



# HIGHLIGHTS OF GOVERNOR'S PROPOSED 2018-2019 BUDGET

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## **OVERVIEW**

Today the Governor unveiled his 2018-19 budget proposal. The Department of Finance projects a \$6.1 billion surplus, mostly a result of \$4.7 billion in additional revenue. Overall the 2018-19 budget is projected to have a total expenditure level of \$131.7 billion with \$135.1 billion in total projected revenues. Combined with special fund and bond funds, total expenditures are projected to be \$190.3 billion.

In December 2017, the Committee released the “Assembly Budget Blueprint for a Responsible Budget” which articulated some preliminary budget priorities for the coming year. The Governor’s proposal echoes many of the provisions of the Assembly Blueprint:

- Fully fills the Rainy Day Fund to \$13.5 billion, 10 percent of all General Fund revenue. The budget proposes a \$5 billion transfer to this fund, \$3.5 billion above the required level to insure the State is prepared for the future. Combined with the normal reserve of \$2.3 billion, the State will have \$15.8 billion in total reserve funding.
- Fully funds the Local Control Funding Formula with \$3 billion in additional funding, increasing per pupil funding by \$465 (4.2 percent) to \$11,614.
- Provides new funding for Career Technical Education and Special Education.
- Extends the California Competes tax credit and provides tax incentives targeted to small business.
- Increases funding for courts operations by \$150 million to improve public access.
- Provides \$50 million to stabilize and expand the Department of Fish and Wildlife’s activities, including efforts to protect California’s native species.

The Governor’s proposal has a few new proposals for the Assembly to consider:

- Proposes a new funding mechanism for California Community Colleges and proposes a new dedicated on-line campus.
- Suggests a new Cap and Trade investment plan, with details to be released later this month.
- Infrastructure investments at schools, courts, and correctional institutions, as well as proposed allocation of bonds pending before voters in 2018.

The Blueprint also envisioned long-term investments that the Assembly will consider this year as we build the 2018 budget, these include:

- Improve public safety and improve outcomes in California's correctional system.
- Expand early education to allow all 4 year old children.
- Expanding health care access to uninsured, reflecting the recommendations of the Select Committee on Health Care Delivery System and Coverage.
- Expanding the Earned Income Tax Credit to assist the lowest wage earners.
- Increasing financial assistance to create a debt-free college education for low and middle class California families.
- Make progress in reducing state and local pension obligations.

The Governor's budget provides a useful starting point for these discussions and provides an opportunity to make progress in these and other policy goals in the final 2018 budget.

This document provides an overview of the Governor's proposal. With the release of the budget, the Assembly begins the 2018-19 budget process. Over the next five months, the Assembly will consider this proposal and weigh alternatives in our public process of crafting a balanced and on time budget.

## HEALTH

### Department of Health Care Services

#### Medi-Cal

- Assumes an 88 percent federal financial match for the Children's Health Insurance Program (CHIP) through December 31, 2017, and a 65 percent match beginning January 1, 2018, consistent with the 2017 Budget Act.
- Estimates Proposition 56 (2016 tobacco tax) revenue to be \$1.9 billion for 2017-18 (includes one quarter of 2016-17) and \$1.3 billion in 2018-19.
- Proposes \$850.9 million in Proposition 56 revenue for health care treatment expenditures, including \$649.9 million in 2018-19, an increase of \$232.8 million from the 2017 budget, for supplemental payments and rate increases. This increase includes approximately \$163 million for physician supplemental payments and \$70 million for dental payments.
- Proposes \$169.4 million in 2018-19 to support new growth in Medi-Cal since the 2016 Budget Act.
- Includes \$64.5 million (\$31.6 million Proposition 56 funds) for a 50 percent rate increase, and resulting increased utilization, for home health providers, beginning July 1, 2018.
- Assumes a Medi-Cal caseload decrease of 0.5 percent from 2016-17 to 2017-18 and an increase of 0.05 percent from 2017-18 to 2018-19, resulting in a total caseload of 13.5 million in 2018-19.
- Increases the current year Medi-Cal budget by \$543.7 million General Fund, compared to the 2017 Budget Act, to cover retroactive payments of drug rebates to the federal government and a higher estimate of Medi-Cal managed care costs.
- Includes funding to cover the costs of the optional Medicaid expansion under the Affordable Care Act (3.9 million Californians), reflecting the state's portion of the costs rising to 6 percent on January 1, 2018, including \$17.7 billion (\$1.4 billion General Fund) in 2017-18 and \$22.9 billion (\$1.6 billion General Fund) in 2018-19.
- Proposes an increase of \$54.8 million (\$18.5 million General Fund) in 2018-19 for counties for Medi-Cal eligibility administration, based on the increase in the

California Consumer Price Index. Also states the intent of the Department to work with the County Welfare Directors Association to improve processing of eligibility determinations and annual redeterminations, correct beneficiary aid codes, and to produce timely data and reports.

- Proposes to restrict the use of federal 340B Drug Pricing Program reimbursements within the Medi-Cal program, effective July 1, 2019.

