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OVERVIEW

The Assembly begins the budget process facing the highest level of uncertainty over the future of the State's fiscal picture since the Great Recession. The 2017 budget will be based on assumptions about what the year ahead will bring to Californians, our economy, our needs, and our priorities. As daily twitter updates bring rumors of doom from the East, it is incredibly hard to anticipate how our world will change in the foreseeable future.

In areas where the State has had power over our own destiny, California has dramatically reduced uncertainty and threats to our budget. The State has built the largest reserve in history, aggressively paid down debts, and made major strides to address long term liabilities. According to the Legislative Analyst's Office, the State is in its best position to weather a recession in over four decades.

The State has also been able to rebuild from the Great Recession and since 2010:

- General Fund spending has increased from \$87.2 billion to \$122.5 billion, about 50% increase when accounting for the 2011 \$6.9 billion Realignment shift) ;
- Proposition 98 (K-14) spending has increased from \$33.1 billion to \$51.4 billion, an increase of 55%;
- Tuition paid by lower and middle income CSU and UC students has been lowered up to 40%;
- Obamacare has been successfully implemented, extending healthcare to over five million;
- The Minimum Wage has increased 31% and is on its way to \$15 an hour; and
- The CA Earned Income Tax Credit has been created.

The State Budget Picture—99 Percent Agreement

It is still too early to know how the federal government will impact California's budget, so the process begins looking at the State issues. The 2017 budget process builds off a successful 2016 budget, which was adopted by such unprecedented consensus between the Governor and the Legislature that not a single item was line-item vetoed. This consensus is possible because the major stakeholders have synchronous priorities.

2017 Governor's Budget

The 2017 Governor's proposal breaks with this approach, slightly but still noticeably, to revisit some of the agreements of that year as proposed solutions to a perceived budget problem.

The Problem:

The Department of Finance projects a budget problem of \$1.6 billion in 2017-18 due to a lower-than expected revenue growth and a major error in the State Medi-Cal Estimate. The Administration uses the savings from the elimination of the Coordinated Care Initiatives and revenue from recently-passed ballot propositions to offset some of these revenues and costs increases, as detailed below:

Projected 2017-18 Reserve at time of 2016 Budget Act:	\$2.2 billion
– Shortfall Causes:	
• Reduced Revenues over 3-Yr Period:	-\$5.8 billion
• Administration Medi-Cal Accounting Errors:	-\$1.8 billion
– Shortfall Offsets:	
• Reduced Prop 98 Minimum:	\$1.1 billion
• Increased Revenues from Ballot Measures:	\$1.4 billion
• Governor decision to end Coordinate Care Initiative:	\$0.6 billion
• Various other baseline updates:	\$0.6 billion
Total Projected Shortfall:	-\$1.6 billion

A Very Solvable Problem that Might Get Smaller

The overall shortfall represents 1.3 percent of overall General Fund revenue, which may be tempered further before May Revision if revenue collections continue at current levels. The Legislative Analyst's Office believes that the largest driver of the projected shortfall, lower revenue growth, is overstated. For January 2017, actual revenue collections have exceeded the projected collections by approximately \$684 million, erasing unexpected slower revenue collections in December and bringing the revenue collections in-line with the January budget projections. As the year progresses, it is possible this rebound continues and the May Revision brings a brighter revenue picture.

Irksome Solutions

Even if the proposed budgetary problem remains at the projected levels, some of the proposed solutions target legislative priorities and would need to be replaced with other solutions. The Governor's Budget proposal includes \$3.2 billion of solutions to solve the \$1.6 billion problem and provide a remaining \$1.6 billion reserve. The largest of these reductions reflects the adjustment of the Proposition 98 guarantee to a new minimum that reflects the lower projected revenue. However, this proposal also targets priorities of the Legislature, including the pausing of the Middle Class Scholarship, delaying child care rate increases, sweeping the \$400 million set aside for affordable housing, and eliminating various augmentations made by both houses of the Legislature in the waning moments of the 2016 budget process. Overall, the solutions look as follows:

Projected Shortfall:	-\$1.6 billion
– Governor's Proposed Solutions	
• Prop 98 Adjustments:	\$1.7 billion
• "Recapture" Current Year Budget Actions:	\$0.9 billion
– Return "By Right" Set-aside (\$400 m)	
– Change state building funds to lease revenue bonds (\$300 m)	
– Undo various projects supported by Legislature (\$200 m)	
• New Reductions:	\$0.6 billion
– Delay Child Care Rate Increase (\$100 m)	
– Phase out Middle Class Scholarship (\$36 m)	
– Require baseline increases be paid w/in existing budget (\$300 m)	
– Various others	
Final Projected Reserve:	\$1.6 billion

Beyond the Governor's Framing

As the budget process moves forward it will become clearer whether the projected deficit is real and the extent to which the State may lose federal funding in the next year.

Like the Governor, the Assembly will adopt a final budget plan with a robust reserve level. This is necessary to ensure that the State is prepared to respond to the uncertainty it faces. Unlike the Governor, to achieve this goal the Assembly will first look for bureaucratic belt-tightening before reducing programs that benefit the public.

