolio standards included in SB 350 (de Leon, Chapter 547, Statutes of 2015) and AB 802 (Williams, Chapter 590, Statutes of 2015). The Commission requested 37.5 positions for this purpose.



- **Service Quality.** The Budget includes \$1 million to implement a PUC decision regarding mobile phone service quality. The funding would allow PUC to hire a network engineering consulting firm to examine AT&T and Verizon's networking facilities and evaluate company policies regarding maintenance, service, and repair.

### **Other Key Issues in Public Utilities Commission**

- **IT eFast.** The Budget includes \$5.4 million and 11 positions for an IT system to begin the development of a web-based business application.
- **Workforce Development.** The Budget proposes \$672,000 and two positions for the Public Utilities Commission for workforce succession, staff development, and training expansion. The Commission requested 8 positions for this purpose.
- **Implementation of recent legislation.** The budget includes \$954,000 and 2.75 positions to implement four recent bills: AB 693 (Eggman, Chapter 582, Statutes of 2015) Multifamily Affordable Housing Solar Program, AB 793 (Wolk, Chapter 587, Statutes of 2015) Green Tariff Renewables, AB 1266 (Gonzalez, Chapter 599, Statutes of 2015) Excess Compensation, and SB 541(Hill, Chapter 718, Statutes of 2015) For Hire Transportation Carriers. The Commission requested an additional 2.5 positions for these bills, which were not approved.

## **CALIFORNIA ENERGY COMMISSION**

The Governor's budget includes \$540 million (all funds) for the California Energy Commission (CEC) in 2016-17, a decrease of \$95.4 million or 15 percent from the current year. Most of Caltrans budget is comprised of special fund, with \$15 million of the proposed total funding coming from General Fund.

### **Major Provisions**

- **Climate Change Research.** The Budget includes \$15 million General Fund to support research to reduce petroleum use, reduce greenhouse gas emissions, and improve air quality from California's transportation sector. These funds would be contracted out by CEC.
- **Implementation of SB 350.** The Budget proposes 29.5 positions, and \$7.6 million to implement SB 350 (de Leon, Chapter 547, Statutes of 2015). Under the requirements of the bill, the CEC is responsible for an assessment of savings on electrical and natural gas use and to measure the compliance with meeting a 2030 goal to achieve a 50 percent Renewable Portfolio Standards. In addition, these staff will conduct studies on barriers to renewable energy, energy efficiency, and zero and near-zero emissions transportation options.

- **EPIC Program Increase.** The budget includes a total \$11.2 million increase in the Electric Program Investment Charge (EPIC). Of this amount \$4.5 million is the reappropriation of unspent prior year funding and \$7.5 million would be an ongoing baseline increase that reflects an inflation escalation increase.
- **Cap and Trade Proposals.** The CEC has three Cap and Trade funded programs in the proposed budget, totaling \$85 million:
  - **Continuation of the Water Efficiency Technology (WET) Program.** The Budget proposes to continue the WET program at \$30 million in 2016-17. The program funds technology for energy and water efficiency for agriculture, efficiencies in industrial, commercial, and residential sectors, and desalination. The program is estimated to save 12,000 Megawatts and 2,000 metric tons of CO2 equivalent per year.
  - **Continuation of Appliance Rebates.** The budget proposes \$30 million to continue rebates for water and energy efficiency appliances, including clothes washers.
  - **Funding the Expansion of Biofuels.** \$25 million of Greenhouse Gas Reduction Funds are proposed to encourage the in-state production of biofuels.

#### **Other Key Issues in California Energy Commission**

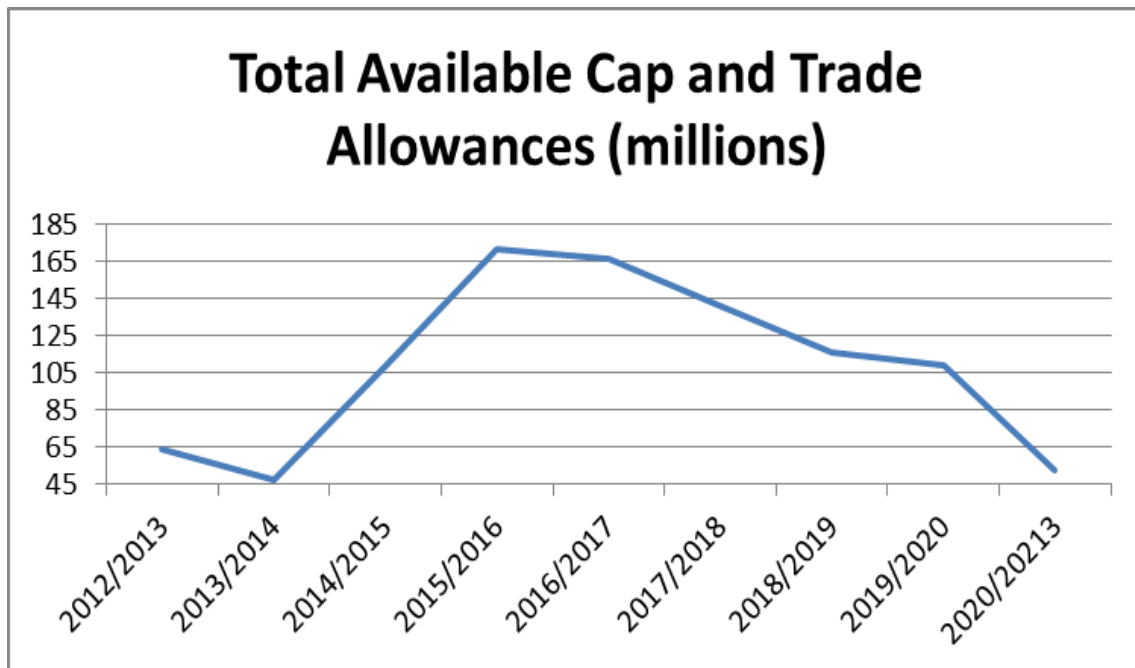
- **Implementation of Recent Legislation.** The Budget includes \$1.8 million and 9 positions for the implementation of AB 802 (Williams, Chapter 590, Statutes of 2015) Accelerating Energy Efficiency Through Benchmarking and Customer Data Analysis and AB 865 (Alejo, Chapter 583, Statutes of 2015) Diversity Outreach Program.
- **Position Conversions.** The Budget proposes \$951,000 to convert 8 temporary positions for 6 positions associated with development of the disaggregated energy demand forecasts, 1 position for an International Relations Advisor and 1 position associated with the Acceptance Test Technician Certification program.
- **Federal Funds of Energy Efficiency.** CEC proposes appropriating \$8 million of federal funds, some of which are unspent ARRA funds for the DGS Energy Efficiency State Property Revolving fund and a competitive program for local governments.
- **Ramp Down of the Public Interest Charge and Reappropriation of Unspent PIER Funding.** The CEC is requesting \$1.3 million for the final ramp-down of the Public Goods Charge, which funded the Public Interest Energy Research (PIER). The funding allows staff to close out contracts and grants remaining from the program. The Public Goods Charge ended on January 2, 2012 and the CEC requests that \$3.6 million of prior-year PEIR funding be appropriated to support pipeline safety research.

## Staff Comment and Analysis of Governor's Budget Proposal

The Governor's budget proposal is responsive to most of the major issues in the natural resources, environmental protection and energy areas. As the Legislature deliberates the Governor's proposals, it may wish to consider the following:

**Should We Spend \$3.1 billion in Cap and Trade Funding in 2016-17?** The Governor's budget proposes spending \$3.1 billion of the available \$3.6 billion of Greenhouse Gas Reduction Funds on various programs in 2016-17. While this approach allows an array of different programs to be funded on a one-time basis, many of the advocates for these programs assume that ongoing funding will be available in future years. However, in future years the State would have far less funding to continue these programs. This creates a scenario with a lot of winners in 2016 and the perception of large programmatic cuts in 2017 when the funding drops off.

Cap and Trade revenues are expected to decline in 2017-18 and beyond as the number of allowances in the program decline. This creates a cliff effect in available revenue in future years. The chart below, with data provided by the Air Resources Board, show a decline in the projected allowances, which is expected to result in declining revenues overall:



Currently, the State has \$1.6 billion in one-time Cap and Trade funding available for appropriation. In 2016-17, the Department of Finance projects \$2 billion in ongoing revenue for Cap and Trade, of which \$1.2 billion is continuously appropriated and \$800 million would be available for appropriation in 2016-17. The Governor's budget proposal expends \$1.9 billion of funding for programs that are subject to appropriation in the budget. These same programs would have less than \$800 million to continue in 2017-18 and beyond.

The Assembly should consider how the Cap and Trade funding plan for 2016 sets up the parameters for 2017 and beyond. Otherwise any priorities funded in the 2016 budget may not have the lasting impact envisioned. In addition, if the Cap and Trade money is spread too thin programmatically, there is risk that the impact could be so diffused that there are few tangible achievements resulting from the program.

**Drought.** Recent storms have added to the snowpack, which is essential to the state's water supply. According to recent reports, snow water content is 121 percent of normal in the northern Sierra. However, the state needs more wet months to reverse four years of drought. The Legislature should continue to closely monitor drought conditions through the winter months to assess appropriate funding levels for its drought response.

In a typical year, groundwater supplies about a third of total farm and urban water use. Since 2014, this share has exceeded 50 percent. Given how important groundwater is to the state's water supply, the Legislature should also examine recent groundwater management efforts across the state's 500 groundwater basins.

**Proposition 1 (Water Bond) Implementation.** As mentioned above, the Budget proposes to allocate \$465 million (Proposition 1) for projects to fulfill state obligations under several agreements. According to the Administration, the selection of projects was based on the amount needed to meet the individual obligations, past investments made by the State, and the availability of other funds. The Bond did not specify an allocation of these funds, therefore the Legislature may wish to examine the projects selected and amounts appropriated to ensure they reflect the Legislature's priorities.

Proposition 1 includes \$100 Million for urban creek restoration along the Los Angeles River. The Bond did not specify how this funding should be apportioned between the Santa Monica Mountains Conservancy (SMMC) and the San Gabriel & Lower Los Angeles Rivers and Mountains Conservancy (RMC). The Bond did, however, apportion equal allocations of other bond funds to each of these two conservancies. SMMC has jurisdiction over the Upper Los Angeles River while RMC works on the Lower River.

Last year, the Governor signed AB 530 (Rendon, Chapter 684, Statutes of 2015), to create a Lower LA River revitalization plan, similar to the one the City of Los Angeles adopted for the Upper River in 2007. Also, with the Governor's support for an integrated River-wide planning effort by world-renowned designer Frank Gehry, these two conservancies contributed a total of \$1.5 million to the Gehry work. This year's budget includes \$11 million in spending out of the LA River pot for SMMC projects on the Upper River, but nothing for RMC on the Lower River. The Legislature may wish to consider how it wants to prioritize this funding to best support both ends of the River.

The Legislature may also wish to get an update from the Administration during Spring budget hearings on the rollout of Proposition 1 funds allocated in the 2015-16 Budget.

**Medical Marijuana Regulation.** The Medical Marijuana Regulation and Safety Act established a new comprehensive licensing and regulatory scheme for medical marijuana that tasks the administering agencies with adopting regulations to address a multitude of complex issues. As the Legislature considers budget proposals to implement the Act, it is

important to note that this is the first step in a multi-year process. The budget proposals primarily address initial regulatory activities needed for departments to begin implementing the Act.

Currently, there are a number of recreational marijuana initiatives attempting to qualify for the 2016 ballot. The Legislature may also want to keep in mind the scalability of the proposals should one of these initiatives qualify and pass in November.

On a related note, Assemblymember Jim Wood, one of the authors of the Medical Marijuana Regulation and Safety Act (MMRSA), has introduced an urgency bill, AB 21, that deletes a provision in current law that grants the Department of Food and Agriculture sole licensing authority for medical marijuana cultivation if a local government does not have land use regulations or ordinances regulating or prohibiting the cultivation of medical marijuana by March 1, 2016. According to the author, AB 21 resolves an inadvertent drafting error contained in the MMRSA and responds to fears among some local governments that they will lose their authority to regulate marijuana if they don't act aggressively now.

**Aliso Canyon methane gas leak.** While the Governor's emergency declaration directs seven state agencies to respond to the incident on a multitude of fronts, the Budget does not contain any specific appropriation to address the gas leak. The leak has raised concerns about possible gaps in state oversight of natural gas storage facilities. The Legislature may wish to consider whether additional resources are needed to strengthen the oversight and enforcement of these facilities.

**Tree Mortality.** The massive die-off of trees in the state is an evolving emergency. The Task Force on Tree Mortality met for the first time in December. Over the coming months, the Task Force will likely work to support local efforts and to implement a response. In addition to GGRF funds, the state may consider multiple funding sources, including federal funds, disaster assistance funds, as well as State Responsibility Area funds to address this issue.

**California Beverage Container Recycling Fund (BCRF).** Because the most recent department estimates for when the cash balance of the BCRF will permanently fall below the prudent reserve has been extended to after 2017-18, the Administration did not re-introduce another major reform in the 2016-17 budget. The Legislature should continue to monitor this Fund closely and ask the Department of Resources Recycling and Recovery for an update on the Fund Condition this Spring and the status of any discussions with stakeholders on a longer-term fix to the problem.





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## GENERAL GOVERNMENT

The General Government section includes departments, commissions, and offices responsible for oversight of various policy areas along with issues that are statewide in nature such as housing, local government, veteran's issues, labor and pension issues.

### Major Issues in General Government

- **How does the State Address Affordable Housing?** The Governor's budget focuses on transportation infrastructure but does little to address the affordable housing crisis in our state. The same challenges of a reliable funding source facing our transportation infrastructure needs also exist for housing infrastructure, especially the availability of affordable housing. The end of redevelopment eliminated \$1 billion in funding for affordable housing, and to date, the only new source of revenue for housing is a small restrictive pot of funding within cap and trade. Recent actions by the Legislature have infused one-time monies into existing housing programs that have proven successful in the past.

There is also the question of whether affordable housing is a local or statewide issue. Investing funding in small communities versus large communities will have varying results. The Assembly will have to determine what blend of local and statewide funding solutions will make the most significant impact.

- **Improving the State's Civil Service System.** Last year the Administration began efforts to improve and modernize the state's civil service system. The measures included simplifying the state's hiring processes and increasing transparency. The 2016-17 *Budget Summary* discusses the state taking a lead in additional measures to start planning for a retiring workforce and attracting a new workforce but is very vague on the details. Last year's changes were presented late in the process to the Legislature. The Assembly will have to play an early and active role to shape how changes and process decisions can be made to build a strong and sustainable state workforce for California.
- **Planning for Future Infrastructure Needs.** The Governor's budget continues to invest one-time funding in the state's deferred maintenance needs. Additionally, this year the *Budget Summary* includes funding to concentrate on infrastructure needs in the Sacramento region. The Assembly will have to evaluate the Governor's plan for the Sacramento region and decide if the Governor's priorities align with the Assembly priorities for the region.
- **Eliminating the Retiree Health Unfunded Liability.** The past years have focused on addressing the costs of pensions. Last year the Governor introduced reforms that were ultimately not included in the budget process, but instead were adopted by bargaining units to ensure that pension costs do not continue to grow. There are a number of



bargaining units that will negotiate their contracts this year, and the Administration plans to use the same cost sharing savings during the bargaining negotiations with the goal of lowering the statewide costs.

- **Budget Transparency.** As part of the 2015 Budget Act, the Governor's budget included a process change to provide transparency in vacant positions. The methodology applied for calculating the positions for a new budget position transparency line used a three year average of vacant positions for comparison. The change seeks to demonstrate whether departments are using all their authorized positions or whether those funds are being used for other parts of a department's budget. This is the first year that the budget has made this information more transparent. The Administration does not have a plan for the next steps. However, the Assembly should be an integral part of these discussions and continue to monitor where departments are actually using authorized positions to understand how budgets can be improved.
- **Establishment of a Bureau to Oversee Medical Marijuana Regulation.** As medicinal marijuana has become more prevalent in California, so has the need to create a regulatory framework for the cultivation, transportation, quality, and distribution of medical marijuana. Three policy bills were passed last year, which established the Medical Marijuana Regulation and Safety Act within the Business and Professions Code. These bills were:
  - AB 243 (Wood, Chapter 688, Statutes of 2015) establishes the Medical Marijuana Regulation and Safety Act Fund and appropriates \$10 million.
  - AB 266 (Cooley, Chapter 689, Statutes of 2015) establishes articles related to licensed cultivation sites, funding, penalties and violations, and a study with the California Marijuana Research Program.
  - SB 643 (McGuire, Chapter 719, Statutes of 2015) establishes standards for a physician and surgeon prescribing medical cannabis and allows the Governor to appoint a Bureau Chief.
- **Serving Those Who Have Served.** Providing quality services efficiently has been California's focus over the last several years. From providing additional resources in order to link Veterans to their federal benefits to improving the facilities and care at the State's Veterans Homes; California has initiated many efforts to improve service delivery for our nearly two million Veterans. The Legislature may wish to focus in on other areas of improvement within the realm of Veterans Services.

## Governor's January Budget Proposal in General Government

- **Housing.** The Governor's budget does not propose any new funding for housing. The *Budget Summary* includes funding for the Affordable Housing and Sustainable Communities program within the Cap and Trade monies. This program is estimated to be \$400 million, at least half of which must go to transit-oriented affordable housing.
- **Civil Service.** The Governor's budget includes 16 positions and \$1.9 million for the California Department of Human Resources to develop and implement statewide solutions for workforce and succession planning, recruitment and training.
- **Five-Year Infrastructure Plan.** The Governor's *Budget Summary* includes a discussion of the state's most critical deferred maintenance infrastructure need. The budget proposes \$807 million (\$500 million General Fund), which is about twice the amount of General Fund investment as last year for deferred maintenance. Additionally, the budget proposes \$1.5 billion to address state office buildings in the Sacramento region including the Capitol Annex, the Natural Resources building and a new building for the Department of Food and Agriculture Annex. The Governor's plan invests one-time money as opposed to using lease-revenue bonds or other bond funds.
- **Retiree Health Care Unfunded Liability.** The Governor's budget continues to address the unfunded liability created by retiree health care benefits. The budget sets aside \$300 million to pay for potential increases in employee compensation as part of good faith negotiations.

### DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

The Governor's budget includes \$375.9 million for the Department of Housing and Community Development (HCD) in 2016-17, a decrease of \$4.7 million or 1.2 percent decrease from the current year. HCD is funded from General Fund, Special funds, and Reimbursements. The Department had its largest decrease in 2015-16 due to the completion of the 2006 housing bond proceeds and the one-time infusion of funding for the Multi-Family Housing Program.

#### Key Issues in HCD

- **CAPES Application Development.** The budget includes a request for \$568,000 in expenditure authority for the Consolidated Automated Program Enterprise System (CAPES) to fund application development support.
- **Green Building Standards.** The Governor's budget proposes an augmentation of \$150,000 from the Building Standards Administration Special Revolving Fund to enable HCD's State Housing Law Program to meet its code development and adoption responsibilities associated with the California Green Buildings Standards Code.

- **Habitat for Humanity Fund.** The budget proposes \$250,000 for the Habitat for Humanity Fund, with additional authority to allow the Department of Finance to augment the appropriation, in order to align program expenditures with revenue collections associated with voluntary tax check-off contribution.
- **Proposition 1C Adjustments.** The Governor's Budget proposes various adjustments to the Proposition 1C local assistance budget authority related to the Infill Infrastructure Grant Program, Housing Related Parks Program, Transit-Oriented Development Implementation Fund, and the Regional Planning, Housing, and Infill Incentive Account.

## DEPARTMENT OF FAIR EMPLOYMENT AND HOUSING

The Governor's budget includes \$25.8 million for the Department of Fair Employment and Housing (DFEH) in 2016-17, an increase of \$2.6 million or 11 percent from the current year. DFEH is funded from General Fund and the Federal Trust Fund.

### Key Issue in DFEH

- **Enforcement Resources.** The Governor's Budget proposes \$2.5 million (General Fund) and 21 positions in 2016-17, ongoing to provide resources for enforcement investigation of complaints of civil rights violations, and to respond to Public Resources Act requests in order to meet statutory requirements.

## DEPARTMENT OF HUMAN RESOURCES

The Governor's budget includes \$100.6 million for California Department of Human Resources (CalHR) in 2016-17, an increase of \$2.8 million or less than 2.8 percent from the current year. CalHR is funded with General Fund, Special Funds, and Reimbursements.

### Major Issues in CalHR

- **Civil Service Improvement.** The Governor's budget includes 16 positions and \$1.9 million in 2016-17, 17 positions and \$1.8 million in 2017-18, and \$1.8 million in 2018-19 to implement Civil Service Improvement reforms and identify new areas of improvement.
- **Human Resources Audits.** This proposal includes 5.7 positions and \$701,000 in 2016-17, and 9.4 positions and \$991,000 in 2017-18 and ongoing to fund an audit program for human resources practices delegated to departments by CalHR. The audit function will allow CalHR to be more proactive in identifying compliance issues within departments.

**Other Key Issues in CalHR**

- **Information Security Staffing.** The budget proposes one position and \$154,000 in 2016-17, and \$145,000 in 2017-18 and ongoing to address workload resulting from security assessments and the need to improve security practices in the department.
- **Developmental Disability Internship Program.** The Governor's budget includes two positions and \$164,000 in 2016-17, and \$146,000 ongoing to implement SB 644 (Hancock, Chapter 356, Statutes of 2015). SB 644 allows a person with a developmental disability to complete an internship in lieu of the requirement to take and pass the Readiness Evaluation prior to being hired into state or civil service.
- **Expansion of Healthier U: State Employee Wellness Program.** This proposal includes \$100,000 in reimbursement authority for 2016-17 and \$250,000 ongoing to phase-in implementation and support of a wellness program service for all state employees. The wellness program service will provide all state employees with opportunities to track and monitor health practices and access to wellness resources.
- **Review of the Merit System Services Program.** The Governor's budget includes \$115,000 in reimbursement authority in 2016-17 to develop a strategy to transfer back state duties performed by Cooperative Personnel Services, the contractor that currently administers the Merit System program on behalf of CalHR.

**CALIFORNIA STATE TEACHER'S RETIREMENT SYSTEM**

The Governor's budget includes \$2.5 billion (General Fund) in 2016-17 for the California State Teacher's Retirement System (CalSTRS) in alignment with the funding strategy approved in the 2014 Budget Act to address the \$72.7 billion unfunded liability. The contributions to the system in 2016-17 will increase by 6.3 percent for the state, 10.2 percent for most teachers, and 12.6 percent for school districts. The state makes an additional contribution of 2.5 percent of teacher compensation to CalSTRS for the Supplemental Benefits Maintenance Account.

**Major Issue in CalSTRS**

- **Investment Portfolio Complexity.** CalSTRS requests \$2.57 million in permanent funding for 15 positions and travel costs for investment staff and for Financial Services and Human Resources support.

## PUBLIC EMPLOYMENT RELATIONS BOARD

The Governor's budget includes \$10.3 million in 2016-17 for the Public Employment Relations Board (PERB), an increase of \$1.1 million or 11.3 percent from the current year. PERB is funded through the General Fund and Reimbursements.

### **Major Issues in PERB**

- **Backlog Reductions.** The budget includes 5 positions and \$885,000 in 2016-17 and \$873,000 in 2017-18 and ongoing to address the increased workload, reduce backlogs, and contribute towards meeting statutory requirements. This proposal was included as part the Assembly budget proposal last year, but was ultimately not included in the final Budget Act.
- **Los Angeles Regional Office Relocations.** The Governor's budget includes \$100,000 one-time funding costs, and \$117,000 ongoing for increased rent to relocate PERB's Los Angeles Regional Office from its current location in Glendale. The current location is not ADA-compliant.

## CALIFORNIA SECURE CHOICE RETIREMENT SAVINGS INVESTMENT BOARD

The Governor's budget includes \$200,000 in 2016-17 for the California Secure Choice Retirement Savings Investment Board (Board), a decrease of \$600,000 or 75 percent from the current year. The Board is funded through the Secure Choice Retirement Investment Savings Program Fund.

### **Key Issue for the Board**

- **Reappropriation of Funds.** The budget includes a reappropriation of the remainder of balance of the 2015-16 \$1 million appropriation, estimated to be \$200,000, as well as continuing provisional language allowing for additional expenditure authority.

## DEPARTMENT OF GENERAL SERVICES

The Governor's budget includes \$1.08 billion in 2016-17 for the Department of General Services (DGS), an increase of \$6.9 million or less than 1 percent from the current year. DGS is funded through the General Fund and special funds.

### **Major Issue in DGS**

- **Sacramento Region: State Office Infrastructure Plan.** The Governor's budget includes \$1.5 billion transfer from the General Fund to a new State Office Infrastructure Fund to be used for the renovation or replacement of state office buildings in the Sacramento region. The Governor's budget focuses on the Capitol

Annex, the Natural Resources Agency building and a new building to replace the Department of Food and Agriculture Annex.

### **Other Key Issues in DGS**

- **Cap and Trade Expenditure Plan – Energy Efficiency for Public Buildings.** The budget includes \$30 million from the Greenhouse Gas Reduction Fund and ongoing for five positions beginning in 2016-17 to support activities to reduce greenhouse gas emissions in state buildings by 20 percent. Funds will support the acceleration and expansion of the existing Statewide Energy Retrofit Program.
- **Mercury Cleaners Site Remediation.** This proposal includes \$2.14 million in 2016-17 to continue the remediation efforts of the former Mercury Cleaners site. There will be a request for General Fund expenditure authority in 2017-18 for continued testing, cleanup, and monitoring activities, and continuing requests each year for a period up to 20 years.
- **Equipment Maintenance Management Insurance Program.** The Governor's budget includes an increase in expenditure authority of \$231,000 (Service Revolving Fund) and 2 permanent positions for the DGS Office of Risk and Insurance Management.
- **Enhancing Procurement Cost Savings for State Departments.** This proposal includes resources for DGS Procurement Division in the amount of \$670,000 in expenditure authority and 4 positions in 2016-17, and an additional \$1.26 million and 8 positions in 2017-18. These positions will support increased workload associated with the implementation of the Financial Information System for California (Fi\$CAL).
- **Procurement Workload Increases.** This proposal requests 6 positions for the DGS Procurement Division to meet new customer demands within the division.
- **Human Resources Modernization, Workforce Planning, and Customer Satisfaction.** The Governor's budget includes \$511,000 for the DGS Office of Human Resources for 4 positions in 2016-17 to meet the goals set in the Strategic Plan for a reduction in Account Receivables, to properly supervise and support technical staff, to meet increase workload demand in training and to develop a recruiting position.
- **Department of Education, State Special Schools and Services Division.** The proposal includes \$1.75 million to replace an existing, dilapidated modular building used as an activity center for Middle School students at the California School for the Deaf-Fremont.



## LOCAL GOVERNMENT

The Governor's budget includes \$25 million for a new Siting Incentive Grants program. This program proposes incentive payments to cities and/or 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 use disorder treatment, mental health, and reentry programming. The details of this proposal have yet to be released by the Administration. The Assembly may consider whether or not this program can be expanded to other hard-to-site facilities in local governments such as homeless shelters.

## COMMISSION ON STATE MANDATES

The Governor's budget includes \$50 million for the Commission on State Mandates (COSM) in 2016-17, an increase of \$886,000 or 1.8 percent from the current year. The COSM is funded through the General Fund and Special Funds.

The budget continues to fund mandates that are related primarily to law enforcement and property tax.

<b><u>Proposed to be Funded</u></b>	<b>2016-17 Proposed Budget Bill (\$ in 000s)</b>
Accounting for Local Revenue Realignments (new)	97
Allocation of Property Tax Revenues	661
California Public Records Act	7,578
Crime Victims' Domestic Violence Incident Reports	166
Custody of Minors - Child Abduction and Recovery	13,328
Domestic Violence Arrest Policies	8,494
Domestic Violence Arrests and Victims Assistance	2,725
Domestic Violence Treatment Services	2,019
Health Benefits for Survivors of Peace Officers and Firefighters	2,943
Local Agency Ethics	0
Medi-Cal Beneficiary Death Notices	26
Medi-Cal Eligibility for Juvenile Offenders	11
Peace Officer Personnel Records: Unfounded Complaints & Discovery	548
Rape Victim Counseling	353
Sexually Violent Predators	5,129
State Authorized Risk Assessment Tool	725
Threats Against Peace Officers	263
Tuberculosis	83
Unitary Countywide Tax Rates	456
<b>Total Funded Costs</b>	<b>\$45,555</b>

## DEPARTMENT OF CONSUMER AFFAIRS

The Governor's budget proposes total spending of \$648.9 million (non-General Fund) for the Department of Consumer Affairs (DCA) in 2016-17, an increase of 1.6 percent from the current year. DCA is funded from special funds of the various Boards and Bureaus. Proposed staffing totals 3,109 personnel.

DCA is responsible for promoting and protecting the interests of millions of California consumers by establishing minimal competency standards for approximately 250 license categories involving approximately three million businesses and professionals.

### **Major Provisions**

- **Establishing a Board to Oversee the Medicinal Marijuana Regulations.** The Budget includes \$1.6 million in 2015-16, \$3.8 million in 2016-17, \$4.1 million in 2017-18, and \$492,000 in 2018-19 and 2019-20 in order to fund the development and initial start-up of the Bureau of Medical Marijuana Regulation. This funding includes funding for 9.7 positions.

In an effort to increase efficiencies within the Department of Consumer Affairs the Governor's Budget includes 20 proposals requesting increased funding and positions, as detailed in the following table.

**DCA Resources Requests:** (Dollars are listed in thousands)

Board/ Bureau	Proposal Title	Requested Funding 2016-17	Requested Positions 2016-17	Proposed Funding 2017-18
Accountancy	Cashiering Staff Augmentation	\$154	2.0	\$138
Behavioral Sciences	Increase Position Authority in the Licensing and Exam Units	\$557	8.5	\$533
Professional Engineers	Exam-Development Position	\$118	1.0	\$110
Psychology	Conversion of Intermittent Position to Permanent	\$63	1.0	\$63
Real Estate	Licensing Positions Request	\$313	3.0	\$289
Security and Investigative Sciences	Enforcement Positions Request	\$241	2.0	\$225
Security and Investigative Sciences	Licensing Staff Augmentation	\$245	3.0	\$221
Court Reporters	Occupational Analysis	\$53	-	\$47
Dental Hygiene	Probation Monitoring Staff Augmentation	\$90	1.0	\$82
Medical Board	Medical Expert Reviewers	\$206	-	\$206
Medical Board	Staff Augmentation	\$113	1.0	\$105
Naturopathic Medicine	Conversion of Limited-Term Position to Permanent	\$101	1.0	\$101
Occupational Therapy	Enforcement Staff Augmentation	\$596	6.0	\$548
Occupational Therapy	Licensing Staff Augmentation	\$121	1.5	\$105
Osteopathic Medicine	Office Technicians' Expenditure Authority Request	\$175	3.0	\$175
Osteopathic Medicine	Rent Augmentation	\$50	-	\$50
Pharmacy	Combatting Prescription Drug Abuse	\$1,261	8.0	\$1,261
Physical Therapy	Licensing Staff Augmentation	\$268	3.0	\$244
Speech-Language Pathology	Licensing Staff Augmentation	\$90	1.0	\$82
Veterinary Medical Bd	Veterinary Assistant Controlled Substances Permits	\$256	4.0	\$256

**Other Key Issues**

The Governor's Budget includes nine proposals related to the implementation of legislation. The table below details these proposals. (Dollars are listed in thousands).

Board/ Bureau	Proposal Title	Requested Funding 2016-17	Requested Positions 2016-17	Proposed Funding 2017-18
Acupuncture	SB 1246 Curriculum Review & Licensing	\$512	4.0	\$373
Multiple	SB 467 Attorney General Consumer Protection Enforcement Initiative Workload	\$1,400	-	\$1,400
Multiple	SB 467 Attorney General Reporting	\$1,300	-	\$1,300
Registered Nursing	SB 466 Enforcement Audit	\$450	-	-
Vocational Nursing	AB 179 Administrative and Enforcement Program Monitor	\$150	-	\$150
Athletic Commission	SB 469 Drug Testing	\$115	0.5	\$107
Dental Board	Enforcement Support Staff	-	2.0	-
Pharmacy	SB 294 Sterile Compounding Facilities	\$1,088	5.5	\$1,088
Dispensing Opticians	AB 684 Registered Dispensing Opticians Move to Optometry Board	-	1.1	-

## FAIR POLITICAL PRACTICES COMMISSION

The Governor's budget proposes total spending of \$11.9 million (\$11.2 million General Fund) for the Fair Political Practices Commission (FPPC), an increase of 6.8 percent from the current year. The Commission is funded from General Fund and reimbursements. Proposed staffing totals 70 personnel.

The Fair Political Practices Commission has primary responsibility for the impartial administration, implementation, and enforcement of the Political Reform Act of 1974.

### **Key Issue**

- **Statements of Economic Interests Reporting.** The Budget includes an increase in expenditure authority of \$210,000 in 2016-17 and 1.5 positions to implement the provisions of SB 21 (Hill, Chapter 757, Statutes of 2015). This request includes ongoing funding of \$196,000.

## DEPARTMENT OF TECHNOLOGY

The Governor's budget includes \$364.5 million for the Department of Technology in 2016-17, a decrease of \$13.5 million or 3.6 percent from the current year. Most of the funding for the Department is through reimbursements and changes made to state departments for services; the Department receives only \$4.5 million General Fund for its support. Proposed staffing totals 919 personnel.

The Department of Technology is the central control agency for the purchase of IT products and services for the State and also provides telecommunications, data center and cloud-based computer services to various state departments.

### **Key Issues**

- **Expansion of the Security Compliance Audit Program.** The Budget includes an augmentation of \$1.6 million and 11 positions in budget authority from the Technology Services Revolving Fund to expand and make permanent the information security compliance audit program. This audit program will eventually be responsible for performing 23 risk-based audits of noncompliant departments annually and will help to ensure that state entities are in compliance with information safety protocols.
- **Adjusting the Workload for the Statewide Information Technology Project.** The Budget includes an augmentation of \$1.7 million and 12 positions from the Technology Services Revolving Fund in order to provide extended procurement support and project oversight to ensure the success of reportable IT projects statewide.

- **Technical Adjustment of Position Authority.** The Budget includes a shift of 50 employees from the temporary help blanket to permanent positions, which will allow for vital operations to continue.

## DEPARTMENT OF VETERANS AFFAIRS

The Governor's budget includes \$454 million (\$382.5 million General Fund) for the Department of Veterans Affairs in 2016-17, an increase of \$24.4 million or 5.6 percent from the current year. The Department of Veterans Affairs is funded from General Fund, reimbursements, and special funds. Proposed staffing totals 3,199 personnel.

California is home to 1.8 million veterans, more than any other State and about 8 percent of the nation's veteran population. California anticipates receiving an additional 30,000 discharged members of the armed services each year for the next several years. Historically, the largest demand for benefits and services for veterans occurs immediately after discharge and again as the veteran population ages and requires greater access to medical facilities and long-term care services.

### Major Provisions

- **Addressing Residential Nursing Care Shortages.** The Budget includes an augmentation of \$2.9 million General Fund and 32 positions to address nursing care shortages and improve the level of care for residents at the Yountville, Barstow, and Chula Vista Veterans Homes.
- **Renovation of the Yountville Kitchen.** The Budget includes an augmentation of \$5.9 million for the renovation of the main kitchen at the Yountville Veterans Home. Many of the appliances in the kitchen do not function properly, and this funding is critical in order for the Home to meet licensing and regulatory requirements.
- **Establishing a Memory Care Unit at the West Los Angeles Veterans Home.** The Budget includes an augmentation of \$3.3 million and 32 positions to staff the skilled nursing facility unit at the West Los Angeles Veterans Home.

### Other Key Issues

- **Changes to Food Service Delivery at Fresno and Redding Veterans Homes.** The Budget includes an augmentation of \$592,000 and 9 positions in order to bring the kitchens at these Veterans Homes up to compliance with California Department of Public Health standards.
- **Supporting Homeless Veterans.** The Budget includes an augmentation of \$406,000 from the Housing for Veterans Fund and 4 positions in order to support the development, implementation, and monitoring of the Veterans Housing and Homeless Prevention Program.



## SECRETARY OF STATE

The Governor's budget proposes total spending of \$140.7 million (\$29 million General Fund) for the Secretary of State's Office (SOS), an increase of 7.8 percent from the current year. The SOS is funded from reimbursements and special funds. Proposed staffing totals 496 personnel.