### **Department of Public Health**

- Announces that the Department of Public Health is working with Los Angeles County to develop a new comprehensive contract for the County to conduct 100 percent of the regulatory work within Los Angeles, beginning in 2019-20. The new contract will include pay-for-performance metrics.
- Proposes trailer bill to authorize assessment of a supplemental fee on health care entities located in Los Angeles County beginning in 2018-19 to cover increased costs of the new contract as compared to the current contract, which only covers a portion of the workload in Los Angeles.
- Includes \$4.5 million in 2018-19 to support expansion of training slots for certified nursing assistant workforce to support skilled nursing facilities in meeting new staffing ratio requirements adopted through the 2017 Budget Act, which increased the minimum number of direct care service hours from 3.2 to 3.5 hours per patient day, effective July 1, 2018, and requires a minimum of 2.4 hours per patient day be provided by certified nurse assistants. The \$4.5 million included in the proposed budget is comprised of \$2 million Proposition 98 General Fund Strong Workforce Program and \$2.5 million from Employment Development Department programs.

### **Department of State Hospitals**

- Includes \$117.3 million (\$114.8 million General Fund) to further develop the state-county partnership to address the growing number of Incompetent to Stand Trial (IST) commitments referred to the Department. Proposes that \$100 million General Fund will be available over three years for community alternatives to increase diversion of mentally ill offenders and decrease county IST referrals to state hospitals.
- Includes \$14.8 million General Fund to support a partnership with Los Angeles County for up to 150 IST patients, supporting three levels of treatment options in community settings.

- Proposes \$53.1 million General Fund and 346.1 positions to add 236 secured, forensic beds at Metropolitan State Hospital.
- Includes \$16.1 million General Fund to contract for up to 159 additional jail-based competency treatment beds in existing and new programs.
- Proposes \$11.5 million General Fund and 81.2 positions for the activation of 80 Mentally Disordered Offender beds at Coalinga State Hospital to offset reductions resulting from the conversion of units for the Enhanced Treatment Program.

**Mental Health Services Oversight and Accountability Commission**

- Includes \$2.5 million per year (Mental Health Services Act funds) for the Mental Health Services Oversight and Accountability Commission to provide two years of consulting services to assist counties in developing Innovation Plans that incorporate ways to leverage and coordinate diversion programs to address IST populations.

## HUMAN SERVICES

### Department of Social Services

#### In-Home Supportive Services

- Includes an increase of \$27.8 million General Fund in 2018-19 for county IHSS administrative costs to reflect revised workload and budget assumptions. The Administration indicates that IHSS administrative cost assumptions will be reexamined as part of the 2020-21 budget.
- Includes \$29.9 million General Fund to reflect implementation of eight paid sick leave hours for IHSS providers beginning on July 1, 2018.

#### Foster Care and Child Welfare

- Includes \$238.2 million (\$179.7 million General Fund) to continue implementation of the Continuum of Care reforms. Assumptions on caseload movement were revised to more accurately reflect the pace of implementation.

#### CalWORKs

- Includes \$26.7 million for a voluntary Home Visiting pilot program, starting in 2018-19 and extending until the end of the 2021 calendar year, with a total of \$158.5 million in one-time federal TANF funds reserved for the pilot's cost. The stated goal of the pilot program is to help young families reach self-sufficiency by improving family engagement practices, supporting healthy development of young children living in poverty, and preparing parents for employment.
- Provides a one-time augmentation of \$187 million for the county Single Allocation until a revised budgeting methodology is adopted to address the cyclical nature of the caseload changes and impacts to county services. There is an ongoing effort to address the Single Allocation methodology as directed as part of the 2017 Budget.
- Includes a decrease in CalWORKs expenditures of \$1.2 million General Fund to reflect the impact of the increase in the state minimum hourly wage from \$11.00 to \$12.00, effective January 1, 2019.

#### Supplemental Security Income/State Supplementary Payment

- Passes on the federally-provided cost of living adjustment (COLA) according to the current Consumer Price Index of 2 percent effective January 2018, with a projected COLA of 2.6 percent for 2019. Maximum SSI/SSP grant levels with the

January 2018 COLA are \$910 per month for individuals and \$1,532 per month for couples. The January 2019 COLA will increase the grants by approximately \$20 and \$29 for individuals and couples, respectively. The Governor makes no additional changes to SSI/SSP grant levels.

**Department of Developmental Services**

- No major policy changes for the Developmental Centers or for Regional Center Services are known at the time of this writing.

## K-12 EDUCATION

### K-12 Education

- Provides a total Proposition 98 General Fund funding level of \$78.3 billion in 2018-19. Projects "Test 3" to be operative in 2016-17 and 2018-19, while "Test 2" will be operative in 2017-18.
- Projects Proposition 98 ongoing per-pupil spending to be \$15,654 in 2017-18 and \$16,085 in 2018-19, up 66% since 2011-12.

### Major K-12 Education Adjustments:

- Provides an increase of \$3 billion Proposition 98 General Fund for the Local Control Funding Formula (LCFF) to fully implement the program two years earlier than projected.
- Proposes a new requirement that local districts show how their budgets align with the strategies detailed in their Local Control and Accountability Plan (LCAP).
- Proposes the creation of a new website that report the total amount of supplemental and concentration funding provided to each local education agency.
- Provides \$55.2 million Proposition 98 General Fund to help county offices of education facilitate the improvement of school districts identified as being in need of differentiated assistance.
- Augments funding for the California Collaborative for Educational Excellence by \$6.5 million Proposition 98 General Fund, for a total budget of \$11.3 million.
- Proposes the following for special education:
  - Requires Special Education Local Plan Areas (SELPA) to develop a plan that aligns services and resources with the LCAP.
  - Requires SELPAs to report how their expenditures and services align with their improved student outcome strategies.
  - Provides \$10 million Proposition 98 General Fund for SELPAs to work with county offices of education to improve student outcomes.
  - Provides \$100 million Proposition 98 General Fund to increase and retain special education teachers.