Additionally, the Assembly has identified priorities for investment that it will attempt to pursue, to the extent funding is available, in the budget year. These priorities include:

- Expanding the EITC to serve more working Californians.
- Improving access to health/dental care with Proposition 56 funds.
- Increasing financial aid in a multi-year approach to reduce and ultimately eliminate reliance on student debt.
- Helping areas of the state still suffering from the Great Recession.
- Taking next steps in increasing access to Early Education.
- Fighting homelessness and improving Affordable Housing.
- Developing a zero-based budgeting oversight process that will review all major state departments.

These goals are long-term endeavors, so if funding is not available, the Assembly will still use the budget process to continue setting the groundwork for the future.

Washington DC Thinks About Cutting 1 Percent of California's GDP

While the State budget debate is about 1 percent of the total General Fund budget, the federal government considers proposals could cut as much as one percent of the State's total economic output.

The 2016 election left California as one of only six states that have both a Democratic Governor and Legislature. With Republicans controlling the Presidency, Congress and the Governor and Legislatures of 25 States, California is isolated in both priorities and lacking in allies. With \$100 billion in federal funds contained in California's budget, an antagonistic federal government could cause major damage the State budget.

For example, the President of the United States of America has threatened to cut federal funding to California governmental institutions two times in one weekend:

"There's a lot of problems. If we have to, we'll defund. We give tremendous amounts of money to California. California in many ways is out of control, as you know."

President Donald Trump, February 5, 2017



Donald J. Trump ✓
@realDonaldTrump

Following

If U.C. Berkeley does not allow free speech and practices violence on innocent people with a different point of view - NO FEDERAL FUNDS?

RETWEETS

59,215

LIKES

212,252



3:13 AM - 2 Feb 2017



42K



59K



212K

Will Berkeley lose all of its federal funds? It is hard to know what to expect given how chaotic the first three weeks of the new Administration has been. Projecting and forecasting federal policy seems more like gambling than planning and no one has a clear picture of how this will impact California over the next 17 months.

Affordable Care Act Funding At Risk

The most obvious and concrete example of a potential threat to the State is the future of the Affordable Care Act. As Congress debates repealing and potential replacement of Obamacare, the potential impact to the State could be over \$21.9 billion in lost federal funds, as shown below:

Program	Caseload	Total Federal Revenue
Medi-Cal Expansion (2017-18)	4,104,000	\$17.3 billion
Subsidized through Covered California (June 2016)	1,210,090	\$4.6 billion
Total	5,314,090	\$21.9 billion

In addition to this reduction, a proposed block granting of Medicaid would compound this reduction by shifting the financial risk of this fast-growing program to the State.

Beyond the Fiscal Threat, An Absence of Leadership.

California not only faces financial adversity from the new administration, our priorities and progress are challenged as well.

In the era of alternative facts, it has become acceptable at the federal level to ignore or oversimplify public policy problems that are at the heart of the biggest challenges faced by the people of California and the rest of America. From climate change to gender equity, income inequality to racism, the new administration has actively denied the reality of major weaknesses of our society. This leaves California as one of few, if the only, venue to identify and try to solve these difficult problems. In some cases California itself is not large enough to substantially solve these problems, but we can offer value in illuminating them when others want to deny them.

The 2017 budget process offers the Assembly a chance to do just that - keep the fight going on climate change, shine the light on the impact of poverty on our families, and continue the discussion of community engagement with law enforcement.

This Report

This report is an initial attempt by Assembly Budget Committee staff to frame the upcoming issues in the 2017 budget process based upon a three-week review of the initial documents provided with the Governor's Budget. As the Subcommittee hearings process begins, the raw opinions and analyses presented here will be refined by the input of testimony, additional information from stakeholders, and the feedback of committee members. We only print 100 copies of this report and place it on our website without any promotion because we anticipate that only a small group of insiders will be our readership. If you are among them, we invite you to contact us, debate the perspectives provided here, and provide your feedback.



HEALTH

The health care safety net in California, as in all 50 states, has never been threatened to the degree that it is right now. The President of the United States would like to repeal the Affordable Care Act (ACA), eliminate all funding for Planned Parenthood clinics (for all services), and block-grant, or otherwise vastly diminish resources for, state Medicaid programs. If he proves to be successful on all fronts, the losses to California would not only dismantle our health care safety net, thereby denying access to medical care to millions of Californians, it also would destabilize the entire state budget likely leading to reductions at least the magnitude of the Great Recession cuts. Fortunately, doomsday has yet to arrive, and the challenge we face today is crafting a responsible and balanced budget in the face of such unprecedented uncertainty.

Instead of bracing for a calamity, 2017 could have been a year for making great strides in strengthening, refining, and expanding health coverage for Californians. State leaders dreamed of extending coverage to all California adults, regardless of immigration status, just as we did for children. Some dreamed of increasing investments in Medi-Cal and Denti-Cal in ways that could truly improve access to care for the over 14 million Californians already enrolled. Still others dreamed of making California a national and international leader in public health, an opportunity only made possible by the nearly universal coverage rates. Obesity-related health conditions, such as diabetes and heart disease, continue to sicken millions of Californians and drive up health care costs. Infectious diseases, such as Measles, may be on the rise with decreasing vaccination rates. 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 very different time....a time when California had a significantly smaller population that never imagined a world dominated by obesity, climate change, and gun violence.