The SOS, a constitutionally established office, is the chief elections officer of the state and is responsible for the administration and enforcement of election laws. The SOS also is responsible for administering and enforcing laws pertaining to filing documents associated with corporations, limited liability companies, partnerships, limited partnerships, unincorporated associations and pertaining to filing bonds and perfecting security agreements. In addition, the SOS is responsible for commissioning notaries public, enforcing the notary laws, and in conjunction with being the home of the State Archives, preserving documents and records having historical significance.

### **Major Provisions**

- **Expediting the Business Filing Process.** The SOS is requesting an augmentation from the Business Fees Fund of \$5.5 million and 52 positions in order to continue to maintain the average five business day turnaround and processing time for business filings and statements of information.
- **Help America Vote Act Spending Plan.** The SOS is requesting \$54.1 million in spending authority from the Federal Trust Fund in order to continue implementation of statewide mandates of the Help America Vote Act of 2002.
- **Help America Vote Act, VoteCal.** The SOS is requesting \$5.4 million in spending authority from the Federal Trust Fund to cover costs of VoteCal's Maintenance and Operations.

### **Other Key Issues**

- **Improving Security at the Secretary of State Headquarters Building.** The SOS is requesting \$226,000 (\$172,000 Business Fees Fund and \$54,000 General Fund) and 2 positions in order to meet staffing needs to coordinate the security infrastructure improvement project currently in progress at the SOS Headquarters Building.

## CALIFORNIA DEPARTMENT OF INSURANCE

The Governor's budget includes \$269 million in 2016-17 for the Department of Insurance (CDI), a slight decrease of \$100,000 or less than 1 percent from the current year. CDI is funded through the General Fund, Insurance Fund, Federal funds, and Reimbursements.

### **Key Issues in CDI**

- **Life and Disability Policies.** The budget proposes an increase in special fund authority of \$430,000 in 2016-17, and \$270,000 ongoing, to comply with Assembly Bill 387 (McCarty, Chapter 691, Statutes of 2015). AB 387 extends the period of time allowed for the Insurance Commissioner to review disability insurance policies from 30 to 120 days, and requires the Commission to take steps to facilitate the filing and approval of life and disability insurance products, among other things.
- **Principle-Based Reserving.** The Governor's budget includes an increase in special fund expenditure authority of \$925,000 in 2016-17, and \$984,000 in 2017-18, and ongoing, to fund 5 positions to address the increase in workload related to Principle-Based Reserving in Senate Bill 696 (Roth, Chapter 658, Statutes of 2015).
- **Resource Redirection.** The budget requests approval to realign special fund expenditure authority of \$808,000 in 2016-17, and ongoing to the General Fund Tax Collection and Compliance to the Regulation of Insurance Companies and Insurance Producers, and Administration, to address workload demands.
- **CDI Network Switch Replacement.** The budget requests a one-time special fund expenditure authority increase in 2016-17 of \$1,669,000 to support the replacement of network switches to keep CDI's network systems up and running and protected against cyber threats.
- **CDI Modernization Project –Year 3.** The Governor's budget includes a one-time increase of expenditure authority in 2016-17 of \$2,749,000 to support 4 positions and 2.5 temporary help authority to complete Year 3 implementation of a five-year project to replace its legacy CDI Menu and Integrated Database.
- **Outpatient Prescription Drugs.** The budget includes an increase in special fund expenditure authority of \$242,000 in 2016-17, and \$235,000 in 2017-18, and ongoing to support 1 position and a \$100,000 consulting services contract with a pharmacist to comply with AB 339 (Gordon, Chapter 619, Statutes of 2015).

## DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL

The Governor's budget includes \$62.5 million in 2016-17 for the Department of Alcoholic Beverage Control (ABC), an increase of \$166,000 or less than 1 percent from the current year. ABC is funded primarily through reimbursements and the Alcoholic Beverage Control Fund. There is no General Fund impact.

### **Major Provision**

- **Vacancy Rates for Enforcement Officers.** ABC continues to be challenged with filling vacant positions at their agency. ABC often acts like a training arena for other law enforcement agencies. When positions at other agencies are vacant, agents who have been trained through ABC often leave for positions that have better hours and compensation. What steps can the Assembly take in order to make the positions at ABC more attractive and retain quality staff at ABC?

### **Key Issues in ABC**

- **Augmentation of Staff Resources for Information Technology.** This proposal requests 1 System Specialist position and an increase in the Department's appropriation authority by \$177,000 to provide information technology infrastructure support and security to the Department and the public.
- **SB 796 Sunset Deletion.** The budget includes resources to convert 1 limited term agent position to a permanent position to continue enforcement of activities resulting from AB 636 (Hall, Chapter 329, Statutes of 2013).

## DEPARTMENT OF BUSINESS OVERSIGHT

The Governor's budget includes \$92.8 million in 2016-17 for the Department of Business Oversight (DBO), an increase of \$1.2 million or 1.3 percent from the current year. DBO is funded through Special Funds and Reimbursements; there is no General Fund impact.

### **Key Issues in DBO**

- **Internal Auditing Unit.** The January budget proposes \$334,000 for two positions to establish an internal auditing unit to provide ongoing, independent, objective evaluation and assessment of internal controls of DBO.
- **Department of Corporations Quality Network (DOCQNET) System Support.** The Governor's budget includes \$1.1 million and seven positions for continual support of the DOCQNET system.

## OFFICE OF ADMINISTRATIVE LAW

The Governor's budget includes \$3.4 million in 2016-17 for the Office of Administrative Law (OAL), an increase of \$201,000 or 6.2 percent from the current year. OAL is funded through General Fund, Reimbursements, and the Central Cost Recovery Fund.

### **Key Issue in OAL**

- **Enhanced Regulatory Training.** The Governor's budget includes \$177,000 for one position to provide an increase in the number of training classes on how to conduct rulemaking actions to address the demand by state agencies and to enhance the current training provided.

## CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE

The Governor's budget includes \$8.4 million in 2016-17 for the California Tax Credit Allocation Committee (CTCAC), an increase of \$679,000 or 8.8 percent from the current year. CTCAC is funded through Occupancy Compliance Monitoring Account, Tax Credit Allocation Fee Account, and Reimbursements.

### **Key Issues in CTCAC**

- **Compliance Monitoring Staff Augmentation.** The Governor's budget includes a request for four positions to perform IRS compliance monitoring services.
- **Development Section Staff Augmentation.** The budget proposes three positions for the Development Section to carry out core functions and to administer the federal and state mandates of the Low Income Tax Credit program.

## STATE CONTROLLER'S OFFICE

The Governor's budget includes \$200.5 million for the State Controller's Office (SCO) 2016-17, a decrease of \$5.8 million or 2.8 percent from the current year. SCO is funded with General Fund and special funds.

### **Major Issues in SCO**

- **21<sup>st</sup> Century Project Legal Efforts.** The budget proposes \$4.8 million in 2016-17 and eight positions for six months to support ongoing legal activities as a result of the 21<sup>st</sup> Century Project. This proposal also includes budget bill language that allows the cost of the project to be increased through the Joint Legislative Budget Committee. The legislature may wish to evaluate whether or not they would like to continue including the provisional language.

- **PPSD Systems Support.** The budget requests \$1.126 million in 2016-17 and \$1.011 million in 2017-18 through 2018-19 for 7.9 positions to support payroll and personnel mainframe based systems known as the Uniform State Payroll Systems.
- **Sustained Accounting Workload.** This proposal includes additional resources for the SCO Division of Accounting and Reporting's Cash Management Bureau to continue statewide cash management services.
- **SCO Fi\$CAL System Support.** This proposal includes \$1.699 million in 2016-17, and \$1.599 million in 2017-18 and 2018-19, for 13 positions to support new workloads resulting from the Fi\$CAL project.
- **Unclaimed Property**
  - **Fraudulent Claims Prevention and Detection Program.** This proposal requests \$986,000 in 2016-17 through 2018-19 for 9 positions and \$1.3 million for 8 positions in 2016-17 and ongoing for the Unclaimed Property Fund for the continued support of the SCO's Unclaimed Property Fraudulent Claims Prevention and Detection Program.
  - **Holder Compliance Initiative.** The Governor's budget includes \$1.19 million for 2016-17 through 2018-19 for 11 positions and \$1.49 million for 12.1 positions from 2016-17 and ongoing from the Unclaimed Property Fund to reunite owners with their lost and abandoned property by continuing the Holder Outreach and Compliance program.

### **Other Key Issues in SCO**

- **Affordable Care Act (ACA) and Public Employees' Pension Reform Act (PEPRA) Legislation Workload.** This proposal requests \$961,000 in 2016-17 and \$927,000 in 2017-18 for 8.4 positions to support the continuing impact of major changes to the SCO's Uniform State Payroll System, the Affordable Care Act Database System, and associated business processes as a result of mandated State and Federal Legislation.
- **Personnel and Payroll Transaction Workload.** The Governor's budget proposes \$325,000 in 2016-17 and \$287,000 in 2017-18, and ongoing for 4 positions to improve a 46 percent call answer rate, and dedicate staff to complete production work.
- **Statewide Personnel/Payroll Training.** The Governor's budget proposes \$307,000 in 2016-17 and \$235,000 in 2017-18, to support 2.1 positions; and \$769,000 in 2016-17 and \$763,000 in 2017-18 and ongoing to support 7.4 positions to continue to meet the needs for statewide personnel and payroll training.

## CALIFORNIA SCIENCE CENTER

The Governor's budget includes \$33.3 million in 2016-17 for the California Science Center, an increase of \$425,000 or 1.3 percent from the current year. The California Science Center, the Office of Exposition Park Management, and the California African American Museum, are all located in Exposition Park in Los Angeles. The California Science Center is funded through the General Fund, Exposition Park Fund, and Reimbursements.

### **Key Issues in California Science Center**

- **California African American Museum (CAAM).** The budget proposes \$275,000 (Exposition Park Improvement Fund) for the renovation of 4 bathrooms and the replacement of the 2 wall mounted drinking fountains inside the CAAM building.
- **Exposition Park Reimbursement Authority Increase.** This item proposes to increase the annual baseline Reimbursement Authority from its current amount of \$508,000 to \$638,000 to pay for annual assessments levied against the Exposition Park Improvement Fund and address critical deferred park maintenance, major repairs, capital improvements, help meet assessment obligations and improve overall security.

## CALIFORNIA ARTS COUNCIL

The Governor's budget includes \$12.1 million in 2016-17 for the California Arts Council, an increase of \$33,000 or less than 1 percent from the current year. The Arts Council is funded through the General Fund, special funds, and reimbursements.

## COMMISSION ON DISABILITY ACCESS

The Governor's budget includes \$639,000 in 2016-17 for the Commission on Disability Access, an increase of \$101,000 or 19 percent from the current year. The Commission on Disability Access is funded through the General Fund.

### **Major Issue for the Commission**

- **Disability Access: Construction-related Accessibility Claims.** The Governor's budget includes \$100,000 (General Fund) and one position to implement and administer the provisions of AB 1521 (Committee on Judiciary, Chapter 755, Statutes of 2015). AB 1521 provides additional information and legal resources to small business owners who may not realize how to minimize their liability for Americans with Disabilities Act (ADA) violations or respond to a lawsuit filed against them.

## SECRETARY OF LABOR AND WORKFORCE DEVELOPMENT AGENCY

The Governor's budget includes \$2.9 million in 2016-17 for the Labor Agency, including \$152,000 General Fund, which represents an increase of \$270,000 or approximately 10 percent from the current year.

The Labor and Workforce Development Agency was established to address issues relating to California workers and their employers. The Agency is responsible for labor law enforcement, workforce development, and benefit payment and adjudication. The Agency works to combat the underground economy and help legitimate businesses and workers in California through a combination of enforcement and education activities.

### **Key Provisions**

- **Private Attorney General Act Resources.** The Budget includes \$207,000 from the Labor and Workforce Development Fund and one position to oversee the review of Private Attorney General Act cases and any associated settlements. Please see the Department of Industrial Relations BCP on this same subject for information on additional, associated resources being requested.

## EMPLOYMENT DEVELOPMENT DEPARTMENT

The Governor's budget includes \$13.8 billion, including \$147.3 million General Fund, in 2016-17 for the Employment Development Department (EDD), an increase of \$162.6 million or approximately 1.2 percent from the current year. EDD is funded through the General Fund, special funds, and reimbursements. EDD's purpose is to provide a variety of services to facilitate a match between employers' needs and job seekers' skills. The Unemployment Insurance Program, Disability Insurance Program, Employment Training Panel, and Workforce Innovation and Opportunity Act are some of the major public services administered through EDD.

### **Key Provisions**

- **Unemployment Insurance Program Funding BCP.** The Budget requests a reduction of \$33.9 million and 148.2 Personnel Equivalents in Unemployment Administration Fund authority for 2016-17, due to updated workload estimates, reduced federal carryforward, and reduced Electronic Benefit Payment (EBP) earnings. To offset the decrease in federal earnings, carryforward, and EBP revenue, the EDD requests an increase of \$10.4 million of Contingent Fund and \$10.4 million of Benefit Audit Fund to continue to support the Unemployment Insurance Program. The additional funding will allow the EDD to meet its service targets for answering telephone calls, scheduling eligibility determination interviews, processing claims, and responding to online inquiries.



## DEPARTMENT OF INDUSTRIAL RELATIONS

The Governor's Budget includes \$641.4 million in 2016-17 for the Department of Industrial Relations (DIR), an increase of \$13.4 million or 2.1 percent from the current year. DIR is funded through special funds and reimbursements, with no General Fund.

### Key Provisions

- **Private Attorneys General Act (PAGA) Resources BCP.** The Labor and Workforce Development Agency and the DIR together request 10.0 positions and \$1.6 million in resources from the Labor and Workforce Development Fund for 2016-17 and \$1.5 million ongoing to stabilize and improve the handling of PAGA cases, largely, the administration states, to the benefit of workers, employers, and the state. The resources are intended to 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. This proposal also includes extensive trailer bill language to implement the statutory changes that the administration states are needed to provide DIR with the enhanced oversight needed to achieve the stated outcomes.
- **Revenue and Expenditure Alignment for Various Special Funds BCP.** This proposal, including extensive trailer bill language, attempts to align expenditure authority and special fund revenue from various fees and permits to the appropriate program, increase resources for labor law enforcement in the car wash program to help bring its special funds into balance, delete decades-old statutory caps on certain fees to allow for proper cost recovery, and clean up and standardize language for various fees and permits. This proposal makes statutory changes to various sections of the Labor Code for the Division of Occupational Safety & Health and the Division of Labor Standards Enforcement. Included in this proposal is the elimination of 7.0 positions related to the Child Performer Services Permit program, with 1.0 of these positions being redirected to the Asbestos and Carcinogen Unit and another 4.0 positions being redirected to labor law enforcement in the car wash industry.
- **Division of Labor Standards Enforcement (DLSE) Resources BCP.** The Budget requests an increase of 28.5 positions and \$4.9 million in 2016-17, 28.5 positions and \$4.8 million in 2017-18 with an ongoing need of 26.5 positions and \$3.7 million in resources to achieve the following for the Wage Claim Adjudication (WCA) unit and the Retaliation Complaints Investigation (RCI) unit: (a) Address the backlog that has accumulated due to an increase in caseload and the increase in complexity associated with evolving labor law requirements; and (b) Provide sufficient supervisory oversight to help ensure uniform performance throughout the state.
- **Enhanced Enforcement & Compliance (2015 Legislation) BCP.** The Budget requests 33.5 positions and \$5.9 million in 2016-17, 28.5 positions and \$4.5 million in 2017-18, with 22.5 positions and \$3.5 million ongoing to fulfill the provisions of recently chaptered legislation, including: AB 219 (Chapter 739 of 2015), AB 438 (Chapter 515 of 2015), AB 621 (Chapter 741 of 2015), AB 970 (Chapter 783 of 2015), AB 1124

(Chapter 525 of 2015), AB 1509 (Chapter 792 of 2015), AB 1513 (Chapter 754 of 2015), SB 350 (Chapter 547 of 2015), SB 358 (Chapter 546 of 2015), and SB 588 (Chapter 803 of 2015).

- **Amusement Ride and Tramway Staffing Increase BCP.** The Budget requests 3.0 positions and \$570,000 in Budget Year and \$547,000 ongoing, to allow the Amusement Ride and Tramway (ART) Unit to exercise its statutory authority to inspect permanent amusement rides; temporary amusement rides when they are disassembled, moved, and reassembled; and aerial passenger tramways on a routine basis. Inspection requirements would be amended through trailer bill language to eliminate unnecessary operational inspections where the Division already inspected the particular ride under a separate statutory requirement.
- **Mining and Tunneling Safety Inspectors BCP.** The Division of Occupational Safety and Health (DOSH) requests 2.0 positions and \$563,000 for 2016-17 and \$548,000 ongoing in the Occupational Safety & Health (OSH) Fund to provide resources to begin to close the gap between current inspection levels and current statutory requirements for inspecting California tunnels and mines.

## FI\$CAL

The Governor's budget includes \$135.2 million (\$96.3 million General Fund) for the FI\$Cal project, which is currently replacing the State's IT system for accounting and budget purposes. Implementation of the project is currently underway and is expected to continue for several more years.

### Key Issues:

- **Change in Project Milestones and Budget Scope.** The Governor's budget includes a proposal to extend the implementation of the FI\$Cal project, resulting in an increase in project costs of \$110.3 million and the extension of the project for an additional two years, to 2019. The additional funds represent additional training and a slower implementation timeframe for the project.
- **Establishment of the "Department of FI\$cal".** The Governor's budget proposal includes trailer bill language to spin off the FI\$Cal project staff and help desk into a separate department. Currently these employees are part of the Department of Finance.

## GOVERNOR'S OFFICE OF PLANNING AND RESEARCH

The Governor's budget includes \$546.3 million (\$14. million General Fund) for the Office of Planning and Research, which supports several initiatives affiliated with the Governor's Office. The Office is home to the Strategic Growth Council, whose oversight of \$500 million in Greenhouse Gas Reduction funds proposed in the budget represents most of the funding for the Office.

### **Major Provisions**

- **Transformational Climate Communities Program.** The budget proposes \$100 million of one-time Greenhouse Gas Reduction Funds for the Transformational Climate Communities Program (Program) to support local climate action implementation in the State's top 5 percent disadvantaged communities. Funding would support projects that integrate multiple, cross-cutting approaches to reduce greenhouse gas emissions. The program would be administered by the Strategic Growth Council, which could use up to 5 percent of the total funds for administrative purposes.
- **Local Control Funding Formula Evaluation Contract Extension.** The Governor's Budget proposes \$548,000 General Fund to continue Local Control Funding Formula (LCFF) evaluation contract activities. Under this proposal, the evaluation would receive \$572,000 in 2017-18, and \$304,000 in 2018-19.