- Provides \$200 million Proposition 98 General Fund to establish a K-12 component of the California Community Colleges Strong Workforce (career technical education) program.
- Proposes the following to recruit and retain teachers:
  - Provides \$490 million one-time Proposition 98 General Fund to support educator professional development.
  - Provides \$45 million one-time Proposition 98 General Fund to support at least 2,250 classified employees in becoming certified teachers.
  - Provides \$10 million one-time Proposition 98 General Fund to create pathways to allow students to graduate from universities in four years with a bachelor's degree and teacher credential.
  - Provides \$9 million one-time federal Title II funds to support a grant program for local districts to support preparation and continued learning of teachers, principals and other school leaders in high-need subjects and schools.
  - Provides \$5 million one-time Proposition 98 General Fund to support a grant program for local districts to support professional development for bilingual and multilingual teachers.
  - Provides \$50 million one-time Proposition 98 General Fund to support teacher residency programs for special education teachers.
  - Provides \$50 million one-time Proposition 98 General Fund to support a grant program for local districts to recruit and retain special education teachers.
- Provides \$1.8 billion in one-time Proposition 98 funding to further pay down the education mandates backlog, allowing school districts, charter schools and county offices of education to use this funding for any educational purpose.
- Provides \$640 million in bond authority for new construction or modernization projects.
- Proposes the following for charter schools:
  - Lowering the free or reduced-price meal eligibility requirement from 70 percent to 55 percent.
  - Providing an additional \$20 million to support program expansion.

- Increasing the per-student funding amount from \$750 to \$1,117.

**Early Education and Child Care**

- Includes an increase of \$31.6 million Proposition 98 General Fund and \$16.1 million non-Proposition 98 General Fund to increase the Standard Reimbursement Rate by approximately 2.8 percent.
- Provides \$34.2 million beginning in 2019-20 to make permanent the existing limited-term Regional Market Reimbursement Rate hold harmless provision.
- Includes increases of \$32.3 million non-Proposition 98 General Fund and \$28.4 million Proposition 98 General Fund to implement 2017 Budget Act agreements that reflect an update of the Regional Market Reimbursement Rate to the 75<sup>th</sup> percentile of the 2016 market survey and add 2,959 slots for full-day preschool beginning April 1, 2018.
- Provides \$5.2 million non-Proposition 98 General Fund to reflect slight increases in the number of CalWORKS child care cases and slight decreases in the estimated cost of care.
- Reflects a decrease in federal Temporary Assistance for Needy Families funding from \$120.1 million in 2017-18 to \$70.6 million in 2018-19. Total TANF and federal Child Care and Development Fund spending is \$707 million.

## HIGHER EDUCATION

### University of California

- Provides a 3 percent base increase for operations, or \$92.1 million General Fund. The Administration states it will continue to monitor UC's progress toward implementing recommendations made last year by the State Auditor to improve Office of the President budgeting and operations and will determine in May whether UC has met these objectives.

### California State University

- Similar to UC, provides a \$92.1 million General Fund increase to CSU. The Administration states that it expects CSU to use this funding to improve graduation rates.

### California Community Colleges

- Proposes a new funding formula for community colleges that has the following elements:
  - A base grant based on enrollment;
  - A supplemental grant based on the number of low-income students that a district enrolls;
  - A student success incentive grant that would reward colleges for the number of degrees or certificates earned and the number of degrees and certificates earned within three years;
  - A hold harmless provision that ensures districts would not receive less funding in the future than they received in 2017-18.
- Proposes the creation of a fully-online community college and provides \$120 million Proposition 98 General Fund to support this effort.
- Provides \$46 million Proposition 98 General Fund to support the California College Promise, which will waive fees for all first-time, full-time community college students.
- Proposes consolidating the Full-Time Student Success Grant and the Completion Grant into one program that offers varying levels of financial aid

to students depending on the number of units they take, and provides a \$32.9 million Proposition 98 General Fund augmentation to the program.

- Provides \$20.5 million Proposition 98 General Fund for a cost-of-living adjustment to the Adult Education Block Grant, with \$5 million for a data collection and accountability system.
- Provides \$17.8 million ongoing Proposition 98 General Fund and \$30.6 million one-time for increased reimbursements to K-12 and community college apprenticeships programs.
- Provides \$20 million one-time Proposition 98 General Fund to support higher education innovation awards.
- Provides \$44.9 million in general obligation bond (Proposition 51) funding for 5 new and 15 continuing projects.

### **California Student Aid Commission**

- Provides \$7.9 million General Fund to continue Cal Grant awards for students attending private, nonprofit institutions at \$9,084 annually. The new funding requires that beginning in 2019-20, these institutions increase enrollment of students who have earned a transfer degree from a community college.
- Provides \$7.4 million General Fund to support the first year of project costs for the Grant Delivery System Modernization project, which will update the Commission's information technology systems.
- Provides \$1.1 million in federal Temporary Assistance for Needy Families (TANF) funding to offset Cal Grant costs.