Are all of these dreams on hold? And for how long? California's Governor and legislative leaders have used strong, inspiring, fighting words to convey their resolve and commitment to resist the President's agenda. They have made many of us proud and kept hope alive in this state. Nevertheless, 2017 and 2018 look to be at best uncertain, and at worst, perilous to the point of deadly.

Major Issues in Health

- **What Can and What Will Congress Do to Federal Health Care Programs?**
 - **Affordable Care Act Repeal.** Many different potential scenarios could play out based on the legal and political challenges associated with an actual repeal of the ACA. The worst-case scenario could be a \$20 billion federal fund loss to California. The ACA Medi-Cal expansion covers approximately 3,972,100 Californians, while Covered California covers 1,387,540.

- **Women's Health Care Funding.** The President and Congress have clearly stated their intent to end funding for Planned Parenthood. They might do this by prohibiting abortion providers from qualifying as Medicaid providers. If this is their strategy, Planned Parenthood would lose all of their Medicaid (Medi-Cal in California) funding, amounting to \$260 million here in California. This could also end Medicaid funding for some hospitals and some Federally Qualified Health Centers.
- **Medicaid Block Grant.** Congressional Republicans are pushing for major reforms to the Medicaid program, possibly by changing the entitlement to a block grant, which likely would reduce California's Medi-Cal funding significantly (on top of potential ACA-repeal reductions).
- **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 close to the 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 of sufficient access provided to them by the Department of Health Care Services (DHCS).

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 individuals to the program, all of whom require access to 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, and 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 of enrollees 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 far less valuable 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 (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 showing 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 one million kids from the former Healthy Families Program into Medi-Cal, prior to the enrollment explosion under the ACA, and prior to the expansion of coverage to all children regardless of immigration status. 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;
 3. The 2015 Budget Act restored the ten percent provider rate cut, adopted in 2011, beginning July 1, 2015;
 4. The 2015 Budget Act also funded a State Dental Director who has been hired;
 5. The 2016 Budget Act restores funding to re-establish the Dental Disease Prevention Program that brings preventive care and referrals to children in low-income schools; and
 6. The Dental Transformation Initiative is a significant component of the state's new 1115 Waiver.
- **Public Health Remains Undervalued and Underutilized.** California invests close to nothing in public health. This year's January budget includes \$3.3 billion for the Department of Public Health, of which only \$132.2 million is State General Fund. Federal funds make up the largest single source of funds in the department's budget, at \$1.4 billion in the Governor's budget. 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. 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 others. Other major public health challenges, such as childhood obesity, may have never received General Fund dollars at all.

Some gains and restorations have been achieved since the recession ended. In 2014, the Assembly approved of a \$55 million General Fund public health reinvestment; however, the final 2014 Budget Act included only \$7 million. The new investments include the following:

2014 Budget Act:

- \$4 million on-going General Fund for the Black Infant Health Program
- \$3 million on-going General Fund for new HIV Demonstration Projects

2015 Budget Act:

- \$3 million General Fund for needle exchange programs
- \$2.2 million General Fund for Hepatitis C linkages to care projects
- \$2 million General Fund for HIV Pre-Exposure Prophylaxis Demonstration Projects

2016 Budget Act:

- \$3.2 million on-going General Fund to re-establish the Dental Disease Prevention Program
- \$5 million one-time General Fund to prevent the spread of sexually transmitted diseases
- \$3 million one-time General Fund to distribute Naloxone kits to prevent drug overdose fatalities
- \$2.5 million one-time General Fund to support Alzheimer's early detection efforts;
- \$1.4 million one-time General Fund to prevent the spread of hepatitis
- \$1 million one-time General Fund to support the work of the Biomonitoring Program

DPH is not unique; there are other state departments that receive little or no General Fund. However, DPH's mission, to promote health and prevent illness, makes it uniquely undermined by its lack of General Fund. General Fund would provide DPH the freedom and flexibility necessary to effectively establish public health priorities for California that change over time and respond to the changing world in which we live. For example, DPH has lacked the resources and flexibility to make childhood obesity a top priority, despite the urgency and magnitude of this issue over the past decade. Public health holds great potential to reduce gun violence, yet its injury control section was eliminated during the recession. Climate change has begun to be recognized as one of the greatest public health challenges of our time; yet again, DPH lacks the ability, capacity, resources, and flexibility to shift gears, re-order priorities, and be effective and responsive to today's world. From a health care cost perspective, California has no choice but to invest in public health. High cost chronic diseases, such as diabetes, cancer and heart disease threaten to bankrupt the state, or at least significantly destabilize California's economy if the trajectory of the prevalence of these conditions is not reversed. Today in California, 125 diabetes-caused amputations occur every week. Socio-economic status and life-style are the most significant determinants of a person's health.