In 2013-14, \$2 million of General Fund was appropriated to the Office of Planning and Research for purposes of supporting the State Board of Education to implement the LCFF. The Office contracted with WestEd, a nonpartisan, nonprofit research, development, and service agency working with education communities throughout California to assist with the implementation of LCFF. WestEd has provided assistance with the development of the LCAP template, spending regulations, and evaluation rubrics. Since July, 2013, WestEd has convened 62 public stakeholder input sessions and convened the LCFF Implementation Working group to support the development of the LCAP template and Annual Update, and coordinated the Rubric Design Group and User Acceptance Testing pilot to assist with developing the evaluation rubrics.

The funding that was being used to support the current positions expires June 30, 2016 and all remaining funds will be encumbered to contract for services that will be completed by June 30, 2017. This proposal will support the immediate need to develop the evaluation rubrics by the statutory deadline of October 1, 2016. In addition, this proposal will support California's transition to LCFF as the new accountability system, and the integration of all the state accountability components, including, but not limited to the LCAP, Annual Update, evaluation rubrics, state academic standards, state curriculum frameworks, and state assessments. The deliverables completed through this process will ensure that the LCFF will support growth in Local Education Agency, school, and student subgroup performance and incorporate evidence or practice

expectations to align resources as the new accountability system that supports continuous improvement.

**Other Key Issues:**

- **Transfer of CEQA Database.** The budget includes \$200,000 one-time and \$57,600 on ongoing funding to transfer the CEQANet 2.0 database from the University of California Davis to the Department of Technology for the Office of Planning and Resources. The database would allow on-line submission, posting, transmittal, and comment on all California Environmental Quality Act notices and environmental documents. The one-time costs will be for the Department of Technology to upgrade the database to include better GIS functionality, mapping searches, and project impact analyses. The on-going costs will be for the long-term hosting and maintenance needs for the upgraded CEQANet 2.0.
- **Implementation of the Integrated Climate Adaption and Resiliency Program.** The Office of Planning and Research requests \$300,000 General Fund to administer the Integrated Climate Adaptation and Resiliency Program (ICARP). The ICARP will coordinate regional and local climate adaptation efforts with state climate strategies to adapt to the impacts of climate change as required per Senate Bill 246 (Wieckowski, Chapter 606, Statutes of 2015). The OPR requests funding for two permanent, full-time staff positions, development of a clearinghouse website for climate adaptation information, on-going hosting and maintenance of the clearinghouse website, establishment of an advisory council and travel expenses for council members.

## Staff Comment and Analysis of Governor's Budget Proposal

This year, the Governor's budget builds on themes from the past. He continues to focus on ensuring that there is a plan to address the retiree health care costs, address the deferred maintenance needs in our state, and improve the civil service system for the future workforce.

- **How Should the Assembly Invest in Affordable Housing?** The Governor's budget is silent on housing. The Administration has often said housing is an issue that should be handled at the local level, since a one-size approach will not work for the state. The Assembly will have to craft an approach to affordable housing that best leverages one-time funding. Does that mean the Assembly focuses on one issue such as decreasing homelessness? Or does it invest in programs that have shown proven success such as the Multi-Family Housing Program? What is the best way to increase the affordable housing units in local communities? How does the state balance providing new incentives for affordable housing units versus providing credits to developers who are already building current units? All of these are important goals to weigh in the Assembly's approach.
- **How Will the State Improve the Civil Service System?** The *Budget Summary* discusses the Governor's plan to provide additional funding for CalHR to improve the state's civil service system. It provides a lot of flexibility for CalHR to implement this plan with very little Legislative oversight. How will the state modify its current model to bring in new talent to replace a retiring workforce? How will the state attract the millennials that could potentially be moved through the ranks of a workforce rather quickly? What sort of training will this new group need? These are all questions that the Assembly should explore while participating in discussions on civil service.
- **What Role Should the Legislature Play in the Sacramento Region Infrastructure?** The Administration will release a sequencing plan for addressing the structural needs of the Sacramento region in the upcoming months. The Assembly will have to discuss and better understand how the Department of General Services created their plan. Is there another way to best utilize the \$1.5 billion set aside by the Governor for addressing these needs? How long will it take the state to address all the deficiencies of the buildings in the Sacramento area?
- **The Regulation of Medicinal Marijuana.** The Governor's Budget includes funding and positions in order to establish the new Bureau of Medical Marijuana Regulation. The total costs for this Bureau have not been estimated at this time, but the Department of Consumer Affairs has stated that it will submit a 2017-18 and/or a 2018-19 budget change proposal to extend the funding and request new Bureau-specific positions and funding. The Assembly should continue to monitor the resources necessary for this new Bureau, and be prepared to allocate further positions as necessary for enforcement of regulations determined by the Bureau.
- **Improving the Quality of Veterans Homes.** The mission of the Homes Division within the Department of Veterans Affairs is to provide premier care to our aged, homeless, and disabled Veterans in a home environment that fosters dignity for our Nation's

heroes – all with increased efficiencies. The Budget includes funding to increase staff, and repair and modernize equipment and facilities throughout the Veterans Homes system, however there are still many projects that will need the State's attention in the next few years. The Assembly should continue to monitor the effectiveness and efficiencies of the Veterans Homes and make adjustments where necessary in order to ensure the highest quality of services in the Homes.

- **Connecting Veterans to Their Federal Benefits.** The 2014-15 Budget provided an additional \$3 million General Fund to support County Services Veteran's Organization funding for counties to help California Veterans get the federal benefits they deserve. While the federal government has made progress addressing the backlog for veterans benefit claims, it has been the additional State-funded support that has allowed for the diminishment of the claims backlog. County Veterans Service Officers link veterans to their federal benefits and assist the veteran community in applying for and maintaining available benefits and entitlements to which they may be eligible. Last year, the Assembly supported continuing this funding for another three years, and should remain supportive of efforts to provide counties with the resources necessary to support the State's Veteran population.
- **Addressing Poverty Wages and Income Mobility.** On January 1 of this year, California raised its statewide minimum wage from \$9 per hour to \$10 per hour, with no further wage increases scheduled under current law. While ballot initiatives on the subject are being contemplated, the Legislature and Governor have an opportunity to consider how raising the minimum wage can assist in addressing the erosion of wage values over time, California's high poverty rate, and advancing solutions to the state's wide income inequality. According to the U.S. Census Bureau's official poverty measure, 16.4 percent of Californians – more than 6 million people – were poor in 2014. Many of them are working poor. The threshold for a single parent with two children was \$19,073 in 2014; families with incomes less than the threshold are considered poor. Raising the minimum wage, the reward for hourly work, can address poverty rates and living conditions for many California families and children.





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## REVENUES

The Administration's budget forecasts total General Fund revenue of \$118 billion in 2015-16, which is 2.2 percent higher than the 2015 Budget Act, and \$121 billion in 2016-17, or 0.3 percent higher than 2015 Budget Act. The budget projects an overall revenue increase of \$5.9 billion above the 2015 Budget Act before transfers to the Rainy Day Fund. This reflects an increase of \$3.5 billion over the forecast for 2015-16, and an increase of \$2.4 billion over the forecast for 2016-17.

The budget assumes the continued expansion of the economy but warns that a recession is inevitable. The economy is reaching its seventh year of expansion, while the average expansion in the post-war period era is five years. The Governor's budget prepares for the next recession by investing additional funding in the Rainy Day Fund, proposing no new significant programs and emphasizing one-time funding for other programs.

### Major Issues in Revenues

- **Rainy Day Fund.** The passage of the Rainy Day Fund (Proposition 2) in November 2014 provides a tool for the State to address the boom and bust cycles of the past and plan for long-term balanced budgets in the future. Under Proposition 2, the spikes in capital gains may be used to save money for the next recession and/or to pay down the state's debt and liabilities.

## Governor's January Budget Proposal in Revenue

### Rainy Day Fund

- By the end of 2015-16, the State's Rainy Day Fund will have a total balance of \$4.5 billion. The budget proposes a \$2 billion transfer from the General Fund to the Budget Stabilization Account in addition to the current projected amounts required under current law. The increased total transfer of \$3.6 billion raises the balance of the Rainy Day Fund to \$8 billion in 2016-17 or 65 percent of the maximum.



## **Personal Income Tax**

- The personal income tax is the state's largest single revenue source and is expected to generate \$83.8 billion in 2016-17. The budget estimates that 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. Additionally, the budget estimates that PIT revenues will increase in 2016-17 to \$83.8, 2.7 percent higher than what was assumed in the 2015 Budget Act.
- The budget reflects 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**

- The budget 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 grows slightly because the temporary 0.25 cent Proposition 30 tax increase expires at the end of 2016, halfway through the fiscal year.

## **Corporation Tax**

- The Corporation tax is estimated to contribute 9.1 percent of all General Fund revenues in 2015-16. The budget estimates that Corporation tax revenues were \$8.9 billion in 2013-14 and are expected to increase by 8.6 percent to \$9.6 billion in 2014-15. In 2015-16, they are expected to increase by 5.8 percent to 10.2 billion.
- The Corporation tax is estimated to contribute 9.1 percent of all General Fund revenues in 2016-17. The budget estimates that Corporation tax revenues will decrease slightly by 0.4 percent to \$10.3 billion in 2015-16 from the 2015 Budget Act and 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.

## **Infrastructure - Debt Service**

- The budget estimates General Fund debt service expenditure will increase by \$60.3 million to a total of \$5.4 billion over current-year expenditures. The projected increase is comprised of General Obligation (GO) debt service and lease revenue bonds and is attributed to recent bond sales and planned issuance of additional bonds.

## BOARD OF EQUALIZATION

The Governor's budget includes \$598.2 million for the Board of Equalization (BOE) in 2016-17, a slight decrease of \$284,000 or less than 1 percent from the current year. The BOE is funded with General Fund, special funds, and reimbursements.

### **Major Issues in BOE**

- **Audit of Tobacco Products.** The Subcommittee No. 4 submitted a proposal to the Joint Legislative Audit Committee in August 2015 to have the State Auditor audit the costs related to the Cigarette and Tobacco Products Tax Program. The audit should be released in March 2016. The audit builds on work by the Subcommittee to understand what methods BOE uses to allocate costs for the programs, including the California Children and Families Trust Fund. Once the Audit is released, the Subcommittee will focus on it to work with stakeholders on its recommendations.
- **Centralized Revenue Opportunity (CROS) Project Delays.** The BOE's technology project, CROS, has had significant delays. In July 2015, the Department of Technology pushed the vendor bids from June 2015 to October 2015 to allow BOE to complete an integrated master schedule. The Assembly should continue to monitor this project for the following reasons: CROS includes deliverables that would streamline processes within BOE, with the delay in schedule these deliverables will also be delayed. Will additional funding be needed in other areas? What is the new timeline included in the master schedule? Has the scope of the project changed since the start of the project?

### **Other Key Issues in BOE**

The BCPs included in the BOE's budget focus on transitioning limited term positions to permanent positions. The Assembly will have to evaluate if they want to provide limited funding or ongoing funding as the BCPs lay out below.

- **Fire Prevention Fee.** The budget proposes \$1.4 million (Special Funds) and 8.6 positions and 7.2 temporary help positions in 2016-17 and ongoing to continue workload associated with the Fire Prevention Fee. The proposal would transition limited-term positions to permanent positions.
- **Appeals Division's Business Taxes Program and Settlement Workload.** The Governor's budget includes a request for 30 positions and \$5.1 million (mix of funds) for 2016-17, and \$5 million ongoing to address the increase in combined incoming workload of the Appeals Division's Business Taxes Section and Settlement Program.

- **Joint Operations Center.** This proposal includes \$296,000 (Federal Funds) in 2016-17 and ongoing for 2 positions for continued participation in the Joint Operations Center for the National Fuel Compliance Project.

## FRANCHISE TAX BOARD

The Governor's budget includes \$748.1 million for the Franchise Tax Board (FTB) in 2016-17, an increase of \$3.5 million or less than 1 percent from the current year. FTB is funded with General Fund, special funds, and reimbursements.

### Major Issues in FTB

- **Enterprise Data to Revenue Project.** The Governor's budget proposes 198 positions and \$68 million in 2016-17 and \$61.4 million in 2017-18 to support FTB's maintenance and operations of the Enterprise Data to Revenue project and support ongoing operational programs. 2016-17 is the final year of the EDR project. To date the project is on schedule with all deliverables and revenue.

### Other Key Issues in FTB

- **E-Commerce Infrastructure Refresh.** This proposal includes \$3.4 million (GF) and \$149,000 (special funds) in 2016-17, \$1.8 million (GF) and \$81,000 (special funds) in 2018-19 and ongoing to refresh and expand the Internet network infrastructure, beginning in February 2017.
- **Accounts Receivable Management Program.** The Governor's budget includes a request for 101 permanent positions to replace 101 expiring two-year limited term positions and \$8.2 million (GF) in 2016-17. These positions have allowed FTB to manage Accounts Receivable inventory, reduce prior year receivables, and process new cases timely as they enter the collective process.

## GOVERNOR'S OFFICE OF BUSINESS AND ECONOMIC DEVELOPMENT

The Governor's budget includes \$45.2 million for the Governor's Office of Business and Economic Development (GO-Biz) in 2016-17, an increase of \$19.3 million or 75 percent from the current year. GO-Biz is funded with General Fund, special funds, and reimbursements.

**Major Issues for GO-Biz**

- **Administrative Workload: Human Resources, Business Services, Procurement.** The Governor's budget proposes 4 positions and \$309,000 (General Fund) to provide administrative support services to the Human Resources, Business Services and Procurement units.
- **California Infrastructure and Economic Development Bank Workload.** The Governor's proposal includes increased reimbursement and expenditure authority from the California Infrastructure and Economic Development Bank Fund in the amount of \$1.489 million in 2016-17 and 11 positions. The new funding will allow the Bank to serve the public with its Small Business Finance Center, Bond Programs, and Loan Program.
- **Zero Emission Vehicle Infrastructure Project Manager Term Extension.** This request proposes to extend funding for 1 position and increase reimbursement authority by \$150,000 in 2015-16, and \$150,000 in 2016-17, to provide resources to allow the state to meet the requirements of several federal and state air quality and emission reduction mandates by the mid-2020s.
- **Cap and Trade Expenditure Plan: CA Lending for Energy and Environmental Needs Center.** This proposal includes an allocation of \$20 million from the Greenhouse Gas Fund to California Infrastructure and Economic Development Bank for use in its California Lending for Energy and Environmental Needs Center greenhouse gas emission reduction program.

## Staff Comment and Analysis of Governor's Budget Proposal

This budget prioritizes building the rainy day fund and planning for an economic downturn.

- **What is the appropriate investment for the Rainy Day Fund?** What is the appropriate level of funding for the Rainy Day Fund? The Governor's budget includes an additional \$2 billion for the Rainy Day Fund; should the Legislature include more or less funding.
- **Rainy Day Fund versus Special Fund for Economic Uncertainties?** Should the Legislature place additional funds in Rainy Day Fund or the Special Fund for Economic Uncertainties (SFEU)? The SFEU has fewer restrictions on using these funds in the future versus the constitutional provisions in the Rainy Day Fund.
- **One-time Funding.** Where can the Assembly prioritize and leverage one-time funding to make the greatest impact in the 2016-17 budget? The Assembly will have to weigh its options for this year's budget: invest funding in a Rainy Day Fund, pay down debts or infuse one-time funding into a particular program.



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## PUBLIC SAFETY

California's public safety system is comprised of numerous departments, agencies, offices, boards, commissions, programs, and branches of government. The most prominent of which include: The Judicial Branch, The California Department of Corrections and Rehabilitation, The California Highway Patrol, The California Office of Emergency Services, The Department of Justice, The California Victim Compensation and Government Claims Board, The Board of State and Community Corrections, The Commission on Peace Officer Standards and Training, The California Military Department, and local law enforcement programs.

In recent years, California's public safety system, along with the role state government plays in it, has changed considerably. Although there have been many significant changes to state law in the public safety realm, over the past decade, none are projected to have as much impact as AB 109 (The Public Safety Realignment of 2011), Proposition 36 (Three Strikes Reform), SB 260 (Youth Offender Parole Hearings), and Proposition 47 (The Safe Neighborhoods and Schools Act).

### **AB 109 (The Public Safety Realignment of 2011)**

AB 109 (2011) has been instrumental in helping California close the revolving door of low-level offenders cycling in and out of state prisons. This piece of legislation also serves as the cornerstone of California's solution for reducing the number of inmates in the state's 33 prisons to 137.5 percent of system-wide design capacity by 2016, as ordered by the U.S. Supreme Court. Contrary to some media reports, no inmates were transferred from state prison to county jails or released early pursuant to this legislation.

AB 109 can be divided into two components: Custody and Community Supervision.

#### **Custody**

Effective October 2011, the Public Safety Realignment shifted funding and responsibility for housing non-violent, non-sexual, and non-serious offenders and parole violators from the state to county jurisdictions.

#### **Community Supervision**

Effective October 2011, county-level agencies assumed supervisory responsibilities for new non-violent (irrespective of prior convictions), non-serious (irrespective of prior convictions), and specified groups of sex offenders upon release from state prison. The California Department of Corrections and Rehabilitation (CDCR) continues to have jurisdiction over all current parolees who were released on state parole prior to October 2011. For state prison inmates released after October 2011, county-level supervision responsibilities do not include the following offender populations as they continue to be supervised by the CDCR:

- Inmates paroled from life terms to include third-strike offenders.
- Offenders whose current commitment offense is violent or serious, as defined by California's Penal Code §§ 667.5(c) and 1192.7(c).

- High-risk sex offenders, as defined by the CDCR.
- Mentally Disordered Offenders.

**Proposition 36 (Three Strikes Reform)**

Proposition 36, passed by the voters in November 2012, revised the State's three-strikes law to permit resentencing for qualifying third-strike inmates whose third strike was not serious or violent. As of September 10, 2015, approximately 2,132 third-strike inmates have been released.

**Senate Bill 260 (Youth Offender Parole Hearings)**

The State continues to implement SB 260 (2013), which allows inmates whose crimes were committed as minors to appear before the Board of Parole Hearings (the Board) to demonstrate their suitability for release after serving at least fifteen years of their sentence.