### **California State Library**

- Augments the California Library Literacy Services program by \$2.5 million General Fund.
- Provides \$5 million one-time General Fund to support grants to public libraries to connect to high-speed Internet services or expand Internet services.
- Provides \$1.5 million one-time General Fund to support efficient access to online services.

**Hastings College of Law**

- Provides a 2 percent base increase, or \$1.1 million.

**Office of Planning and Research**

- Provides \$10 million General Fund to focus on integrating science into instruction and to improve the quality of higher education at public colleges and universities.

## NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION

### Ecosystem Restoration & Climate Resiliency

- Proposes \$58 million for multiple departments and conservancies for river recreation, creek, and waterway improvements.
- Proposes \$30 million for the Natural Resources Agency for the Salton Sea restoration.
- Proposes \$110 million for multiple departments and conservancies for climate adaptation and resiliency.
- Proposes \$13 million for the State Coastal Conservancy and the Ocean Protection Council for coastal protection.
- Proposes \$10 million for the California Conservation Corps for the CCC restoration and rehabilitation projects and grants to local community conservation corps.

### Water Action Plan

- Establishes a new special fund for the State Water Board to assist communities, particularly disadvantaged communities, in paying for the short-term and long-term costs of obtaining access to safe and affordable drinking water.
- Proposes statutory language to establish a program that provides grants, loans, and administrator contacts or services to assist eligible communities and household in securing access to safe and affordable drinking water.
- Proposes \$4.7 million for the State Water Board and the Department of Food and Agriculture to take initial steps toward implementation of the aforementioned new program.
- Proposes \$63 million for the State Water Board for safe drinking water projects.
  - Includes \$27 million to improve regional water supply within the San Joaquin River watershed.
- Proposes \$99 million for the Department of Water Resources and Natural Resources Agency for flood management projects.

- Proposes \$146 million for the Department of Water Resources and the State Water Board for the Sustainable Groundwater Management Act.
  - Includes \$61 million to support groundwater sustainability agencies.
  - Includes \$84 million to support regional groundwater treatment and remediation activities that prevent or reduce contamination of groundwater that serves as a source of drinking water.
- Proposes \$18 million for the Department of Food and Agriculture for the State Water Efficiency and Enhancement Program.

**State and Local Park Improvements**

- Proposes \$464 million for the Department of Parks and Recreation and Natural Resources Agency for local and regional grant programs for neighborhood parks and greenway trails.
- Proposes \$4 million for the Department of Parks and Recreation for state park system enhancements.
- Proposes \$4 million for the Department of Food and Agriculture for deferred maintenance of fairs.

**Department of Forestry and Fire Protection**

- Proposes \$2.3 billion, including \$1.4 billion General Fund, and 7,014.5 positions for resource management and wildland fire protection services.
  - Includes \$97.6 million General Fund to purchase four helicopters to continue the replacement of CalFire's existing fleet.
  - Includes \$4 million General Fund for 6 permanent positions and 6.1 seasonal positions, to staff and operate the McClellan Reload Base for the rapid deployment of large air tankers, very large air tankers, and the California National Guard Modular Airborne Fire Fighting Systems.
  - Includes \$26.6 million General Fund for CalFire, the California Department of Corrections and Rehabilitation, and the California Conservation Corps to operate the Firefighter Training and Certification Program for ex-offenders that the Ventura Conservation Camp in Ventura County.

**Department of Water Resources**

- Proposes \$3.4 billion, including \$119.4 million General Fund, and 3,214 positions.

**Department of Fish and Wildlife**

- Proposes \$609.7 million, including \$93.9 million General Fund, and 2,171.8 positions for the protection and conserving of fish and wildlife habitat for their ecological value and for their use and enjoyment by the public.
  - Includes \$50.6 million of ongoing funding (\$6.6million General Fund, \$18 million Motor Vehicle Account, and \$26 million Tire Recycling Management Fund) to address the structural imbalance in the Fish and Game Preservation Fund and to support the future vision of the Department and stakeholders.
  - Includes \$19.6 million to continue critical programs that are threatened by the long-running structural imbalance.
  - Includes \$31 million to implement specific priorities identified in the stakeholder process and detailed in the future vision for the Department.

**Department of Parks and Recreation**

- Proposes \$1.2 billion, including \$147 million General Fund, and 2,304.2 positions.
  - Includes \$42 million and 364 positions to increase services across a variety of programs, emphasizing those that directly benefit park visitors by improving access, and fixing and maintaining the aging infrastructure of the state parks system.
  - Includes \$26.6 million ongoing to address the structural imbalance of the State Parks and Recreation Fund.
  - Includes \$8.5 million to establish a reserve balance.
  - Includes \$1 million ongoing for the newly established recruitment and training program for hard-to-fill classifications, including an emphasis on diversity.
  - Includes \$1 million for increased law enforcement, environmental monitoring, and maintenance grants supporting federal off-highway vehicle recreation.