- **Mental Health & Substance Use Disorder Services Warrant A Serious Commitment From The State.** Overall, the delivery of mental health services as a component of the safety net occurs through a complex, multi-faceted, and confusing web of services, providers, health plans, and funding streams. The confusing and complex nature of this system makes it extremely difficult for the Legislature, and even for the state, to provide good oversight over these services, most of which are under the control and authority of counties. Hence, ensuring adequate access to high quality care is enormously challenging. Similarly, substance use disorder (SUD) treatment services have been disorganized, poorly monitored, and woefully underfunded. DHCS recently launched a major initiative, through a federal waiver, to reorganize the delivery of SUD services in order to create an organized continuum of care. This new waiver is in the early stages of implementation, and oversight by the Legislature is imperative. Within this morass, the following issues stand out as needing and deserving legislative focus:
 - **ACA Repeal.** Mental health and SUD services were expanded under the ACA, and therefore these expanded services are threatened.
 - **Suicide Prevention.** The 2014 Budget included \$7 million (Prop 63 funds) to support the Golden Gate Bridge Authority's plan to build a suicide prevention net on the bridge, one of the most common methods of suicide in California. Overall funding challenges have delayed the project, however the Authority is optimistic about the project and expects it to be completed in approximately 4-5 years. The 2016 Budget includes \$4 million (one-time Prop 63 funds) to backfill the loss of funding through CalMHSA for suicide hotlines. The Legislature may wish to consider a more significant and focused investment in suicide prevention in California.
 - **Substance Use Disorder Services Waiver.** DHCS began implementation of a new federal waiver last year that significantly changes the way these services are provided by requiring that the services be provided in an organized ("managed") delivery system. Oversight of implementation of this new waiver will be critical, particularly in light of potential massive cuts to Medicaid generally.
 - **Naloxone.** The state has done relatively little to respond to the opioid epidemic, however the 2016 Budget includes \$5 million one-time General Fund for the distribution of Naloxone kits to community-based organizations, such as needle exchange programs. The funding was directed to the Department of Public Health to implement this program. The Legislature should provide oversight over the implementation of this funding and may wish to consider additional investments in preventing drug overdoses.
 - **State Hospitals.** The Department of State Hospitals oversees the state's mental hospitals, which treat a population that is approximately 92 percent "forensic." Over the past approximately 5 years, the DSH has seen a constantly increasing number of "Incompetent to Stand Trial (IST)" referrals from the court system, so much so

that a significant and growing waiting list exists, and the state is being sued as a result. The Budget Acts of the past 2-3 years have included significant new resources to expand bed capacity for the IST population but the hospitals have not been able to keep up with the demand.

Governor's January Budget Proposals in Health

DEPARTMENT OF HEALTH CARE SERVICES

For 2017-18, the Governor's Budget proposes \$105.3 billion for the support of DHCS programs (primarily Medi-Cal). Of this amount, approximately \$629.1 million is budgeted for State Operations, while the remaining is for Local Assistance. The proposed budget reflects nearly a 2.3 percent (\$2.4 billion) increase from the current year budget. The vast majority of DHCS's budget is for the Medi-Cal Program, for which the January budget proposes \$102.6 billion (\$19.1 billion General Fund), a \$2.5 billion (2.5%) increase from the current year. The Medi-Cal estimate assumes caseload to be 14.3 million in 2017-18, a 1.8 percent increase over the 2016-17 case load.

Medi-Cal Major Provisions

- **Ends the Coordinated Care Initiative (CCI) Legally.** The Budget proposes to cease operation of significant components of the CCI for General Fund savings of \$626.2 million in 2017-18. These components include removing In Home Supportive Services (IHSS) benefits from plan capitation rates, eliminating the statewide authority for bargaining IHSS workers' wages and benefits, and re-establishing the state-county share of cost arrangement for the IHSS program that existed prior to the CCI. The proposal also includes abandoning the creation of a Universal Assessment Tool. Finally, the budget legally discontinues all of the CCI, but also requests the Legislature's reauthorization to reinstate the other major components of the CCI, including the duals demonstration pilot program, the transition of duals into managed care, and the transition of long-term services and supports (except IHSS) to managed care benefits.
- **Uses Tobacco Tax Revenue to Cover Costs of Medi-Cal Growth.** The budget allocates \$1,237,400,000 of Proposition 56 (2016 tobacco tax) revenue to cover growth costs in Medi-Cal, estimated to be 82 percent of the tax revenue per the Act's requirements.
- **Transitions Newly Qualified Immigrants from Medi-Cal to Covered California.** The Budget assumes \$48 million in General Fund savings by transitioning coverage for all new qualified eligible adults from Medi-Cal to a Health Benefits Exchange plan.
- **Abolishes the Major Risk Medical Insurance Fund (MRMIF).** The Budget abolishes the MRMIF and transfers the fund balance of approximately \$65 million to a new Health Care Services Plans Fines and Penalties Fund to support remaining

participants in the Major Risk Medical Insurance Program as well as Medi-Cal enrollees.