From January 1, 2014 through August 31, 2015, the Board held 802 youth offender hearings, resulting in 224 grants, 500 denials, 78 stipulations to unsuitability, and there are currently no split votes that require referral to the full Board for further consideration. An additional 391 hearings were scheduled during this time period, but were waived, postponed, continued, or cancelled. All available inmates who were immediately eligible for a hearing when the law took effect on January 1, 2014, received a hearing date on or before July 1, 2015, as required by the terms of SB 260. In addition, all youth offenders who received a grant prior to January 1, 2014, have reached their minimum eligible parole dates and have been processed for release from their life term by the Board.

**Proposition 47 (The Safe Neighborhoods and Schools Act)**

Proposition 47, passed by the voters in November 2012, requires misdemeanor rather than felony sentencing for certain property and drug crimes and permits inmates previously sentenced for these reclassified crimes to petition for resentencing. As of September 9, 2015, approximately 4,420 inmates have been released under Proposition 47.

Proposition 47 also requires state savings resulting from the proposition to be transferred into a new fund, the Safe Neighborhoods and Schools Fund. The new fund will be used to reduce truancy and support drop-out prevention programs in K-12 schools, increase victim services grants, and support mental health and substance use disorder treatment services.

The Director of Finance is required, on or before July 31, 2016, and on or before July 31 of each fiscal year thereafter, to calculate the state savings for the previous fiscal year compared to 2013-14. Actual data or best estimates are to be used. The calculation must be certified to the State Controller's Office no later than August 1 of each fiscal year. The first transfer of state savings to the Safe Neighborhoods and Schools Fund will occur in August 2016.

The Department of Finance currently estimates net savings of \$29.3 million (available for expenditure in the 2016-17 fiscal year) when comparing 2015-16 to 2013-14 (See allocation proposal immediately below). This estimate assumes savings from a reduction in the state's adult inmate population, and increased costs due to a temporary increase in the parole population and trial court workload associated with resentencing. The estimate also takes into consideration the savings associated with fewer felony filings and more misdemeanor filings,



and the number of offenders resentenced and released from the Department of State Hospitals. Ongoing savings are expected to be approximately \$57 million.

Allocation of \$29.3 million savings as required by Proposition 47:

- Mental Health Treatment, Substance Use Disorder Treatment, and Diversion Programs \$19,039,487 (65% of total allocation).
- Improve Outcomes for K-12 Students, Reduce Truancy and Support Students at Risk of Dropping Out of School or who are Victims of Crime \$7,322,879 (25% of total allocation).
- Support Trauma Recovery Centers that Serve Crime Victims \$2,929,152 (10% of total allocation).

## Major Issues in Public Safety

- **Corrections Spending.** Since 2011, California has adopted several major criminal justice reforms (described above) to meet court mandated prison population reduction targets and “save billions of dollars.” While the state has successfully reduced its prison population, California continues to struggle with the task of reducing prison spending.

For the 2016-17 fiscal year, despite a decline of roughly 33,000 inmates since 2011, the Governor's budget proposal includes \$10.5 billion for the corrections department. This is up from the 2011 spending level of \$9.9 billion. In the January 2016 report "Update to the Future of California Corrections", the Administration identified several cost drivers as contributors to CDCR's budgetary growth including: employee compensation and retirement, contract prison beds needed to comply with the court ordered population cap, the construction and activation of the California Health Care Facility in Stockton, and debt service costs associated with new construction and healthcare related renovations. Another major cost driver for CDCR is inmate healthcare costs. In order to be proactive in addressing CDCR's growing costs, the Assembly may wish to consider investing additional resources in initiatives proven to reduce crime and recidivism (ie. health equity, literacy, youth development, employment training) and redirect investments from ineffective or antiquated programs that trap low-level offenders in the criminal justice system. The 2015 Budget Act included a one-time allocation of \$10 million, from the Restitution Fund, for this purpose. Should the Assembly choose to dedicate additional resources to this effort, a new fund source would need to be identified as the Restitution Fund is unable to support the cost of this program.

- **Law Enforcement Training.** In recognition of a constantly changing environment and ever-growing demands on the state's law enforcement community, the Legislature has passed numerous measures requiring additional training for California Peace Officers over the years. Unfortunately, many of these measures have not been coupled with the level of resources necessary to ensure the effective delivery of the newly required training. In order to remedy this issue, the Assembly may wish to consider dedicating one-time resources to the Peace Officers' Training Fund and working with the

Commission on Peace Officer Standards and Training to identify durable solutions to address the fund's structural deficit.

- **Sex Trafficking of Minors.** As the Legislature continues to focus more attention on domestic sex trafficking, especially the prostitution of children, the Assembly may wish to create a permanent funding stream to support transitional services for individuals hoping to escape from the sex trafficking trade.

## Governor's January Budget Proposals in Public Safety

### California Department of Corrections and Rehabilitation

The Governor's budget includes \$10.5 billion for the California Department of Corrections and Rehabilitation (CDCR) in 2016-17. This is an increase of \$145 million or 1.3 percent from the current year. Most of the CDCR's budget is General Fund, with \$10.3 billion of the proposed total funding coming from the General Fund. This budget proposal provides resources to implement court orders, chaptered legislation, and constitutional guarantees. This proposal also provides resources to expand upon previously approved policy decisions.

#### CDCR Adult Inmate Population

Housing Category	2016-15
CDCR Facilities	116,349
In-state Contract Beds	5,618
Out of State Correctional Facilities	5,107
Department of State Hospitals	248
<b>Total Adult Inmate Population</b>	<b>127,322</b>

*\*Data from CDCR's 1/20/2015 weekly population report*

#### Major Provisions

- **Alternative Custody for Males.** The California Department of Corrections and Rehabilitation is requesting 20.0 positions and \$3.3 million in fiscal year 2015-16, and 40.0 positions and \$6.0 million in 2016-17 and ongoing to provide field and administrative support to implement a 12-month Alternative Custody Program (ACP) to comply with the *Sassman v. Brown* judgment dated September 9, 2015.

Chapter 644, Statutes of 2010 (SB 1266) provided for the implementation of the ACP, authorizing CDCR to offer a program that permits eligible female inmates to be released from prison to live in a residential home, transitional care facility, or residential drug treatment program. This bill was signed into law on September 30, 2010 and designated as California Penal Code (PC) section 1170.05. On June 27, 2012, Chapter 41, Statutes of 2012 (SB 1021) was signed into law, modifying PC 1170.05 to read, "[Female inmates sentenced to state prison for a determinate term

of imprisonment pursuant to Section 1170, and only those persons, shall be eligible to participate in the alternative custody program authorized by this section.]"

On September 9, 2015, the judgment issued by the Sassman court case effectively altered the language in PC 1170.05 that expressly limited the ACP to female inmates. In its order and judgment, the court ordered expansion of the ACP to include male inmates.

- **Board of Parole Hearings: Confidential File Summaries.** The California Department of Corrections and Rehabilitation, Board of Parole Hearings, is requesting \$705,000 General Fund and 5.0 permanent full-time positions to complete confidential file summaries in order to 1) Review information contained in the confidential portion of an inmate's central file prior to a Board hearing, and generate summaries of that information to be served on the inmate and his or her attorney prior to the hearing. Create summaries of confidential information to be used in parole suitability determination; and 2) Review pre-hearing documents submitted by inmates, their counsel, victims, and prosecutors to determine whether they contain confidential information and if this information should be redacted, placed in the confidential section of the inmate's central file, or both.

The Attorney General has opined that it is a violation of due process of law for the Board to deny an inmate parole based on information contained in the confidential section of the inmate's central file without first notifying the inmate that the information exists and providing the inmate with a summary of the information. Several writs have been filed against the Board on this issue.

- **Sex Offender Management.** The Division of Adult Parole Operations (DAPO), is requesting \$212,000 General Fund in fiscal year 2016-17 and ongoing for 2.0 permanent positions. The positions will allow the California Sex Offender Management Board (CASOMB) and the State Authorized Risk Assessment Tools for Sex Offenders Committee (SARATSO) to comply with the mandates set forth in Sections 290.03-290.09 and 9000-9003 of the Penal Code. Furthermore, it will help fulfill DAPO's responsibility to minimize public risk by effectively supervising sex offenders with evidence-based techniques and practices.
- **Enhanced Drug and Contraband Interdiction Program.** The California Department of Corrections and Rehabilitation requests \$7.9 million General Fund and 50.5 positions in 2016-17 to continue and expand the previously approved Enhanced Drug and Contraband Interdiction Program pilot.
- **Expansion of Programs and Services for Lifer Population.** The California Department of Corrections and Rehabilitation is requesting \$10.5 million General Fund, of which \$2.1 million is one-time, and 56 positions in 2016-17, growing to \$13.4 million and 56 positions in 2017-18 and \$16.1 million and 56 positions beginning in 2018-19, to expand programs and services for long term offenders.

Specifically, \$2.1 million (one-time) is for Long Term Offender Program (LTOP) modular space. The remaining \$8.4 million includes \$423,000 for the expansion of the Offender Mentor Certification Program; \$3.1 million for additional Parolee Service Center Beds/Transitional Housing; \$906,000 for the LTOP expansion to a Level III or IV institution; \$480,000 is for projected Correctional Officer overtime pay for inmate participation in college courses; and \$3.5 million for 56 positions (53 Teachers for the Transitions and 1 Correctional Counselor III, 1 Parole Services Associate and 1 Correctional Officer for the expansion of the LTCP to a Level III or IV institution).

Beginning in 2017-18, a \$5.1 million General Fund increase is proposed for the Transitional Housing Program expansion, and another \$2.7 million General Fund is proposed beginning in 2018-19 for an additional expansion to the Transitional Housing Program.

- **Health Care Access Unit Staffing.** The California Department of Corrections and Rehabilitation is requesting \$9.4 million General Fund and 78.4 positions in 2016-17, \$11.8 million General Fund and 98.7 positions in 2017-18, and \$12.2 million General Fund and 102 positions beginning in 2018-19.

This proposal includes custody positions for the Health Care Facility Improvement Program (HCFIP) that are required on a phased schedule; non-custody positions attributed to facility operations, heating, ventilation, and air conditioning (HVAC) system at Ironwood State Prison, and custody positions, as determined through working with the Receiver's Office, to augment the Health Care Access Units (HCAU), namely the Triage and Treatment Area (TTA) and Correctional Treatment Centers (CTC).

- **Medical Coverage for In-State Contracted Facilities.** The California Department of Corrections and Rehabilitation requests \$2 million General Fund beginning in fiscal year 2016-17 to provide funding for additional contracted Physician and Licensed Vocational Nurse coverage for inmates housed in six Modified Community Correctional Facilities and one Female Community Reentry Facility. This additional medical coverage is deemed necessary by the Federal Receiver to provide the quality of medical care mandated by the California Correctional Health Care Services, under the direction of the Federal Receiver.
- **California Health Care Facility Janitorial Contract.** California Correctional Health Care Services requests 5.0 positions and \$6.4 million General Fund in 2015-16 and \$12.1 million General Fund in 2016-17 to initiate a janitorial contract with PRIDE Industries to include additional coverage and service levels at the California Health Care Facility in Stockton.

The necessity for a janitorial contract can be derived from the 2002 *Plata v. Brown* class action suit. In its findings in the case, the Federal Court stipulated that the California Department of Corrections and Rehabilitation develop policies and procedures that provide every offender health care services in a clean and sanitary environment.

- **Supervisory Staffing Model.** California Correctional Health Care Services (CCHCS) requests 68.6 positions and \$11.9 million General Fund beginning in fiscal year 2016-17 to provide appropriate health care supervisory staffing levels throughout California's prison system. Appropriate supervisory staffing levels will help CCHCS have a well-managed health care program in the future.
- **Substance Use Disorder Treatment Expansion.** The CDCR requests \$15.2 million General Fund, of which \$63,000 is one-time, and 51.6 positions to expand the Substance Use Disorder Treatment Program to all institutions. There are 11 non-reentry hub institutions that currently do not provide substance use disorder services.

Prior to public safety realignment, the Department was only able to provide rehabilitative programming for a small percentage of its target population due to budget reductions during the recession. Realignment has provided the opportunity to improve rehabilitative programs and to increase access to programming for more inmates. Population reductions resulting from realignment will allow the department to significantly increase the percentage of offenders served while also allowing the department to address a much broader array of factors that put offenders most at risk of reoffending.

- **Youth Offender Parole Hearings (SB 261).** The CDCR is requesting \$3.7 million General Fund and 19.0 permanent, fulltime positions in order to implement Senate Bills 261 and 519 (Chapter 471 and Chapter 472, Statutes of 2015) in fiscal year 2016-17.

SB 261 amended Sections 3051 and 4801 of the Penal Code. Whereas prior law required the Board of Parole Hearings to conduct a parole suitability hearing for inmates convicted of specified crimes if they were under the age of 18 at the time of the offense, SB 261 extends these "youth offender hearings" to inmates who were under the age of 23 at the time of their offense. Specifically, Case Records staff will need to initially screen approximately 10,700 potentially eligible offenders. The Board will need to schedule and complete 2,200 consultations, schedule an additional 450 parole hearings, and produce 1,100 new risk assessments in 2016-17.

- **Male Community Reentry Program.** The Budget includes \$32.1 million General Fund for the Male Community Reentry Program (MCRP) in fiscal year 2016-17, increasing to \$34.4 million General Fund beginning in 2017-18. The MCRP is a voluntary program which allows eligible participants to serve the end of their sentences in the community in lieu of confinement in state prison. MCRP participants receive rehabilitative programming designed to promote successful reentry back into society. The MCRP program is currently available to male offenders who have up to 120 days left to serve in prison; however, the Budget proposes to expand program eligibility to include offenders who have up to 180 days remaining on their sentence.



The Governor's Budget includes funding to support seven MCRP facilities in California, including four in Los Angeles, one in Kern County, one in Butte County, and one in San Diego. Currently, the California Department of Corrections and Rehabilitation has contracts with three MCRP facilities, one in Los Angeles, one in Kern County, and one in Butte County, providing beds for up to 220 total participants. The Department anticipates opening two additional facilities in 2015-16, and the remaining two in 2016-17. Collectively, the facilities will provide up to 680 beds for eligible participants in 2016-17.

- **Capital Outlay Proposals.** The CDCR is requesting resources for the following Capital Outlay efforts:
  - **California Correctional Center, Susanville: Arnold Unit and Antelope Camp Kitchen/Dining Replacements.** This proposal requests \$14.3 million to demolish and replace two existing kitchen/dining buildings, one each at Arnold Unit and Antelope Camp. These kitchen/dining buildings have deteriorated beyond the point of economical repair and present a health and safety risk. The project scope includes the design and construction of a new, pre-engineered metal kitchen/dining building, along with a loading dock and related paving and fencing at both Arnold Unit and Antelope Camp. Preliminary plans were funded in the 2014 Budget Act and working drawings were funded in the 2015 Budget Act. This proposal requests funding for the construction phase of this project. The total estimated project cost is \$16,162,000.
  - **Deuel Vocational Institution: New Boiler Facility.** This proposal requests \$4 million to build a new central high-pressure steam boiler facility at Deuel Vocational Institution. Boiler replacement is required for compliance with San Joaquin Valley Air Pollution Control District regulations for gas-fired boiler emissions standards. Funding is being requested for the construction phase of this project. Design of this project was funded by the Department's Special Repair Budget. The total estimated project cost is \$4,414,000.
  - **Statewide: Master Plan for Renovation/Replacement of Original Prisons.** This proposal requests \$5.4 million for consultant services to perform a study of the prisons constructed prior to 1980. The study will evaluate the existing housing, program, and services buildings and infrastructure systems and develop recommendations regarding renovations or replacements necessary to maintain the current level of operations. This study is necessary to ensure continued compliance with the Three Judge Panel occupancy benchmark.
  - **Statewide: Budget Packages and Advance Planning.** This request provides \$250,000 in annual funding to perform advance planning and prepare budget packages for capital outlay projects to enable the Department to provide detailed information on scope and costs of planned projects.

**Other Key Issues**

- **Technical Adjustments.** The California Department of Corrections and Rehabilitation requests to permanently realign resources for a number of programs and divisions in 2016-17 and ongoing. These realignments result in a net zero change and will allow CDCR to properly align its budget authority with its existing expenditures by program.

## JUDICIAL BRANCH

The Governor's budget includes \$3.968 billion (\$1.702 billion General Fund) for the Judicial Branch in 2016-17, an increase of \$299 million or 8.14 percent from the current year.

**Major Provisions**

- **Appellate Court-Appointed Counsel.** The Judicial Council requests \$4.3 million General Fund to support a \$10 per hour increase for Court Appointed Counsel (CAC) panel attorneys.

Recruitment of competent counsel who are willing and able to make a career of serving in the CAC program, and retention of experienced counsel, are at the heart of an efficient and cost effective appointed counsel program. The Judicial Council Administration argues that a \$10 per hour rate increase is necessary to attract and recruit new attorneys, retain experienced attorneys, and allow the newer panel members to continue to serve on the panel while they gain the expertise to take on the more complex and more serious cases. Currently, 83 percent of cases are assigned to more experienced panel attorneys on an independent basis, an increase of 19 percent since 1997. Independent assignments are the most cost effective. The CAC Program's ability to continue this level of independent assignments while providing competent representation is threatened by recent and projected future reductions in the pool of experienced attorneys who leave this field of practice. In recent years, a number of the program's most qualified attorneys have either left the panel or greatly reduced the number of cases they are willing to accept, in favor of accepting more lucrative representation in the federal courts.

- **Court-Provided (Non-Sheriff) Security.** The Judicial Council requests an ongoing (General Fund) augmentation of \$343,000 to address increased costs for court-provided (non-sheriff) security to maintain funding at 2010-2011 security levels. Trial courts have not received any funding specifically for increased costs for marshals since the 2011 Public Safety Realignment. The Legislature established an account (SB 1020, Chapter 40, Statutes of 2012) to address cost increases for county-provided sheriff security. As a result of this, along with a cost of living adjustment provided in FY 2011-2012, counties have received increases averaging 2.55% a year from FY 2011-2012 to FY 2014-2015 to fund growth in county-provided sheriff security. The projected growth funding level is 2.95% for FY 2015-2016. If similar growth for each year was provided for court-provided security the trial courts would have received a total of \$380,000 in growth funding for marshals in this same period.



- **Information Systems Control Enhancements.** The Judicial Council requests \$3.2 million (initial) and \$2 million (ongoing) to strengthen information technology security controls and enhance the reliability of Judicial Branch data. Focus is needed both within the Judicial Council, and in the Judicial Council's ability to more effectively assist the trial courts in these areas.