- Includes \$1 million for the Abandoned Watercraft Abatement grant program to remove abandoned watercraft from California's waterways.
- Includes \$4 million to begin project identification and planning activities necessary to allocate SB 5 bond funds dedicated to the state's park system.
  - Includes \$1.9 million to support implementation of the Redwoods Rising project to enhance old growth coastal redwoods.
- Includes \$464 million to improve and rehabilitate local park facilities and expand access to neighborhood parks.

**California Conservation Corps**

- Proposes \$120.5 million, including \$66.4 million General Fund, and 299.5 positions.
  - Includes \$14.1 million General Fund to initiate four new residential center projects in Auberry, Los Pinos, Greenwood, and Yountville, and to rehabilitate two existing centers in Ukiah and Fortuna.
  - Includes \$3.6 million General Fund to facilitate corpsmember participation in the Firefighter Training and Certification Program for ex-offenders at the Ventura Conservation Camp in Ventura County.
  - Includes \$2.3 million General Fund to support five CalFire/Corps fire crews for wildland fire suppression, emergency incident mitigation, and fire prevention and resources management work.
  - Includes \$1.1 million (\$600,000 General Fund) to strengthen the career pathway of corpsmembers to college, career, or advanced training by providing case management services.

## **CAP AND TRADE**

According to the Administration, its plan for the \$1.25 billion in Cap and Trade dollars available for expenditure in 2018-19 will be related later in January 2018, as part of the annual State of the State Address.

# TRANSPORTATION

The budget includes \$4.6 billion in new funding from the passage of SB 1 (Beall, Chapter 5, Statutes of 2017), also known as the Road Repair and Accountability Act of 2017. This amount is in addition to the \$2.8 billion SB 1 provides in 2017-18. The expenditure plan for SB 1 funding is below. SB 1 provides about \$55 billion over 10 years in new funding to address critical deferred maintenance needs of the state's roadway system.

### Road Maintenance and Accountability Act Funding

(Dollars in Millions)

| Program           |  | 2017-18<br>Appropriation | 2018-19<br>Appropriation |
|-------------------|--|--------------------------|--------------------------|
| Local Allocations | Local Streets and Roads                    | \$451                    | \$1,193                  |
|                   | Transit and Intercity Rail Capital Program | \$330                    | \$330                    |
|                   | State Transit Assistance                   | \$280                    | \$355                    |
|                   | Local Partnership Program                  | \$200                    | \$200                    |
|                   | Active Transportation Program              | \$100                    | \$100                    |
|                   | Commuter Rail and Intercity Rail           | \$25                     | \$36                     |
|                   | Local Planning Grants                      | \$25                     | \$25                     |
|                   | <b>Total:</b>                              | <b>\$1,411</b>           | <b>\$2,239</b>           |
| State Allocations | SHOPP/Maintenance                          | \$451                    | \$1,210                  |
|                   | Bridges and Culverts                       | \$400                    | \$400                    |
|                   | Commuter Corridors                         | \$250                    | \$250                    |
|                   | Trade Corridor Enhancement                 | \$153                    | \$306                    |
|                   | Department of Parks and Recreation*        | \$53                     | \$79                     |
|                   | Air Resources Board Clean Freight          | \$50                     | \$0                      |
|                   | Freeway Service Patrol                     | \$25                     | \$25                     |
|                   | Department of Food and Agriculture*        | \$17                     | \$26                     |
|                   | Transportation-related CSU and UC Research | \$7                      | \$7                      |
|                   | Transportation Workforce Development Board | \$5                      | \$5                      |
| <b>Total:</b>     | <b>\$1,411</b>                             | <b>\$2,308</b>           |                          |
| Administration    | Department of Motor Vehicles               | \$4                      | \$8                      |
|                   | <b>Total:</b>                              | <b>\$4</b>               | <b>\$8</b>               |
| Revenue           | Transportation Improvement Fee             | \$737                    | \$1,510                  |
|                   | Gasoline Excise Tax                        | \$1,250                  | \$1,852                  |
|                   | Diesel Excise Tax                          | \$405                    | \$672                    |
|                   | Diesel Sales Tax                           | \$200                    | \$286                    |
|                   | General Fund Loan Repayment                | \$235                    | \$235                    |
| <b>Total:</b>     | <b>\$2,827</b>                             | <b>\$4,555</b>           |                          |

\*Revenue derived from fuel purchased for off-road vehicles.

**Caltrans**

- Provides \$2.8 billion in additional funding for various programs, including \$1.2 billion for highway maintenance and repairs, \$53.3 million for 400 new maintenance positions, \$400 million for repairing state-owned bridges and culverts, \$330 million for local transportation projects, \$306 million for state trade corridors, \$250 million to relieve commuter corridors, \$200 million for the Local Partnership Program, \$100 million for active transportation, \$25 million for freeway service programs, and \$25 million for local planning grants.
- Provides \$58 million to make technical adjustments to ensure that all Caltrans positions are funded from appropriate funding categories.
- Includes \$10.4 million from the State Highway Account and 4 positions to develop a privacy office to address ongoing cyber security needs.

**California Highway Patrol**

- Provides \$4.5 million (Motor Vehicle Account) for the CHP to replace vehicles that have surpassed the mileage limits established by industry best practices.
- Includes \$3.9 million from the Motor Vehicle Account and 4 IT positions for the first year of a \$13.3 million effort to replace 187 dispatch radio consoles at 23 CHP communication centers.