- **San Francisco Ending the San Francisco Community Living Support Benefit (SF CLSB) Waiver.** The SF CLSB assists eligible individuals to move into available community settings and to exercise increased control and independence over their lives. The Waiver is administered by the City and County of San Francisco, Department of Public Health (SF DPH). SF DPH has notified the Department that it has decided to not renew the Waiver after it expires on June 30, 2017. DHCS is proposing to transition the participants into the Assisted Living Waiver (ALW) through a limited expansion of the ALW into San Francisco.
- **Reforming the Nursing Facility/Acute Hospital Transition (NF/AH) and Diversion Waiver.** The budget proposes statutory provisions to align with the NF/AH Waiver renewal proposal developed and released in 2016 and currently under review with CMS. As contained in the Waiver renewal application, these enhancements include the following:
 - Implementing local comprehensive care management through one or more “Case Management Contractors”
 - Moving to an aggregate cost limit and cost neutrality calculation
 - Expanding the number of waiver slots by 5,000
 - Implementing a new enrollment standard that at least 60% of enrollments will be from institutional settings
 - Transitioning In-Home Operations (IHO) Waiver beneficiaries to the NF/AH Waiver
- **Elimination of State-Only Eligibility for Child Health and Disability Prevention (CHDP) Services.** The budget repeals the statutory provisions for eligibility for the state-only CHDP program services due to the expansion of full scope benefits to all children under SB 75.
- **Proposes Alternative Birthing Center (ABC) Reimbursement Methodology.** DHCS proposes to align reimbursement for ABC services with current methodologies for hospital reimbursement.
- **Delays Start Dates for Various Programs.** The budget assumes the following delays:
 - Implementation of the Whole Child Model for CCS in County Organized Health System (COHS) counties (SB 586) to no sooner than July 1, 2018
 - Implementation of the palliative care program (SB1004) to no sooner than July 1, 2018
 - Implementation of the inclusion of marriage and family therapists as billable FQHC providers to (AB 1863) no sooner than July 1, 2018
 - Implementation of the FQHC alternative payment methodology pilot to no sooner than January 1, 2018
 - Issuance of regulations for out-of-county foster care presumptive transfer (AB 1299) to July 1, 2020

- Issuance of evaluation report for Assisted Outpatient Treatment (AB 59) to no sooner than July 1, 2018

Other Key Issues in Medi-Cal

- **Funds the Affordable Care Act Medi-Cal Expansion.** The Medi-Cal estimate assumes costs of \$20.1 billion (\$888 million General Fund) in 2016-17 and \$18.9 billion (\$1.6 billion General Fund) in 2017-18 for the 4.1 million Californians in the optional Medi-Cal expansion authorized through the ACA.
- **Makes Major Medi-Cal Estimate Adjustments.** The Medi-Cal estimate includes the following major adjustments and assumptions:
 - Reflects a current year shortfall of \$1.8 billion General Fund primarily due to a one-time retroactive payment of drug rebates to the federal government and a miscalculation of costs associated with the CCI.
 - Assumes Managed Care Organization Tax funding for Medi-Cal of \$1.1 billion in 2016-17 and \$1.6 billion in 2017-18.
 - Maintains an augmentation to counties for Medi-Cal eligibility administration of \$655.3 million (\$217.1 million General Fund) in 2017-18. Maintains \$1.5 million (\$731,000 General Fund) to develop a new budgeting methodology for counties' eligibility administration costs.
 - Includes \$279.5 million General Fund to provide full-scope benefits to 185,000 children who are gaining coverage regardless of their legal status.
 - Assumes over \$1 billion in General Fund savings in 2017-18 from the extension of the hospital quality assurance fee.
 - Anticipates increased substance use disorder treatment services via participation of 6 counties in 2016-17 and an additional 10 counties in 2017-18 in the Drug Medi-Cal Organized Delivery System Pilot, at a cost of \$19.9 million (\$3.1 million General Fund) in 2016-17 and \$661.9 million (\$141.6 million General Fund) in 2017-18.
 - Includes \$4.5 million General Fund to continue implementation for the new federal Medicaid Managed Care Regulations.
 - Increases General Fund costs by \$536.1 million to reflect the assumption that the Children's Health Insurance Program (CHIP) will be reauthorized by Congress, effective October 1, 2017, however at the non-enhanced, federal-matching percentage of 65 percent, rather than the enhanced rate of 88 percent authorized by the Affordable Care Act.
- **Requests Resources.** DHCS is requesting approximately \$25 million (\$6.9 million General Fund), 35 new positions, the conversion of 18 existing limited-term positions

to permanent, and the limited-term extension of 186.5 existing limited-term positions to support workload associated with, among other activities, all of the following:

- Supplemental payments for ground emergency medical transportation;
- Supplemental payments for clinics (AB 959);
- Implementation of the new 1115 Waiver;
- Medi-Cal managed care ombudsman;
- Development of a new county administration budgeting methodology;
- Expanded substance use disorder services;
- Implementation of new federal managed care regulations; and
- Replacement of the Medi-Cal Eligibility Data System.

Other Key Issues Outside of Medi-Cal

- **Funds the Marijuana Public Information Program.** The Governor's proposed budget includes \$5 million (General Fund) in 2016-17 for the public information program required by Proposition 64 that legalized the recreational use of marijuana.

OFFICE OF STATEWIDE HEALTH PLANNING AND DEVELOPMENT

For 2017-18, the Governor's Budget proposes \$131.5 million for the support of the Office of Statewide Health Planning and Development (OSHPD). Of this amount, approximately \$110.8 million is budgeted for State Operations, while the remaining is for Local Assistance. The proposed budget reflects a 33 percent (\$44 million) decrease from the current year budget, primarily reflecting the proposal to eliminate the \$33 million appropriated in the 2016 Budget Act to increase the capacity of various healthcare workforce programs, including the Song Brown program that supports medical residency slots.