The funds requested will be used for the following information technology related items:

- 1) Audit and Accountability - the implementation of user access auditing tools within the courts;
- 2) Risk Assessment - the establishment of annual information systems risk assessments;
- 3) Contingency Planning - the implementation of information technology disaster recovery infrastructure and capabilities within the Judicial Council;
- 4) Security Program Management - the implementation of a formalized information security program within the Judicial Council; and
- 5) Media Protection - the preparation for the implementation of a data classification program within the Judicial Council. This request includes three full-time employees to support information technology security and disaster recovery programs within the Judicial Council

- **Judicial Council State Operations.** The Judicial Council requests an ongoing augmentation of \$8.7 million General Fund to support the Judicial Council state operations costs related to the Phoenix Financial System (Phoenix). The Phoenix program is a statewide system utilized by the trial courts for financial and human resources management assistance. The State Trial Court Improvement and Modernization Fund (IMF) currently funds a portion of the Phoenix Program, but the continued decline in revenue over the past several years has led to potential solvency issues in the IMF.
- **Language Access in the California Courts.** The Judicial Council requests an ongoing General Fund augmentation of \$7.0 million to support implementation of one key element of the Strategic Plan for Language Access in the California Courts, expanding interpreter services into all civil proceedings. This funding is critical to improve access to justice for the 7 million Limited English Proficient Californians and promote efficiency for the courts.
- **Proposition 47 Workload.** The Judicial Council requests a General Fund augmentation of \$21.4 million in 2016-17 to address increased court workload associated with voter approved Proposition 47 (the Safe Neighborhoods and Schools Act).

The law reduced many drug offenses and theft offenses to misdemeanors and created a process for individuals convicted of felonies for these offenses to petition the courts to be resentenced or to have the crimes reclassified as misdemeanors. This resulted in a temporary but significant workload increase for the courts.

- **Court Innovation Grant Program.** The Judicial Council requests a one-time (General Fund) augmentation of \$30 million to support a new Court Innovation Grant Program intended to identify and promote improvements, efficiencies, and access to justice.
- **Trial Court Employee Benefit Costs.** The Judicial Council requests \$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.
- **Revenue Backfill.** The Judicial Council requests \$75 million (General Fund) to backfill unrealized Trial Court Trust Fund revenue projections. The shortfall is, primarily, linked to a continued decrease in the amount of fine and fee revenue collected.
- **Discretionary Funding.** The Judicial Council requests 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.
- **Capital Outlay Proposals.** The Judicial Council is requesting resources for the following Capital Outlay efforts:
  - **Trial Court Facility Costs.** The Judicial Council requests a one-time augmentation of \$3.5 million from the Immediate and Critical Needs Account for facility modification projects at the Michael Antonovich Antelope Valley Courthouse (Antonovich Courthouse) and the Alfred J. McCourtney Juvenile Justice Center (McCourtney JJC).
  - **Imperial County—New El Centro Courthouse.** The Judicial Council requests a \$39,277 million appropriation from the Public Building Construction Fund Sub-Account (Fund 0668) for the Construction phase for the Imperial - New El Centro Courthouse. The project will provide a new four courtroom courthouse of approximately 47,512 building gross square feet (BGSF) in the City of El Centro. This project will consolidate court operations from two facilities and will relieve the current space shortfall, increase security, and replace inadequate and obsolete buildings in Imperial County. The total revised project cost based upon the current schedule and updated to the July 2015 California Construction Cost Index is estimated at \$47,277 million, without financing. The total cost of the project, including financing, will be funded by Senate Bill (SB) 1407 (Ch. 311, Statutes of 2008) revenues.

- **Mendocino—New Ukiah Courthouse.** The Judicial Council requests a re-appropriation from the Immediate and Critical Needs Account (Fund 3138) of \$6.1 million for the Working Drawings phase for the Mendocino— New Ukiah Courthouse. This project will provide a new eight-courtroom courthouse of approximately 90,206 BGSF in the City of Ukiah. Re-appropriation is being requested due to delays in the Acquisition phase related to the clean-up of the site prior to acquisition by the state. This project will relieve the current space shortfall, increase security, and replace inadequate space in the Mendocino Superior Courthouse. The total revised project cost based upon the current schedule and updated to the July 2015 California Construction Cost Index is estimated at \$94,455 million, without financing. The total cost of the project, including financing, will be funded by SB 1407 (Chapter 311, Statutes of 2008) revenues.
- **New Alameda Courthouse Capital Outlay Project Funding Plan.** The Judicial Council proposes a transfer of \$377,000 in FY 2016-17 and \$903,000 beginning in FY 2017-18 from the Court Facilities Trust Fund (CFTF) to the Immediate and Critical Needs Account (ICNA) to support the financial plan for the construction of the Alameda County - New East County Hall of Justice.

The funds being transferred are from the Gale Schenone Hall of Justice's County Facility Payment which is deposited into the CFTF. The transfer would begin upon the trial courts vacation of the Gale Schenone leased facility after project completion and will be in place until the loan from the ICNA is fully paid off, which is estimated to occur in 7-8 years. The FY 2016-17 amount of \$377,000 has been prorated based on the projected date of the lease termination.

- **Riverside County- New Mid County Civil Courthouse.** The Judicial Council requests appropriation of \$5,666 million from the Immediate and Critical Needs Account (Fund 3138) for the Working Drawings phase of a new 9 courtroom courthouse of approximately 89,690 BGSF in the City of Menifee in Riverside County.

This project will replace the existing inadequate and obsolete Hemet court facility, relieve the current space shortfall, and increase security in Riverside County. This project provides four courtrooms for new judgeships. The total revised project cost based upon the current schedule and updated to the July 2015 California Construction Cost Index is estimated at \$89.985 million, without financing. The total cost of the project, including financing, will be funded by Senate Bill (SB) 1407 (Chapter 311, Statues of 2008) revenues.

- **Riverside County-New Indio Juvenile and Family Courthouse.** The Judicial Council requests appropriation of \$44.1 million, \$42.4 million from the Public Building Construction Fund Sub-Account and a cash appropriation of \$1.6

million from the Immediate and Critical Needs Account (Fund 3138) for the Construction phase for a new approximately 53,255 BGSF, five-courtroom courthouse in the City of Indio. The revised square footage of 53,255 BGSF represents a 3.1 percent reduction of 1,712 square feet from the previously authorized project scope. The cash appropriation of \$1.6 million is requested for building demolition, relocation of existing site utilities and demolition and reconstruction of a security fence.

This project will consolidate court operations from two facilities and will relieve the current space shortfall, increase security, and replace inadequate and obsolete buildings in Riverside County. This project provides three courtrooms for new judgeships. The total revised project cost based upon the current schedule and updated to the July 2015 California Construction Cost Index is estimated at \$52.9 million, without financing. The total cost of the project, including financing, will be funded by SB 1407 (Chapter 311, Statutes of 2008) revenues.

- **Shasta-New Redding Courthouse.** The Judicial Council requests \$135.2 million in appropriation from the Public Building Construction fund Sub-Account (Fund 0668) for the Construction phase for the Shasta—New Redding Courthouse. The project will provide a new 14-courtroom courthouse of approximately 165,296 BGSF in the City of Redding.

This project will consolidate court operations from three facilities and will relieve the current space shortfall, increase security, and replace inadequate and obsolete buildings in Shasta County. In addition, this project provides two courtrooms for new judgeships. The total revised project cost based upon the current schedule and updated to the July 2015 California Construction Cost Index is estimated at \$154.7 million, without financing. The total cost of the project, including financing, will be funded by SB 1407 (Chapter 311, Statutes of 2008) revenues.

- **Stanislaus- New Modesto Courthouse.** The Judicial Council requests a re-appropriation from the Immediate and Critical Needs Account (Fund 3138) of \$15.3 million to complete the Working Drawings phase for the Stanislaus—New Modesto Courthouse. The project will provide a new 27-courtroom, approximately 308,964 BGSF courthouse in the City of Modesto.

This project will consolidate court operations from four facilities and will relieve the current space shortfall, increase security, and replace inadequate and obsolete buildings in Stanislaus County. In addition, this project provides five unfinished courtrooms for new judgeships. The cost to finish the courtrooms will be requested when the judgeships are funded. The total revised project cost based upon the current schedule and updated to the July 2015 California Construction Cost Index is estimated at \$266.6 million, without financing. The total cost of the project, including financing, will be funded by SB 1407 (Chapter 311, Statutes of 2008) revenues.

- **Tuolumne- New Sonora Courthouse.** The Judicial Council requests \$55.4 million in appropriation from the Public Building Construction fund Sub-Account (Fund 0668) for the Construction phase for the Tuolumne— New Sonora Courthouse. The project will provide a new five-courtroom courthouse of approximately 61,537 BGSF in the City of Sonora.

This project will consolidate operations from three facilities and will relieve the current space shortfall, increase security, and replace inadequate and obsolete buildings in Tuolumne County. The total revised project cost based upon the current schedule and updated to the July 2015 California Construction Cost Index is estimated at \$64.2 million, without financing. The total cost of the project, including g financing, will be funded by SB 1407 (Ch. 311, Statutes of 2008) revenues.

## CALIFORNIA HIGHWAY PATROL

The Governor's budget includes \$2.316 billion (\$2.160 billion Motor Vehicle Account) for the California Highway Patrol in 2016-17, an increase of \$6 million or 0.25 percent from the current year.

### Major Provisions

- **California Motorcyclist Safety Program-Motorcycle Safety Outreach and Education.** The California Highway Patrol requests permanent funding of \$1.0 million from the California Motorcyclist Safety Fund to improve the effectiveness of the California Motorcyclist Safety Program. The requested funding will provide for the development and dissemination of a large scale motorcycle safety public education effort. This proposal is intended to improve traffic safety for all Californians and ultimately reduce the number of motorcyclists killed and injured on California's roadways.
- **Integrated Database Management System Funding.** The California Highway Patrol requests one-time funding of \$894,000 from the Motor Vehicle Account to cover costs associated with the Department's use of the California Department of Technology's Integrated Database Management System. The Administration argues the maintenance and support of existing information technology mainframe systems is essential to the continued support of current CHP departmental personnel and mission-critical public safety operations.
- **Expanded Network Infrastructure.** The California Highway Patrol requests permanent funding of \$1.715 million from the Motor Vehicle Account to cover increased costs associated with expanding network bandwidth capacity throughout the state.

The network infrastructure is indispensable for facilitating CHP's mission-critical work. It provides connectivity to the headquarters campus, eight field Divisions, 102 Area offices, 25 communications centers, and 16 inspection facilities. The network infrastructure currently manages, deploys, and provides access to these and other mission critical systems:

- Computer-Aided Dispatch
  - Voice over Internet Protocol Telephony Services
  - California Law Enforcement Telecommunications System
  - California Department of Justice Information Databases
  - California Department of Motor Vehicle Databases
  - National Law Enforcement Telecommunications System
  - National Crime Information Center
  - Email Services
  - Statewide Integrated Traffic Records System
  - Statewide Pursuit Information Database and Resource System
  - Daily Field Shift Log, California Automated Reporting System
- **Relocation of Fresno Area Office.** The California Highway Patrol (CHP) requests \$2.8 million from the Motor Vehicle Account for the relocation of the Fresno Area office to a new, build-to-suit facility. Approval to proceed with the relocation was included in the Budget Act for fiscal year 2010/11 (Chapter 712 of the Statutes of 2010, item 2720-401).

The Fresno Area office opened in 1963 in an 11,100 square-foot facility and is considered to be a large command with a dispatch center. This office is assigned 113 uniformed, 32 dispatch, and 13 non-uniformed staff. The Fresno Area office has been identified as having serious seismic structural issues. The facility has not been inspected by a structural engineer; however, it is assumed to be a level six seismic-rated facility due to the decade in which it was built. Seismic rating is determined by the expected seismic performance based on the level of current structural compliance. The current earthquake performance levels for existing buildings are rated from one (negligible) to seven (dangerous). A seismic rating level of six is expected to cause serious implied risk to life and a 20 to 50 percent implied seismic damageability. The Fresno Area office lease with purchase option project has been awarded and construction is to begin in October 2015. Current estimates are that CHP will occupy the new facility January 2017.

- **Capital Outlay Proposals.** The California Highway Patrol is requesting resources for the following Capital Outlay efforts:
  - **EI Centro: Area Office Replacement.** This proposal requests \$4.3 million from the Motor Vehicle Account for the acquisition and performance criteria phases of the EI Centro: Area Office Replacement. The existing facility no longer meets the California Highway Patrol's programmatic requirements nor the seismic performance criteria required for state-owned buildings.



In order to streamline the capital outlay process, the CHP proposes the design-build procurement method. The design-build contract is to be funded in Fiscal Year 2017/18 for \$30.4 million, bringing the total estimated project cost to \$34.7 million. These costs will also be funded by the Motor Vehicle Account.

- **Hayward: Area Office Replacement.** This proposal requests \$15 million from the Motor Vehicle Account for the acquisition and performance criteria phases of the Hayward Area office replacement. The existing facility no longer meets the California Highway Patrol's programmatic requirements nor the seismic performance criteria required for state-owned buildings.

In order to streamline the capital outlay process, the CHP proposes the design-build procurement method. The design-build contract is to be funded in Fiscal Year 2017/18 for \$38.1 million, bringing the total estimated project cost to \$53.1 million. These costs will also be funded by the Motor Vehicle Account.

- **Ventura Area Office - Replacement Facility.** This proposal requests \$5.6 million from the Motor Vehicle Account for the acquisition and performance criteria phases of the Ventura Area office replacement. The existing facility no longer meets the California Highway Patrol's programmatic requirements nor the seismic performance criteria required for state-owned buildings.

In order to streamline the capital outlay process, the CHP proposes the design-build procurement method. The design-build contract is to be funded in 2017/18 for \$37.1 million, bringing the total estimated project cost to \$42.7. These costs will also be funded by the Motor Vehicle Account.

- **Statewide Planning and Site Identification.** The California Highway Patrol requests \$800,000 from the Motor Vehicle Account to identify suitable parcels for replacing up to three additional field offices and to develop studies for those sites along with provisional language to allow augmentations of up to \$2.0 million cumulative for the purpose of entering into purchase options, should an option be necessary to secure a property and reporting requirements have been met.

There is a statewide need for replacement facilities based on recent seismic evaluations of CHP facilities as well as programmatic changes that have resulted in the typical CHP office being significantly undersized. This proposal reflects the fourth year of a program to identify sites for facility replacement.



## COMMISSION ON JUDICIAL PERFORMANCE

The Governor's budget includes \$4.7 million (\$4.6 million General Fund) for the Commission on Judicial Performance in 2016-17, an increase of \$220,000 or 0.25 percent from the current year.

### **Major Provision**

- **Commission Staffing.** The Commission on Judicial Performance requests \$257,000 (General Fund) and 2.0 positions to address the Commission's increasing caseload.

Over the past decade, investigations have taken increasingly longer. The average length of a Commission investigation has increased by six months, from 10.41 months to 16.03 months. As investigations have become more protracted, spanning multiple calendar years, fewer formal proceedings have been brought each year, resulting in a number of serious cases being left unaddressed while awaiting hearings.

## DEPARTMENT OF JUSTICE

The Governor's budget includes \$826.2 million (\$216.7 million General Fund) for the Department of Justice in 2016-17, an increase of \$22.1 million or 2.75 percent from the current year.

### **Major Provision**

- **Bureau of Firearms Armed Prohibited Persons System Investigations.** The Department of Justice's Bureau of Firearms (DOJ-BOF) requests a permanent increase of \$4.7 million in Firearms Safety & Enforcement Special Fund spending authority to support 22.0 permanent Special Agent positions that will be dedicated to the Armed Prohibited Persons System (APPS) investigations.

California is the only state in the nation to establish an automated system for tracking handgun and assault weapon owners who might fall into a prohibited status. The online database, APPS, cross references firearm owners across the state against criminal history records to determine persons who have been, or will become, prohibited from possessing a firearm subsequent to the legal acquisition or registration of a firearm or assault weapon.

The DOJ-BOF has experienced a backlog in the APPS database since its inception in 2006. Initially, the backlog resulted from the merging of multiple DOJ databases and the extraction of relevant information necessary to positively identify armed and prohibited persons. Since then, the number of APPS offenders that populate the database yearly is far greater than the number of APPS investigations that the DOJ-

BOF can accomplish. This was predominantly due to inadequate staffing levels and the lack of timely and accurate Automated Firearms System (AFS) entries.

In May of 2013, the DOJ-BOF was appropriated temporary funding in the amount of \$24 million per SB 140 to address the APPS backlog. The funding was appropriated for three years and supported 48.0 positions from the Dealers Record of Sale Special Account (DROS). The limited funding and position authority supports 30.0 Special Agents (SA), 6.0 Special Agent Supervisors (SAS), 6.0 Criminal Intelligence Specialists (CIS-Intel.), and 6.0 Office Technician (OT) positions (funding set to expire May 1, 2016). The temporary funding has created limitations in recruitment. This has caused the current Special Agents to work an immense amount of overtime in order to meet the mandated workload requirements set by SB 140.

The 2015 Budget Act authorized the conversion of 22.0 limited-term Special Agent positions to permanent status. By appropriating permanent funding as proposed in this request, the DOJ-BOF will be able to retain staff and continue to decrease the backlog. Consequently, unauthorized gun possessions in California will be reduced and result in increased public safety.

- **New Bureau-wide Training Program.** The Department of Justice's Bureau of Gambling Control requests a \$200,000 expenditure authority increase from the Gambling Control Fines and Penalties Account (0569). The Bureau seeks to increase its authority and use the funds to develop an ongoing, in-depth academy style training program which would include courses in financial audits, investigative writing, fraud investigations, investigative trends, gaming related trends, and other courses related to the gaming industry. Courses would be geared towards all programs and levels of employees (sworn and non-sworn), including licensing, enforcement, as well as audit and compact compliance.
- **Criminal Justice Reporting - Chapter 462, Statutes of 2015 (AB 71).** The Department of Justice requests a General Fund authority increase of \$374,000 and 4.0 permanent positions in Fiscal Year 2016-17 and ongoing. The requested authority and positions will allow the DOJ to meet the mandates associated with Chapter 462, Statutes of 2015 (AB 71).