**Department of Motor Vehicles**

- Provides \$15 million from the Motor Vehicle Account for the first-year costs of the Front End Sustainability Project, the DMV's five-year \$89 million effort to replace its software for vehicle registration and managing service fees and payments. Over the five years of the project life, it is estimated \$38 million will be for the software service contract, \$43 million for the Department of Technology Staff, data center usage and other upgrades, and \$8 million for 10 additional DMV staff.
- Includes \$3.1 million from the Motor Vehicle Account to replace high-priority equipment and hardware that has reached the end of its useful life, such as servers, and network and storage equipment that supports DMV's mission to provide reliable services to its customers.
- Provides \$2.7 million (Motor Vehicle Account), including funding for 3 ongoing positions and 18 temporary help to establish a new clean air vehicle decal program pursuant to AB 544 (Bloom, Chapter 630, Statutes of 2017).

## GENERAL GOVERNMENT

### Supplemental Transfer to the Rainy Day Fund

- Proposes \$3.5 billion supplemental transfer from the General Fund to the Budget Stabilization Account in addition to the current projected amounts required by the Constitution.
- Increases the Rainy Day Fund to \$13.5 billion in 2018-19, achieving the maximum possible under the Constitution.

### Property Tax Backfill

- Includes \$23.7 million General Fund to backfill the property tax revenue losses that cities, counties, and special districts will incur in 2017-18 and 2018-19 due to the October 2017 wildfires in Northern California. The funding estimate will be adjusted as part of the May Revision as more information becomes available, and will also include information for the Southern California wildfires.

### Public Safety Communications

- Proposes \$11.5 million for the State Emergency Telephone Number Account (SENTA) to modernize the state's current 911 system with a Next Generation system, and improve public safety during emergencies.

### Retirement Liabilities

- Proposes \$475 million within Proposition 2 debt payment requirement to pay down the General Fund's portion of the supplemental pension loan from the Surplus Monetary Investment Fund (SMIF).

### State Employees' Retirement Contributions

- Includes \$6.2 billion (\$3.6 billion General Fund) for state contributions to CalPERS for state pension costs. These costs include \$685.7 million General Fund for CSU retirement costs.

### Teachers' Retirement Contributions

- Proposes approximately \$3.1 billion in General Fund for state contributions to CalSTRS.

### **State Health Care Benefits**

- Includes \$2.2 billion for retiree health care benefits for 2018-19.

### **Employee Compensation and Collective Bargaining**

- Proposes \$1.2 billion (\$589.5 million General Fund) for increased employee compensation, health care costs for active state employees, and retiree health care prefunding for active employees.
- States that the Administration will begin collective bargaining with 4/21 of the state's bargaining units, whose contracts with the state expire in late June and July 2018.

### **Civil Service Reform**

- Proposes additional statutory changes to make civil service system more efficient and transparent with efforts focusing on consolidating the state's multitude of job classifications to streamline civil service.

### **Redevelopment Agencies**

- Forecasts that cities will receive an additional \$926 million in general purpose revenues in 2017-18 and 2018-19 combined, counties will receive \$990 million, and special districts will receive \$282 million.
- Anticipates that average annual property tax revenues of more than \$1.2 billion will be distributed to cities, counties, and special districts through 2021-22.

### **County Assessors' Operations**

- Includes \$5 million annually for the next three years for new initiative to assist the maintenance and equalization of the county property tax rolls through proposed legislation.

### **Housing**

- Allocates \$3 million General Fund to the Department of Housing and Community Development, in addition to resources from an estimated \$258 million in real estate transaction fee revenue for housing programs and proceeds from the housing bond.

### **Tax Administration Reform**

- Includes resources for the Board of Equalization (BOE), California Department of Tax and Fee Administration (CDTFA), and the Office of Tax Appeals as follows:

- BOE - \$30.4 million (\$30 million General Fund) and 204 positions.
- CDTFA - \$664 million (354 million General Fund) and 4,270 positions.
- OTA - \$20 million General Fund and 80 positions.

**Medicinal and Adult Use Cannabis**

- Defers all cannabis-related budget proposals until the May Revision.

**Precision Medicine**

- Proposes to establish the California Institute to Advance Precision Health and Medicine with an additional \$30 million one-time General Fund appropriation.

**2020 Census**

- Includes \$40.3 million for statewide outreach and other activities related to the 2020 Census

**Secretary of State**

- Provides \$134.3 million General Fund to support the purchase of all necessary hardware, software, and initial licensing for the replacement of voting systems and technology in all 58 counties. This funding level represents counties being responsible for a 50 percent match of the total voting system replacement costs in order to receive the state share. The amount of funding provided assumes that all jurisdictions with more than 50 precincts will transition to a less-costly vote center model as allowed by SB 450 (Allen, Chapter 832, Statutes of 2016) and counties with less than 50 precincts will continue with the precinct model.

**Department of Veterans Affairs**

- Includes \$15.7 million General Fund for the preliminary plans phase of a new Skilled Nursing Facility at the Veterans Home in Yountville.
- Provides \$571,000 from the California Central Coast State Veterans Cemetery at Ford Ord Operations Fund for the working drawings phase for the continuation of the California Central Coast Veterans Cemetery project in the City of Seaside.