Major Provisions

- **Eliminates Health Care Workforce Funding.** The Governor's budget proposes to eliminate \$33.4 million General Fund in 2017-18 and all future funding (totaling \$100 million) that the 2016 Budget Act includes to support health care workforce initiatives.
- **Requests Resources.** OSHPD is requesting \$2.1 million (special funds, \$0 General Fund), 3.5 new limited-term staff and the conversion of 2 limited-term staff to permanent for on-going workload in the Elective Percutaneous Coronary Interventions Program, new workload to implement legislation imposing new reporting requirements on hospitals, and increased office rent.

DEPARTMENT OF PUBLIC HEALTH

The Governor's proposed 2017-18 budget provides the Department of Public Health (DPH) approximately \$3.3 billion overall, representing a \$289.3 million (total funds), or 8.8 percent, increase from the current year DPH budget, primarily reflecting the infusion of Proposition 56 (2016 tobacco tax) funding. General Fund dollars of \$132.2 million make up just 4 percent of the department's total budget while federal funds make up approximately 52 percent of the total department budget.

Major Provisions

- **Appropriates Tobacco Tax Revenue.** The budget directs \$223.5 million in Proposition 56 (tobacco tax) revenue to the department's dental, law enforcement and tobacco prevention programs.
- **Funds Increased Salaries For Licensing and Certification Workers in Los Angeles County.** The budget provides an increase of \$1.1 million (special fund) for the Los Angeles County Licensing and Certification contract to cover the costs of increased salaries, and imposes new requirements on the Los Angeles County contract to better control future cost increases.
- **Implements Medical Cannabis Licensing.** The budget includes \$1 million (special fund) for the licensing and regulation of medical cannabis product manufacturers.

Other Key Issues

- **Requests Resources.** DPH is requesting approximately \$243.2 million (\$0 General Fund), 66.5 new permanent positions and the conversion of 97.3 existing limited-term positions to permanent. These resources are being requested to support workload associated with, among other activities, the following:
 - Childhood lead exposure surveillance;
 - Medical cannabis manufacturer licensing;
 - Youth tobacco prevention;
 - Healthcare associated infections prevention;
 - Healthcare facility licensing quality improvements;
 - AIDS Drug Assistance Program;
 - Emergency preparedness;
 - Health data reporting requirements (AB 1726);
 - Electronic system for birth, marriage and death certificates (AB 2636);
 - Newborn screening program (SB 1095); and
 - Oral health and tobacco prevention.

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 managed care organization. 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 2017-18 budget proposes \$76.9 million, an increase of \$0.6 million (0.7%) over current year spending for DMHC's overall budget.

Major Provisions

- **Includes Help Center Case Backlog Resources.** DMHC requests 11.0 permanent positions and \$3.4 million (special funds) to address the increased workload and subsequent backlog within the consumer help center attributed to implementation of the ACA.
- **Proposes Information Technology Resources.** DMHC requests 2 permanent positions and \$722,000 (special funds) to address information security needs and transition to a more efficient information technology system.
- **Implements Prohibition of Surprise Balance Billing (AB 72).** DMHC requests 16.0 permanent positions and \$3.6 million (special funds) to implement AB 72 (Bonta, Chapter 492, Statutes of 2016) that prohibits surprise balance billing by noncontracting providers when enrollees receive non-emergency care at an in-network facility.
- **Reduces Resources for Medi-Cal Interagency Agreements.** DMHC proposes to reduce its resources by 18.5 positions and \$3.4 million (special funds) and \$1.9 million (reimbursements) to reflect the termination of existing interagency agreements between the DMHC and DHCS, reflecting new federal requirements.

DEPARTMENT OF STATE HOSPITALS

The Governor's proposed 2017-18 Department of State Hospitals (DSH) budget includes total funds of \$1.6 billion dollars, of which \$1.4 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 2017-18 budget is a 17.5 percent (\$278.2 million) decrease from current year funding, primarily reflecting the Governor's proposal to shift responsibility for mental health treatment for state prison inmates from DSH to the California Department of Corrections and Rehabilitation.

Major Provisions

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

Other Key Issues

- **Invests in State Hospitals With Capital Outlay.** The budget requests resources for the following facility improvement construction projects:
 - **Statewide: Enhanced Treatment Units.** DSH is proposing an \$11.5 million General Fund renovation to provide Statewide Enhanced Treatment Units (ETU) at Atascadero and Patton State Hospitals.
 - **Metropolitan: Fire Alarm System Upgrade.** DSH is proposing \$3.9 million General Fund to upgrade the existing fire alarm systems for the Chronic Treatment East building.
 - **Patton: Fire Alarm System Upgrade.** This fire/life/safety project is for \$6.1 million General Fund 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.
 - **Napa: Courtyard Gates and Security Fencing.** DSH is requesting a reversion of \$3.9 million General Fund for the design, fabrication and installation of extensions to raise the height of the 44 existing security fences and demolition and replacement of existing courtyard gates within patient housing buildings.
 - **Coalinga: Courtyard Expansion.** DSH is requesting \$5.7 million General Fund to 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.
 - **Metropolitan: Consolidation of Police Operations.** DSH is requesting \$1.3 million General Fund to construct a new building to consolidate the Hospital Police Services, the Office of Special Investigation and the Emergency Dispatch Center.