AB 71 requires the Attorney General to collect, analyze, and report statistical data, which provides valid measures of crime and criminal justice process to government and to the citizens of California. The mandate of the DOJ Criminal Justice Statistics Center (CJSC) is to collect and report statistical data that allows for valid assessments of crime and the criminal justice process in California. To achieve this mandate, the CJSC maintains several statewide data systems containing specific criminal justice data. Published annually, these data reports are accompanied by interpretive analyses.

- **Fraud and Elder Abuse Enforcement Enhancement.** The Bureau of Medi-Cal Fraud and Elder Abuse requests a permanent augmentation of \$7.8 million (\$5.9 million Federal Trust and \$2 million False Claims Fund) to support 35.0 positions and the establishment of three satellite offices. This request is an

effort to enhance current enforcement activities in light of the state's increased Medicaid funding for California's low income and dependent adults.

- **Major League Sporting Event Raffles Program - Chapter 509/15 (SB 549).** Pursuant to the passage of SB 549, the Department of Justice requests a three-year limited-term General Fund increase of \$335,000 beginning in FY 2016-2017 and 2.0 positions to address workload related to the initial implementation of and statutory enforcement activities for the Major League Sporting Event Raffles Program pursuant to newly enacted California Penal Code section 320.6.
- **Professions and vocations workload - Chapter 656, Statutes of 2015 (SB 467, Hill).** Pursuant to Chapter 656, Statutes of 2015, the Department of Justice requests a permanent increase of 10.0 positions and \$1.3 million in Legal Services Revolving Fund authority in order to implement the provisions of SB 467.

SB 467 added new reporting obligations with the first report due on January 1, 2018 for the prior fiscal year, FY 2016-17. SB 467 requires accountings of not only the cases The Health Quality Enforcement (HQE) received for all clients, but also accountings for HQE's efficiency in specific markers for accusation, stipulation, default and hearing processing. While there is no direct intent to heighten public protection in SB 467, the consequences of not providing additional staff to HQE to meet the reporting demands of SB 467 will have an unintended adverse impact to the timeliness and quality of work performed on the existing workload in HQE. Additional staff will allow for the proper and reliable accounting and processing of DCA cases, as well as allow existing legal staff to continue to focus on protecting patients from unprofessional licensees. In order for HQE to meet the enhanced legal service requests and data reports that SB 467 requires, HQE will need authorization for six (6.0) additional SLA positions.

- **Public Protection and Consumer Protection Enforcement Initiative.** The Licensing Section requests a permanent increase of 7.0 positions and \$1.4 million in Legal Services Revolving Fund authority. The augmentation will enable the Licensing Section to reduce average case processing time for formal discipline matters to assist with client agency needs.

On July 1, 2015, the Civil Law Division Budget Change Proposal (BCP) 2015-16 added 9.0 positions to the Licensing Section. These new positions that the Licensing Section received will help to alleviate the most acute needs of the Licensing Section, but will not increase staffing enough to meet performance metrics established by the Department of Consumer Affairs (DCA) Consumer Protection Enforcement Initiative in terms of the average time for adjudication of formal discipline matters referred by DCA constituent agency clients. Ideally, the Licensing Section should meet the goal of completing the adjudicative phase of the cases within an average period of 9 months, where it is currently taking an average of 12.6 months. The proposed increase in staffing for the Licensing Section will improve the average processing time for formal discipline matters to 362 days and will thereby improve consumer protection.

- **Racial and Identity Profiling Act of 2015 - Chapter 466, Statutes of 2015 (AB 953).** The Department of Justice requests 41.0 permanent positions and increased General Fund spending authority of \$9.9 million in 2016-17 and \$7.9 million ongoing to address the mandates associated with Chapter 466, Statutes of 2015 (AB 953).

AB 953 (the Racial and Identity Profiling Act of 2015) was signed by the Governor on October 3, 2015. This legislation imposes a number of significant mandatory responsibilities on the DOJ related to the collection of data from state and local Law Enforcement Agencies (LEAs), promulgation of regulations regarding that data collection, and the creation of an advisory board, whose duties will include the publication of an annual report regarding racial profiling during any and all stops conducted by LEAs.

## CALIFORNIA MILITARY DEPARTMENT

The Governor's budget includes \$177.8 million (\$49.5 million General Fund) for the California Military Department in 2016-17, an increase of \$1.9 million or 1.1 percent from the current year.

### Major Provision

- **California Cadet Corps Uniforms.** The California Military Department requests \$827,000, one-time, (General Fund) authority to purchase uniforms for every cadet and \$369,000 in ongoing (General Fund) authority to replace unserviceable uniforms for cadets of the California Cadet Corps (CACC).

The CACC was established through statute in 1911. California Military and Veterans Code Section 517 authorizes CACC units as part of all regular schools, for all children within the state. The CACC is a statewide, school-based, applied leadership program conducted within a military framework. The program is designed to provide personal growth and leadership opportunities for cadets from the middle school through high school levels. The development and maintenance of the individual units of the CACC is a shared responsibility of the local school authorities and the CMD. Although there are 6,388 cadets in the program, the CMD is currently able to outfit only 6.7% or 432 cadets with complete uniforms. These life-support levels transfer a fiscal burden onto schools and parents that result in an unsustainable future despite increasing demand for the quantified benefits of this 104-year old program.

- **Cyber Network Defense Team.** The California Military Department requests an increase in reimbursement authority from \$774,000 to \$1.4 million to pay for 8.0 permanent positions (six existing positions and two new permanent positions) for the Department's Cyber Network Defense Team (CNDT). The funding will also pay for hardware and software needed by the CNDT to conduct cyber security assessments for 35 state agencies per year. The CNDT would also be able to simultaneously respond to 4 cyber-incidents per year to mitigate loss of data, restore network services, and assist law enforcement.

- **Facilities Operations and Maintenance Activities.** The California Military Department requests \$117,000 General Fund and \$390,000 Federal Trust Fund expenditure authority and 5.0 State Civil Service positions to accomplish facility repair and maintenance for critical base infrastructure, and to increase support towards the maximum allowable as funded by the National Guard Bureau) through the Facilities Operations and Maintenance Activities Agreement.
- **Search and Rescue.** The California Military Department requests \$350,000 General Fund expenditure authority for the Search and Rescue (SAR) missions tasked by the California Office of Emergency Services (CalOES) in support of local government SAR efforts.

Over the past 5 years, the CMD has conducted 82 SAR missions supporting state and local governments. These missions are conducted using federal dollars and are not currently reimbursed by the state, resulting in reduction of federal training dollars for CMD's State Aviation Office. As the federal component is not financially programmed to conduct operations supporting state emergencies, it is required by regulation to bill outside agencies for that resource utilization. This requirement includes search and rescue capabilities which local governments have not reimbursed the CMD due to lack of local resources.

The CMD has witnessed a significant increase in SAR missions this fiscal year as a result of state and local SAR capabilities declining and the CMD having advanced military technology. CMD possesses advanced technologies that include night vision, forward-looking infrared, and electrical-optical technologies that are more effective than other state agencies' capabilities.

- **Capital Outlay Proposals.** The California Military Department is requesting resources for the following Capital Outlay efforts:
  - **Consolidated Headquarters Complex.** The California Military Department requests \$6.9 million General Fund for the performance criteria phase of the continuing Consolidated Headquarters Complex project in Sacramento. The Complex will provide CMD with a 238,000 square foot consolidated headquarters building, a 25,000 square foot armory, and a 22,600 square foot storage facility. Total project costs are estimated to be \$113.8 million (\$6.9 million for performance criteria and \$106.9 million for design-build).
  - **San Diego Readiness Center Renovation.** The California Military Department seeks \$3.4 million (\$1.7 million General Fund and \$1.7 million federal funds) for the first phase of construction to renovate the San Diego Readiness Center. Construction of the continuing San Diego Readiness Center Renovation project will be completed in three phases to; (1) eliminate the requirement to relocate the 400 Soldiers that work in the building, and (2) allow for the proper application of federal matching funds from the annual allocation that CMD receives under the Sustainment, Restoration, and Modernization (SRM) program. Total project costs are \$11.6 million (\$1.7 million for design, \$9.6 million for construction, and \$224,000 for equipment).



- **Sustainable Armory Renovation Program: Escondido.** The California Military Department seeks \$4.1 million (\$2.1 million General Fund and \$2.1 million matching federal funds) for the performance criteria and design-build phases of the Sustainable Armory Renovation Program: Escondido project. Total project costs are estimated to be \$4.1 million (\$326,000 for performance criteria and \$3.8 million for the design-build phase).
- **Sustainable Armory Renovation Program : Eureka.** The California Military Department seeks \$5.7 million (\$2.8 million General Fund and \$2.8 million matching federal funds) for the performance criteria and design-build phases of the Sustainable Armory Renovation Program: Eureka project. Total project costs are estimated to be \$5.7 million (\$390,000 for performance criteria and \$5.3 million for the design-build phase).
- **Sustainable Armory Renovation Program: Santa Cruz.** The California Military Department seeks \$4 million (\$2 million General Fund and \$2 million matching federal funds) for the performance criteria and design-build phases of the Sustainable Armory Renovation Program: Santa Cruz project. Total project costs are estimated to be \$4 million (\$302,000 for performance criteria and \$3.7 million for the design-build phase).
- **Advance Plans and Studies.** The California Military Department seeks \$300,000 (\$150,000 General Fund and \$150,000 matching federal funds) for Architect-Engineering services to conduct design studies and programming charrettes for future capital projects. The Architect-Engineering services will allow CMD to develop conceptual designs and validated cost estimates for future projects.

## OFFICE OF EMERGENCY SERVICES

The Governor's budget includes \$1.5 billion (\$166.6 million General Fund) for the Office of Emergency Services in 2016-17, an increase of \$128,000 or 0.0 percent from the current year.

### **Major Provision**

- **California Sexual Violence Victim Services Fund Local Assistance.** The Office of Emergency Services requests \$250,000 in expenditure authority beginning in 2016-17 to administer the California Sexual Violence Victim Services Funds made available from personal income tax contributions collected pursuant to Chapter 366, Statutes of 2014, in accordance with Revenue and Taxation Code section 18846 through 18846.3.
- **Drought Funding.** The Office of Emergency Services requests \$4.5 million (General Fund) in 2016-17 to cover operating costs associated with the ongoing drought in California. This request also includes \$22.2 million (General Fund) to

continue supporting local jurisdictions utilizing the California Disaster Assistance Act (CDAA) program.

Cal OES will use the \$4.5 million to pay the on-going cost of existing staff redirected to work in support of the state's response to the drought. Many of Cal OES' positions are funded with federal funds. As such, when staff are redirected to support a state emergency and there is no federal declaration, the costs are not allowable under federal grants and/or programs. Cal OES must utilize state funds, primarily the General Fund, to cover such costs. Cal OES will use the \$22.2 million to fill gaps for projects not eligible under programs administered by other state agencies (e.g. Department of Water Resources, State Water Resources Control Board).

- **Emergency Operations and Critical Infrastructure Support.** The Office of Emergency Services requests an increase of \$35.2 million (General Fund) in 2016-17, \$14.8 million (General Fund) in 2017-18 and ongoing, 77.0 permanent positions, and an ongoing decrease of \$3.9 million Federal Trust Fund state operations authority to provide funding for emergency operations and critical infrastructure support.

In the past several years, Cal OES has made increases in its emergency response and management workload to be responsive to the increased needs of the public and in part to higher public safety awareness due to the recent disasters such as the prolonged drought, Napa earthquake, active shootings and terrorist event, and the third worst fire season in California history. California must be ready to respond to multiple major events, as well as a catastrophic earthquake or flooding event. This budget change proposal identifies the needs of Cal OES to continue to maintain a system of emergency management capabilities and capacity that addresses the numerous risks and threats California faces, as well as ensures it meets the needs of the public during disasters and emergencies.

- **Proposition 1B Reduction.** The Office of Emergency Services requests a reduction of \$20 million in 2016-17 and \$80 million in 2017-18 (Proposition 1B Bond funding) to balance administrative costs expended over the course of the program that were allowed pursuant to Government Code section 8879.50(b) and to close out the program.

The Highway Safety, Traffic Reduction, Air Quality and Port Security Bond Act of 2006, approved by the voters as Proposition 1B in the November 7, 2006 general election, authorizes the issuance of \$19.9 billion in general obligation bonds over the course of ten years for specified purposes including grants for transit system safety, security and disaster response projects. Government Code section 8879.23(h) directs that \$1 billion be deposited in the Transit System Safety, Security, and Disaster Response Account (TSSSDRA). The Proposition 1B program, administered by Cal OES, draws funding from the TSSSDRA and allocates \$100 million each year over the course of 10 years.



- **Public Safety Communications Office Transfer.** The Office of Emergency Services requests 1.0 permanent position and \$83,000 to be transferred from the California Department of Technology (CDT), the creation of a new Public Safety Communications Revolving Fund (9751) to be administered by Cal OES, and the transfer of existing funds from the Technology Services Revolving Fund (TSRF, 9730). This request completes the transfer of Public Safety Communications from CDT to Cal OES, initiated July 1, 2013.
- **Capital Outlay Proposals.** The Office of Emergency Services is requesting resources for the following Capital Outlay efforts:
  - **Relocation of Red Mountain Communications Site, Del Norte County.** The Office of Emergency Services requests reappropriation of the 2015-16 appropriation for the Relocation of Red Mountain Communications Site project to allow completion of the working drawings phase. This reappropriation is necessary due to delays encountered during the preliminary plans phase associated with securing an architectural and engineering contract and pursuing long-term leases for two of the three new sites. These delays will result in the working drawings phase starting later than previously anticipated.

The item requested for reappropriation is: Item 0690-301-0001, Budget Act of 2015 (Chapters 10 and 11, Statutes of 2015) \$1,261,000

- **Southern Region Emergency Operations Center Replacement. Los Alamitos.** This proposal requests funding to design and construct a new Southern Region Emergency Operations Center at the Joint Forces Training Base in Los Alamitos. The scope of the project includes design and construction of a new approximately 30,000 square foot building that meets the requirements of the Essential Services Buildings Seismic Safety Act of 1986 and serves as an alternate State Operations Center. This new building will replace the two existing modular buildings totaling approximately 7,200 square feet that are also located at the base. This proposal requests funding in fiscal year 2016-17 for the working drawings phase of this project.

The total estimated project cost is \$24.6 million.

## COMMISSION ON PEACE OFFICER STANDARDS AND TRAINING

The Governor's budget includes \$58.8 million (\$43.4 million Peace Officers Training Fund) for the Commission on Peace Officer Standards and Training in 2016-17, an increase of \$1.23 million or 2.13 percent from the current year.

### **Major Provision**

- **Mental Health Training for Law Enforcement (SB 11 and SB 29).** The Commission on Peace Officer Standards and Training requests \$777,000 (Peace Officers' Training Fund) in 2016-17 and \$156,000 (Peace Officers' Training Fund) beginning in 2017-18 to provide reimbursements to local law enforcement agencies for peace officers attending new mental health training courses mandated by SB 11 (Chapter 468, Statutes of 2015) and SB 29 (Chapter 469, Statutes of 2015).
- **Homeland Security Training.** The Commission on Peace Officer Standards and Training (POST) requests \$455,000 (Antiterrorism Fund) one-time in 2016-17 to design, deliver and implement timely, relevant and credible anti-terrorism and threat assessment training for peace officers and first responders to prevent, disrupt, mitigate, detect and respond to acts of terrorism and violent extremism.

POST is a key partner in a coordinated network of training providers at the local, state and federal levels and has played a central role in the collaborative delivery of high quality anti-terrorism training.

## BOARD OF STATE AND COMMUNITY CORRECTIONS

The Governor's budget includes \$417.6 million (\$328.7 million General Fund) for the Board of State and Community Corrections in 2016-17, an increase of \$233.1 million or 126.3 percent from the current year.

### **Major Provision**

- **Corrections Training Fund Authority Reduction.** The Board of State and Community Corrections requests a reduction of \$489,000 in spending authority (Corrections Training Fund) to support the Standards and Training for Corrections (STC) program. This authority reduction reflects lower program costs achieved through streamlining and improving various key processes. The reduced appropriation identifies the ongoing resources needed for the STC program to develop and maintain standards for the selection and training of local corrections personnel employed in city and county jails, juvenile facilities, and probation departments.

- **City Law Enforcement Grants.** The Budget includes \$20 million (General Fund) to increase positive outcomes between city police and the homeless community, persons with mental health needs, and high-risk youth populations.
- **Local Criminal Justice Facility Construction.** The Budget includes \$250 million (General Fund) for grants to those counties that have received a partial award, or have never received an award from the state, for replacing or renovating county jails to improve custodial housing, reentry, programming, mental health, or treatment space.

## STATE PUBLIC DEFENDER

The Governor's budget includes \$12.7 million (\$12.7 million General Fund) for the State Public Defender in 2016-17, an increase of \$1.1 million or 9.3 percent from the current year.

### **Major Provision**

- **State Public Defender Staffing.** The Office of the State Public Defender (OSPD) requests 7.5 permanent positions and \$1.1 million (General Fund) to begin remedying OSPD's existing inability to accept new appointments in death penalty cases in a timely manner.

## VICTIM COMPENSATION AND GOVERNMENT CLAIMS BOARD

The Governor's budget includes \$125.3 million (\$97.5 million Restitution Fund) for the Victim Compensation and Government Claims Board in 2016-17, an increase of \$2.8 million or 2.3 percent from the current year.

### **Major Provision**

- **Increase Support to Joint Powers and Criminal Restitution Compacts.** This proposal requests an increase of \$707,000 from the Restitution Fund to the Local Assistance portion of the Victim Compensation and Government Claims Boards budget beginning in 2016-17.

The Local Assistance line item supports the California Victim Compensation Program Joint Powers contracts and the Criminal Restitution Compact (CRCs) contracts. This increase is needed to maintain the current level of services provided to Board under these contracts. The Joint Powers contracts would be increased by \$578,451 and the CRC contracts would be increased by \$128,549.

## Staff Comment and Analysis of Governor's Budget Proposal

As the Assembly's Committee on Budget considers the financing of California's Public Safety system this year, it helps to be mindful of the state's current and historical role in public safety, constraints placed on the state by the Federal Courts, perceived losses in access to justice, and the current state of relations between law enforcement and the citizens of California.