## REVENUES

### Revenues

- Projects an increase of \$4.7 billion above the 2017 Budget Act before transfers to the Rainy Day Fund. The growth is attributed to a large share of wage going to high-income taxpayers and stronger consumption and investment over the medium term. The estimates do not include any impacts of the federal tax changes passed at the end of 2017.

### Personal Income Tax

- Estimates personal income tax (PIT) revenues will increase in 2017-18 by 0.7 percent, from \$88.8 billion to \$89.4 billion from what was assumed in the 2017 Budget Act.
- Forecasts that PIT revenues also will increase in 2018-19 by 2.8 percent from \$91.0 billion to \$93.6 billion from what was assumed in the 2017 Budget Act.

### Sales and Use Tax

- Projects sales and use tax (SUT) revenues will increase in 2017-18 by 2.8 percent, from \$24.5 billion to \$25.2 billion from what was assumed in the 2017 Budget Act.
- Estimates SUT revenues will increase in 2018-19 from \$25.7 billion to \$26.1 billion, 1.7 percent higher than what was assumed in the 2017 Budget Act.

### Corporation Tax

- Estimates corporation tax will decrease by 2.2 percent from \$10.9 billion to \$10.7 billion in 2017-18 from the 2017 Budget Act.
- Projects corporation tax will slightly decrease by 0.2 percent from \$11.24 billion to \$11.22 billion in 2018-19 from the 2017 Budget Act.

### Job Creation

- Proposes the extension of the California Competes program at \$180 million for another five years. An additional \$20 million is proposed to provide direct assistance to small business.

- Proposes a reconstituted \$50 million per year credit to encourage businesses to hire individuals with employment barriers.

## **PUBLIC SAFETY**

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

- Includes total funding of \$12 billion (\$11.7 billion General Fund and \$313 million other funds) for the Department of Corrections and Rehabilitation (CDCR).

#### Division of Rehabilitative Programs

- Includes \$454.4 million General Fund for the Division of Rehabilitative Programs in order to fund various programs and services that promote positive in-person behavior and support inmate rehabilitative efforts to provide a better opportunity for successful reintegration into society upon release.
  - \$6.7 million General Fund to expand Career Technical Education programming and \$1.5 million General Fund for related equipment replacement
  - \$2.5 million General Fund for inmate activity groups
  - \$4 million Inmate Welfare Fund for rehabilitative programming grants

#### Statewide Prison to Employment Initiative

- Includes \$16 million General Fund for the Statewide Prison to Employment Initiative, a partnership of the California Workforce Development Board, California Department of Corrections and Rehabilitation, and California Prison Industry Authority.

#### Firefighter Training and Certification Program

- Includes \$26.6 million General Fund to establish a Firefighter Training and Certification Program for ex-offenders to provide education and training to become a firefighter.

#### Support for Aging Infrastructure

- Provides \$131.1 million for infrastructure investments, including:
  - \$60.7 million General Fund to replace roofs
  - \$32.9 million to replace the public safety radio communication system

**Juvenile Justice Reform**

- Proposes to raise the age of jurisdiction from 23 to 25 in the Division of Juvenile Justice.
- Includes \$3.8 million General Fund to establish two housing units to support a Young Adult Offender Pilot Program to divert a limited number of young adult offenders from adult prison to juvenile facility.

**Inmate Medical Care and Mental Health Services**

- Includes \$3.1 billion General Fund for health care service programs, including \$2.1 billion General Fund for prison medical care.
  - Augments inmate medical care program by \$12.8 million, including \$8.3 million to complete the integration of an Electronic Health Records System, \$4.5 million to lease automated drug cabinets for controlled substances and establish a Correctional Clinic Model and \$17.5 million for new and replacement health care access vehicles.
  - Augments mental health treatment bed capacity by \$20.1 million General Fund, including:
    - \$8.7 million to convert two housing units
    - \$6.8 million to add 15 Mental Health Crisis Beds and 5 Psychiatric Inpatient Beds
    - \$2.4 million to improve patient movement in and out of inpatient treatment beds
    - \$1.2 million to perform utilization management reviews
    - \$1 million to transfer 20 Mental Health Crisis Beds from northern California to southern California

**Local Public Safety**

- Includes \$106.4 million in order to continue funding for the Community Corrections Performance Incentive Grant.
- Provides \$29 million General Fund for county probation departments to supervise the temporary increase in the average daily population of offenders on Post Release Community Supervision as a result of the implementation of court-ordered measures and Proposition 57.

**Proposition 47 Savings**

- Estimates savings of \$64.4 million.

**Transition from State Custody to Local Systems**

- Continues efforts to improve information transfer and resource sharing with counties, including pre-release video conferencing, development of protocols for the release of offenders with medical or mental health needs, and automation of pre-release information to expedite processes.

**Department of Justice**

- Proposes to work with the Attorney General's office to replace the existing lifetime sex offender registration system with a tiered registration system beginning January 1, 2021.