MENTAL HEALTH SERVICES OVERSIGHT & ACCOUNTABILITY COMMISSION

The Mental Health Services Oversight & Accountability Commission (MHSOAC) proposed 2017-18 budget is \$67.1 million, an \$11.2 million (16.7%) decrease from current year funding. Nearly all of the funding for the MHSOAC is Proposition 63 (Mental Health Services Act) state administration funding. The substantial (16.7%) decrease in funding from the current year to the proposed budget year does not reflect any policy changes, but rather reflects 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 and 2016-17 budgets than into the 2017-18 budget.

Major Provisions

- **Increases Oversight of Prevention and Early Intervention.** The MHSOAC is requesting \$309,000 (special funds) and 2 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 MHSOAC to promulgate and implement regulations for Prevention and Early Intervention Programs and Innovation Programs.
- **Implements Mental Health Advocate Contracts.** The MHSOAC requests \$157,000 (special fund) and 1 permanent position to support the MHSOAC ability to implement new and expanded contracts with mental health advocates, as required by the 2016-17 budget.

EMERGENCY MEDICAL SERVICES AUTHORITY

For 2017-18, the Governor's Budget proposes \$36.8 million for the support of the Emergency Medical Services Authority (EMSA). Of this amount, approximately \$15.8 million is budgeted for State Operations, while the remaining is for Local Assistance. The proposed budget reflects a 2 percent increase from the current year budget.

Major Provisions

- **Addresses Backlog of Emergency Medical Technicians-Paramedic Discipline.** EMSA is requesting 2 permanent positions and \$314,000 (special fund) to address increasing disciplinary legal caseload.
- **Purchases E-Commerce Online Paramedic Licensing Module.** EMSA is requesting \$211,000 (special funds) to purchase software required to modify the paramedic licensing system in order to create an electronic licensing system.

CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY

Major Provisions

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

Staff Comment and Analysis of Governor's Budget Proposal

In light of the national political situation, the Governor's proposed budget in health is appropriately cautious and conservative, without directly responding to the myriad of potential, yet uncertain, impacts from future acts of Congress and the President. Nevertheless, setting aside national threats, the Governor's proposed budget also includes some significant disappointments in terms of reductions in one-time funds for health care workforce programs and for children's mental health crisis services, both 2016 legislative priorities. Moreover, the Governor chose not to address the issue of Medi-Cal rates yet again, despite the successful creation of a substantial new revenue source specifically for this purpose supported by voters on November 8, 2016. 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. Voters supported and passed Proposition 56 on November 8, 2016 which imposes a significant new tax on tobacco products, anticipated to raise over \$1.2 billion specifically for the purpose of raising rates. The Governor's budget instead proposes to use this funding to pay for Medi-Cal costs generally and proposes no rate increases.
- **Denti-Cal Remains Unable to Effectively Serve 14.3 Million People.** The Governor's budget contains no significant new provisions or rate increases designed to improve dental care for the 14.3 million people on Medi-Cal. 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 rate increases by 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 makes a significant new investment of \$223.5 million in new tobacco tax (Proposition 56, 2016) revenue for oral health and tobacco law enforcement and prevention programs. Other than the statutorily required infusion of Prop 56 funds, the budget

contains no new investments, 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 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, and this may be especially so under the Trump regime that discourages science, research, and health care.

- **Budget Largely Ignores Potential Steps Forward on Mental Health and Substance Use Disorder Services.** The Governor's budget includes two proposals that represent steps backwards in the mental health arena:
 - 1) The budget cuts \$17 million General Fund from the California Health Facilities Financing authority that was a legislative priority in 2016 to support children's mental health crisis services, which are virtually non-existent in the state of California.
 - 2) The budget proposes to delay the development of regulations by DHCS that are required by AB 1299 (Ridley-Thomas, Chapter 603, Statutes of 2016) which requires a new county of residence for a foster child to provide mental health services to that child, rather than the county of origin. Research shows that when foster children are placed outside of their home county, which continues to be responsible for providing their mental health services, they are far less likely to receive the services they need. Rather than requesting the state staff DHCS needs to complete these regulations in a timely manner, the budget proposes to delay their development.

The budget does include \$10.8 million to establish an Admission, Evaluation and Stabilization Center within a county jail to help reduce the Incompetent to Stand Trial waitlist. This might be a good step, though it seems rather minimal given the waitlist has approximately 500 individuals and keeps growing. The budgets of the past few years have included millions of dollars to expand bed capacity for this population, yet the resources have not kept pace with the rising rate of IST referrals. This backlog calls for new, creative, out-of-the-box ideas on how to address what is increasingly a miscarriage of justice by causing significant delays in criminal proceedings as people languish on the waiting list for restoration of competency services.



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 and skilled nursing facilities.
- **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)** 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, which includes child care centers.
- **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 survive and navigate daily human life.