- **Sex Trafficking of Minors.** Unfortunately, the Governor's budget proposal does little to acknowledge and/or address the issue of child sex trafficking. For every year California delays its response on this issue, thousands of children are introduced into this modern day form of slavery. Those individuals fortunate enough to escape this life are often scarred (physically and mentally) for life. California can do a better job at protecting its children. Specifically, California should be working to find ways to block the advertisement of child sex trafficking victims on websites; suppress the existing high demand for child sex trafficking victims; and provide services and safe havens for child sex trafficking victims hoping to escape their captors. As in the 2015 Budget Act, the Assembly should take the bold step of prioritizing child sex trafficking victims by dedicating permanent resources to protecting them. Additionally, the Assembly may wish to consider extending relevant portions of the "Californians Against Sexual Exploitation Act" (Proposition 35) to include individuals found guilty of procuring illegal services from child sex trafficking victims.
- **Monitoring Proposition 47 (The Safe Neighborhoods and Schools Act).** California is well into the implementation of Proposition 47. Many supporters of the proposition expected the savings generated by the provisions of Proposition 47 to be significantly larger than the \$29 million identified in the Governor's budget proposal. This unrealized expectation has caused a level of angst amongst some constituents. The Assembly may wish to publicly delve into the methodology utilized to calculate the savings to allow for additional transparency and restore public confidence.
- **Prisoner Reentry.** The Administration has shown leadership in requesting additional resources to deal with the rehabilitation and reentry of prisoners. The Legislature could go further by prioritizing and investing in recidivism reduction programs in California's communities. Specifically, the Assembly can: 1) dedicate funding to addressing the core causes of criminality (including early childhood education, poverty, etc.), 2) provide funding directly to local entities with proven track records in reducing delinquency and recidivism, 3) redirect existing funding from ineffective crime and delinquency reduction programs to effective ones, 4) develop and implement other process and ideas that have proven to be successful in other jurisdictions.





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## TRANSPORTATION

California has the most complex and highly utilized transportation system in the country, including highways, roads, railways, airports, bridges, seaports, border crossings, and public transit systems. This system continues to grow and increase in complexity, as California's population grows, its economy transforms, and its land use changes. The challenge of meeting the growth needs as well as maintaining the existing systems fall to a unique partnership between the federal government, large regional transportation planning entities, local governments, special districts and the State.

The State of California's role in transportation policy is derived from several of the key functions it serves. The State:

- Owns all State highways and is responsible for maintaining, rebuilding, and expanding these highways,
- Serves as the point of contact and fiscal agent for most federal transportation funds,
- Allocates state funding, including bond funds,
- Programs a portion of state funding for state run-projects,
- Owns the High-Speed Rail Authority and is responsible for constructing, operating, and maintaining the system, and
- Administers state-supported intercity rail funding on three corridors and local transit funding for some rural local entities.

As the Budget Committee considers transportation policy this year, it helps to be mindful of our central role in the intergovernmental partnerships necessary to tackle the host of challenges faced by our transportation network.



## Major Issues in Transportation

- **Finding Support for Funding to Address the Established Need.** In 2015, the conversation regarding transportation funding shifted from an abstract discussion of a funding problem in transportation to a concrete conversation about how to fund the gap. This year's budget will continue a conversation that has played out in the First Extraordinary Session over the last few months, regarding how much funding is needed for transportation and who should pay for it. This conversation will become more urgent, as the State Transportation Improvement Plan looks to deprogram funding for existing projects due to revenue shortfalls in 2016.
- **What is next for High Speed Rail?** Construction on the High Speed Rail project is underway and the discussion regarding the project needs to shift from "if" we build the system to "how" we build the system. With the forthcoming release of the 2016 Draft Business Plan, the conversation can shift from "how" to "when" and "where" California will first see operations of the system.
- **DMV in the Center of the Action.** In the last year, Department of Motor Vehicles (DMV) has been in the center of several high profile policy changes that simultaneously draw on their resources. Most significantly, the DMV is in the middle of implementing AB 60, which allows drivers to obtain a driver's license without documentation related to citizenship. In 2015, DMV received over 830,000 applications for driver's licenses issued under the authorization of AB 60 and 605,000 licenses were issued that year. In 2016-17, the DMV will also implement recent legislation, AB 1461 (Gonzales, Chapter 729 of 2015), which establishes the New Motor Voter Program, which will automatically register certain motorists to vote when they apply for or renew their driver's licenses. Recently, DMV has issued regulations regarding the use of self-driving vehicles and issued guidance that impacts the use of on-demand rideshare services like Uber and Lyft.

## Governor's January Budget Proposal in Transportation

The Governor's Budget contains an expansive transportation funding unveiled last year during the Second Extraordinary Session. The ten-year, \$36 billion plan is designed to address the funding gap in existing transportation needs. The plan also includes the early repayment of \$879 million of loans. The Administration estimates that this proposal would increase costs to the average motorist by about \$.25 per day or \$7 per month.

The plan has the following elements:

### Benefits

- **State Highway and Bridge Repair:** \$15.5 billion which should improve highway conditions to 90 percent in "good condition", fix 200 highway bridges, and improve existing graffiti abatement and litter removal efforts.
- **Local Streets and Roads:** \$11.3 billion that would benefit cities and counties through a formulaic allocation.
- **Transit and Rail:** \$4.3 billion in additional transit funding, which could leverage a total of \$13.8 billion in transit and rail projects.
- **Trade Corridors:** \$2.3 billion to invest in priority freight corridors. If funds are leveraged like recent Proposition 1B expenditures, this funding would leverage \$4.7 billion other funds for this goal.
- **Stabilizes the State Transportation Improvement Plan (STIP):** Eliminates the annual Board of Equalization gas tax adjustment, which results in less fluctuation of gas tax revenues.

### Funding

- **Road improvement charge:** a \$65 per vehicle charge (including hybrids and electric vehicles). Raises \$20 billion over ten years.
- **Increase Gasoline Excise Tax:** Increase and stabilize the existing tax on gasoline to \$.36 per gallon, this would be adjusted for inflation. Raises \$5 billion over ten years.
- **Diesel Excise Tax:** Increase the current rate to \$.24 per gallon, an \$.11 increase, this would generate \$5 billion over ten years.
- **Greenhouse Gas Reduction Funds:** \$5 billion for the Transit and Intercity Rail Program (\$4 billion) and the Low Carbon Road Program (\$1 billion).
- **Caltrans reforms.** Cost saving reforms that generate over \$1 billion in savings over ten years that can be redirected to roads.

**Loan Repayment:**

- Repays existing loans early with General Fund, redirecting the funding for the following purposes:
  - \$132 million for highway maintenance and rehabilitation
  - \$265 million for the Transit and Intercity Rail Capital Program
  - \$334 million for the Trade Corridor Investment Fund Program
  - \$148 million to complete or reimburse projects programmed in the Traffic Congestion Relieve Program of 2000.

**Reforms:**

- **Extension of Public-Private Partnership Authority.** The Governor's proposal would extend the statutory authority for public-private partnerships for new transportation projects by 10 years, extending the current sunset until 2027.
- **Specific Performance Measures.** The Governor's proposal includes specific performance measures against which Caltrans will be held accountable for the investment of new transportation funding.
- **Streamlined Environmental Process.** The Governor's proposal includes streamlining provisions to get projects delivered efficiently. They include a limited California Environmental Quality Act (CEQA) exemption; advancing project environmental mitigation to get more project buy-in early and reduce late challenges; and the extension of federal delegation for Caltrans to complete federal and state environmental review concurrently.
- **Procurement Authority.** The Governor's proposal authorizes Caltrans to utilize a procurement method, known as Construction Manager/General Contractor (CMGC), for double the amount of projects it is authorized for use today. CMGC is a process in which the design and construction management elements of projects are brought together so projects can be executed more quickly and delivered sooner.
- **Dedicated New Transportation Revenue to Transportation Purposes.** The Governor's proposal includes a constitutional amendment to ensure new transportation revenue is dedicated to transportation purposes. The Legislature would not be able to redirect the new revenues to non-transportation purposes.

## CALTRANS

The Governor's budget includes \$10.5 billion all funds for Caltrans in 2016-17, a decrease of \$422.1 million or 3.9 percent from the current year. The proposed budget includes only Special Fund support for Caltrans, with no General Fund expenditures projected.

### **Key Issues in Caltrans**

- **Proposition 1B Bond Workload.** The Governor's Budget funding to continue the administration of the workload associated with Caltrans' responsibilities under Proposition 1B, the "Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006". This request represents a five year funding plan beginning in 2016-17, and extending through 2020-21. In addition, this request reduces the current Proposition 1B staffing level of 42 positions by three positions in 2016-17, and by a total of 16 positions by 2020-21. The positions would continue to be funded with Proposition 1B bond proceeds. Funding for the current Proposition 1B positions expires on June 30, 2016.
- **Federal Road Data Reporting.** The Budget includes an increase of \$2.4 million federal funds to meet federal, Moving Ahead for Progress in the 21<sup>st</sup> Century Act (MAP 21), requirements supporting a single geographic reference for all roads, providing improved safety, incident tracking and better asset management. On August 7, 2012, the Federal Highway Administration announced an expansion of reporting requirements to include all roads eligible for Federal Aid. This reporting supports several federal systems, including the National Bridge Inventory, the Fiscal Management Information System and the Highway Performance Monitoring System. It also supports traffic records data collection and reporting, certified public mileage reporting, and asset management as defined in MAP 21. The expansion will increase the Caltrans maintained Linear Referencing System from 15,000 miles to 225,000 center lane miles.
- **Local Agency Federal Compliance Auditing.** The Governor's budget includes an increase of \$1 million federal funds and five positions for federally required oversight for consultant contracts, directing the Local Assistance Program to implement a risk-based monitoring program. Audits have been conducted and deficiencies identified in the procurement of architectural and engineering consultant contracts by local agencies. The Local Assistance Program's Process Review, approved July 7, 2014, found a significant level of non-compliance, or a potential for non-compliance, with various federal regulations. The review identified multiple deficiencies and recent audits have resulted in over \$5.4 million in penalties (returned by local agencies) due to non-compliance with federal Procurement, Management, and Administration of Engineering and Design-Related Services requirements. These Local Assistance Program efforts reduced total penalties to local agencies by \$16,591,012.
- **Transfer of Toll Collection Services.** The Governor's budget requests to transfer Toll Collection Services from the Traffic Operations Program to the Maintenance Program to consolidate resources, improve departmental efficiencies, and provide flexibility for the operation of toll collection services during peak commute travel times.

## CALIFORNIA TRANSPORTATION COMMISSION

The Governor's budget includes \$28.9 million for the California Transportation Commission in 2016-17, an increase of \$400 or 1.4 percent from the current year. The Commission is completely funded with special funds and receives no General Fund support.

### **Key Provision**

**Implementation of Legislation.** The Governor's Budget requests an increase of one position and \$191,000 from the State Highway Account and Public Transportation Account to support the California Transportation Commission's expanded role in transportation planning, as prescribed in SB 486 (DeSaulnier, Chapter 917 of 2014), and SB 64 (Liu, Chapter 711, of 2015). In addition, the Commission is requesting to use its existing reimbursement authority for potential reimbursements from the Department of Transportation (Caltrans) for the processing of any high-occupancy toll lane applications that it may receive per AB 194 (Frazier, Chapter 687 of 2015).

## CALIFORNIA TRANSPORTATION AGENCY

The Governor's budget includes \$611 million for the California Transportation Agency in 2016-17, an increase of \$345.4 million or 95 percent from the current year. The large increase to the budget reflects the expected amount for Transit and Intercity Rail Capital Program which is funded with Greenhouse Gas Reduction Funds. The Agency is completely funded with special funds and receives no General Fund support.

### **Key Provision**

**Establishing a Full Time Traffic Records Program Manager.** The budget includes \$159,000 and one position to establish a full-time Traffic Records Program Manager at the Transportation Agency who is responsible for leading statewide traffic safety data improvement projects in the state, to engage stakeholders (owners, users and collectors of each of the datasets and systems) in these efforts, and to manage and/or oversee the progress of individual projects. The Traffic Records Program Manager would serve as the single point of contact for data improvement projects and would collaborate directly with those involved. Additionally, the Traffic Records Program Manager will increase traffic safety for Californians through improved traffic safety data that can only be achieved by aligning the state's numerous traffic records systems.

## DEPARTMENT OF MOTOR VEHICLES

The Governor's budget includes \$1.1 billion for DMV in 2015-16, a decrease of \$23.3 million or -2 percent from the current year. The proposed budget includes \$3.9 million of General Fund for DMV, but the department is otherwise completely supported with Special Funds.

### **Major Provisions**

**Motor Vehicle Account Fee Increase.** The Budget includes provisions to increase the Motor Vehicle Account fee by \$10 per vehicle. The Motor Vehicle Account supports the activities of the Department of Motor Vehicle and the California Highway Patrol and is projected to have a \$500 million structural deficit due to rising costs at both departments.

**Implementation of New Motor Voter Program.** The budget includes a proposal for 3.7 positions and \$3.9 million to implement the New Motor Voter Program established in AB 1461 (Gonzales, Chapter 729 of 2015). This bill creates an automatic voter registration process for specified individuals who apply for a driver license (DL) or identification (ID) card, or submits a change of address to the DMV. The bill requires DMV to electronically transmit to the California Secretary of State specified information related to voter registration, including the applicant's name, date of birth, address, digitized signature, email address, telephone number, language preference, and other voter registration related information, as well as whether the applicant affirmatively declined to register to vote. DMV notes in its budget documents that it intends to submit a second budget request to implement this bill later in the budget process after some of the details on the program have been finalized.

**Expansion of Self Service Terminals.** The budget requests a total of \$8 million to expand its existing statewide self-service terminal (SST) network used by department customers. Currently, there are 50 self-service terminals located throughout the State that provide registration renewal customers, a self-service option. DMV's goal is to expand the self-service terminals program to process approximately two million transactions. The exact number of machines will be determined after discussions with the vendor and taking implementation considerations into account.

### **Other Key Issues in Caltrans**

- **Increased Driver's License Card Costs.** The budget includes \$6.9 million to reflect higher costs for driver licenses cards due to a new vendor agreement. Under the new contract card cost will increase from \$1.385 per card to an average of \$1.920 per card over a four year period.
- **Field Office Replacement Project.** The budget requests \$5.6 million for capital costs associated with field office replacement projects in Delano, Inglewood, Santa Maria, and the Normal Street San Diego location.

## HIGH SPEED RAIL AUTHORITY

The Governor's budget includes \$1.2 billion for the High Speed Rail Authority in 2016-17, reflecting \$1.1 billion in Proposition 1A bond funding for the beginning of construction of the project. The Authority's budget does not include the continuous appropriation of Cap and Trade revenues for the project or the repayment of loans to the General Fund, both of which contribute to the construction of the project.

### Key Provisions

- **Reappropriation of Prior Year Funds.** The Governor's budget proposes \$826,000 in Proposition 1A bond funding to establish six auditor positions. Four of the auditor positions would perform audits of contract costs that have been billed and reimbursed. Two of the auditor positions would address the increased workload due to Board of Directors' audit requests. According to the Authority, these audits assist the Authority in complying with the general requirements of the federal grant to carry out the project in a sound, economical, and efficient manner, in accordance with the provisions of the grant agreement.
- **Reappropriation of Prior Year Funds.** The budget proposes the Reappropriation of unspent \$145.2 million federal and Proposition 1A bond funds for continuation of environmental review and preliminary design tasks necessary for development and certification of project-level Environmental Impact Reports/Environmental Impact Statements as well as the drafting of requests for proposals.

## STATE TRANSIT ASSISTANCE

State Transit Assistance provides funding for local transit agencies through a formulaic allocation administered by the Controller. With the full appropriation of all Proposition 1B bond funding for transit projects last year, the total funding for transit has decreased. However, with the 5 percent continuous appropriation of Cap and Trade funding for low-carbon transit projects, the level of ongoing funding has been increased. The table below outlines this funding:

Funding Sources	Actual	Estimated	Proposed
	2014-15	2015-16	2016-17
Public Transportation Account	\$ 383,915	\$ 299,413	\$ 315,169
Greenhouse Gas Reduction Fund	24,180	119,775	99,762
Proposition 1B Bond Funds	668,889	154,000	44,130
	<b>\$1,076,984</b>	<b>\$573,188</b>	<b>\$459,061</b>



## BOARD OF PILOT COMMISSIONERS

The Governor's budget includes \$2.3 million for the Board of Pilot Commissioners in 2015-16, a decrease of \$233,000 or 9 percent from the current year. The Board of Pilot Commissioners is completely funded with special funds and receives no General Fund support. There are no new proposals in the budget associated with the Board.

## Staff Comment and Analysis of Governor's Budget Proposal

The dominate issue in transportation is 2016 is how to build the political support for a funding plan that addresses the well-documented shortfall in transportation funding. The Governor's transportation funding proposal is a realistic and concrete response to the State's budget transportation funding gap and represents a good place to start the discussion. The Assembly may wish to consider the following factors when trying to move forward in thinking about transportation:

- **Why is this so hard?** Transportation is an important issue for California businesses and thus securing funding to meet the State needs has historically been an area where bipartisan coalitions were easily formed. This dynamic exists today in other States. For example, Utah, where over 80 percent of the State Legislature membership is Republican, adopted an increase in the gasoline tax in 2015 with a bipartisan vote. The Assembly may wish to explore why this conversation is so different in California today and if there are areas of common ground to consider.
- **Alternatives?** If the funding plan articulated by the Governor is not palatable, what are the alternatives? The Republican Caucus has suggested large increase in State General Fund support for transportation in lieu of taxes, but it is hard to see how that would pencil out over the long term, even with an extension of Proposition 30.
- **What do we do until there is a solution?** While the State waits for Sacramento to solve the transportation funding gap, the existing funding streams are evaporating at a rapid rate. With the exhaustion of Proposition 1B Bond funding and the rapid decline in gasoline-derived fuel taxes, the State is struggling to find funding to move existing projects forward. If the Assembly cannot fix the problem in 2016, should it consider a stopgap measure to help soften in impacts of the funding shortfall?

There are also other issues in transportation that the Assembly should consider in 2016:

- **Oversight of High Speed Rail on Track for Operations.** The High Speed Rail Authority will unveil an update draft business plan that will help articulate the path from construction to initial operations. The Assembly can continue its oversight of the project and use 2016 as an opportunity to weigh in on the decision of where and how service will begin for the system.

- **DMV in the center of many changes.** DMV is used to handling a huge volume of workload from clients, but it is not typical that the agency is tasked with so many high-profile initiatives. From the implementation of AB 60 and the New Motor Voter program to the oversight of self-driving cars and on-demand ride sharing services, the department has many important and closely-watched programs to juggle. The Assembly should consider whether the department, with its outdated automation system and small administrative team, need help or resources to deliver on all of the expectations placed upon them.