**Judicial Branch**

- Includes total funding of \$4.2 billion (\$1.9 billion General Fund and \$2.3 billion other funds) for the Judicial Branch, including \$2.2 billion to support trial court operations.
- Provides \$150 million in General Funds to improve and modernize trial court operations and increase access, including:
  - \$47.8 million allocated to trial courts that are below the 76.9 percent of their need according to the Workload-Based Allocation and Funding Methodology.
  - \$75 million for discretionary funding for trial courts
  - \$19.1 million to expand self-help services in trial courts
  - \$4 million to expand interpreter services for civil matters in courts
  - \$3.4 million for a five-court pilot for a civil model to adjudicate minor traffic violations
  - \$500,000 for the Court Appointed Special Advocate Program
  - \$200,000 to expand the California Courts Protective Order Registry
- Includes \$32.3 million from the Immediate and Critical Needs Account to complete the design of courthouse projects in Riverside/Mid-County, Sonoma and Stanislaus.

- Proposes to complete ten courthouse projects from lease revenue bonds in the next two years.

**Military Department**

- Includes \$6.5 million General Fund to update the California Cadet Corp.
- Provides \$2.4 million General Fund to implement Military Institute College Preparatory Academy in Tulare County and \$1.2 million General Fund for military personnel at California Military Institute in Riverside County.

## SUMMARY OF CHARTS

### 2018-19 Governor's Budget General Fund Budget Summary

(in millions)

|  | <b>2017-18</b>   | <b>2018-19</b>   |
|--|------------------|------------------|
| <b>Prior Year Balance</b>                          | <b>\$4,611</b>   | <b>\$5,351</b>   |
| Revenues and Transfers                             | \$127,252        | \$129,792        |
| <b>Total Resources Available</b>                   | <b>\$131,863</b> | <b>\$135,143</b> |
| Non-Proposition 98 Expenditures                    | \$73,771         | \$77,126         |
| Proposition 98 Expenditures                        | \$52,741         | \$54,564         |
| <b>Total Expenditures</b>                          | <b>\$126,512</b> | <b>\$131,690</b> |
| <b>Fund Balance</b>                                | <b>\$5,351</b>   | <b>\$3,453</b>   |
| Reserve for Liquidation of Encumbrances            | \$1,165          | \$1,165          |
| Special Fund for Economic Uncertainties            | \$4,186          | \$2,288          |
| <b>Budget Stabilization Account/Rainy Day Fund</b> | <b>\$8,411</b>   | <b>\$13,461</b>  |

**General Fund Expenditures by Agency**

(in millions)

|                                       | 2017-18          | 2018-19          | <u>Change from 2017-18</u> |                |
|---------------------------------------|------------------|------------------|----------------------------|----------------|
|                                       |                  |                  | Dollar Change              | Percent Change |
| Legislative, Judicial, Executive      | \$3,221          | \$3,651          | \$430                      | 13.3%          |
| Business, Consumer Services & Housing | 404              | 432              | 28                         | 6.9%           |
| Transportation                        | 239              | 213              | -26                        | -10.9%         |
| Natural Resources                     | 3,564            | 3,029            | -535                       | -15.0%         |
| Environmental Protection              | 115              | 82               | -33                        | -28.7%         |
| Health and Human Services             | 35,394           | 37,383           | 1,989                      | 5.6%           |
| Corrections and Rehabilitation        | 11,678           | 11,815           | 137                        | 1.2%           |
| K-12 Education                        | 53,489           | 55,167           | 1,678                      | 3.1%           |
| Higher Education                      | 14,968           | 15,450           | 482                        | 3.2%           |
| Labor and Workforce Development       | 147              | 122              | -25                        | -17.0%         |
| Governmental Operations               | 1,128            | 1,181            | 53                         | 4.7%           |
| General Government:                   |                  |                  |                            |                |
| Non-Agency Departments                | 775              | 766              | -9                         | -1.2%          |
| Tax Relief/Local Government           | 428              | 457              | 29                         | 6.8%           |
| Statewide Expenditures                | 962              | 1,942            | 980                        | 101.9%         |
| <b>Total</b>                          | <b>\$126,512</b> | <b>\$131,690</b> | <b>\$5,178</b>             | <b>4.1%</b>    |

## General Fund Revenue Sources

(in millions)

|   | 2017-18                 | 2018-19                 | <u>Change from 2017-18</u> |                    |
|---|-------------------------|-------------------------|----------------------------|--------------------|
|   |                         |                         | Dollar Change              | Percent Change     |
| Personal Income Tax   | \$89,403                | \$93,593                | \$4,190                    | 4.7%               |
| Sales and Use Tax   | 25,165                  | 26,151                  | 986                        | 3.9%               |
| Corporation Tax   | 10,656                  | 11,224                  | 568                        | 5.3%               |
| Insurance Tax   | 2,438                   | 2,508                   | 70                         | 2.9%               |
| Liquor Tax  | 376                     | 382                     | 6                          | 1.6%               |
| Cigarette Tax   | 65                      | 63                      | -2                         | -3.1%              |
| Motor Vehicle Fees  | 27                      | 27                      | 0                          | 0.0%               |
| Other   | 820                     | 894                     | 74                         | 9.0%               |
| <b>Subtotal</b>   | <b>\$128,950</b>        | <b>\$134,842</b>        | <b>\$5,892</b>             | <b>4.6%</b>        |
| Transfer to the Budget Stabilization Account/Rainy Day Fund | -1,698                  | -5,050                  | -3,652                     | 197.4%             |
| <b>Total</b>  | <b><u>\$127,252</u></b> | <b><u>\$129,792</u></b> | <b><u>\$2,540</u></b>      | <b><u>2.0%</u></b> |