California remains challenged by the highest rates of poverty (including senior and child poverty) in the nation, vast income inequality, limited economic mobility, and alarming trends of homelessness and hunger. According to the California Budget and Policy Center in

October 2016, the federal Supplemental Poverty Measure (SPM), which improves on the official poverty measure, reveals that:

- 1 in 5 Californians (20.6%) struggle to afford basic necessities and live in poverty.
- Nearly one-quarter of children (23.8%) live in families struggling to get by, a larger share than for adults. One-third of Latino children (33.2%) live in poverty. Over one-quarter of black children (25.7%) live in poverty. Latino and black children are more than twice as likely as white children to live in families that are struggling to get by.
- Seniors are nearly twice as likely to lack adequate resources and seniors of color are more likely than white seniors to live in poverty. Nearly one-third of Latino seniors (32.4%) and nearly one-quarter of other seniors of color (23.7%) struggle financially.

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 annualized General Fund budgeted costs at the time of approval):

2016

- **Developmental Services** – Adopt Provider Rate Increase and Other Community Services Augmentations (\$293 million), Provide a One-Time Increase in Community Placement Plan Program Activities for Developmental Center (DC) Movers (\$73.8 million), Establish a New Rate for Certain Residential Facilities Serving Four or Fewer Individuals (\$26 million), Provide Retention Incentives for DC Employees (\$20.1 million), Implement New Federal Requirements for Home- and Community-Based Services (\$13.4 million), and Increase Regional Center Support for Improved Coordinator-to-Consumer Caseload Ratios (\$13 million).
- **IHSS** – Restore 7 Percent Service Hours (\$265.8 million)
- **SSI/SSP** – Provide One-Time Funding to Establish the Housing and Disability Income Advocacy Program (\$45 million) and Increase State-Funded Portion of Grants by 2.76 Percent (\$73 million)
- **CalWORKs** – Repeal Maximum Family Grant Policy (\$193 million), Augment Funding for the Housing Support Program (\$12 million), and Lift the Once in a Lifetime Restriction in the Homeless Assistance Program (\$2.4 million)
- **CalFood** – Provide One-Time Funding for the State Emergency Food Assistance Program (\$2 million)
- **One CA** – Provide One-Time Augmentation for Immigration Assistance (\$15 million)
- **Child Welfare Services** – Provide Funding for the Continuum of Care Reform Efforts (\$120.3 million), Establish the Bringing Families Home Program (\$10 million), Augment Funding for the Commercially Sexually Exploited Children Program (\$5 million), Increase the Foster Care Infant Supplement (\$4 million), and Augment Funding for the Chafee Education and Training Voucher Program (\$3 million)

- **Aging Services** – Provide a One-Time Increase for Adult Protective Services Social Worker Training (\$3 million) and a One-Time Augmentation for Home-Delivered Meals Program (\$2 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)
- **Child Welfare Services** – Augment Foster Parent Recruitment, Retention, and Support (\$15 million)
- **Aging** – Partial Restoration for Ombudsman Program (\$1 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 Services** – Early Start Restoration (\$15.8 million)
- **Child Welfare Services** – 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 Legal Services Program for Undocumented Unaccompanied Minors (\$3 million)

2013

- **CalWORKs** – 5 Percent Grant Increase (\$150 million, source is realignment growth dollars)
- **CalWORKs** – Funding for Early Engagement Strategies (\$96.6 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. The enactment of the State Earned Income Tax Credit (EITC) in 2015 and the adoption of paced increases to the minimum wage both make important strides in providing families with the resources they need to live above the poverty line with a full-time job.

Poverty among California's children and seniors remain critical issues for the vitality of the state's current and future condition for people. Grants for those most marginalized reliant on safety net programs remain at historic lows, providing insufficient means for families to meet the demands of daily life, most notably high housing costs. While there have been milestone investments in recent years, homelessness is increasing in California and our state continues to hold the distinction of having the highest poverty rate among all 50 states.

- **CalWORKs' Effectiveness at Lifting Families Out of Poverty.** The CalWORKs program, nearing its 20th anniversary since being created in response to federal welfare reform, has undergone complicated, continuous change over the past seven years. The changed program has a (1) shorter lifetime clock of 48 (versus the federally allowed 60) months for aid, (2) flexibility within a shortened 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 below half of the federal poverty level. 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 and budget 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 24th month, with specified exceptions, such as being granted an extension or with participation in a vocational education program.
- **IHSS Program Again Undergoing Vast Changes.** IHSS serves over 491,141 disabled, frail, and aged recipients across California. 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, which was restored in the 2015 Budget and is restored in 2016-17 and into the future, reliant on and statutorily tied to revenues from the Managed Care Organizations (MCO) tax. Adding substantially to the program changes, in 2016, the Federal Labor Standards Act (FLSA) regulations on overtime pay took effect, to which counties, providers, and consumers continue to adjust. Access to exemptions for the capped number of hours for certain providers was a serious issue in the 2016 budget discussions, along with the appropriateness and fairness of the provider violations policy. The Administration has also indicated that it is involved in a planning effort regarding identity verification pursuant to pending federal law, which has been a subject of continuing legislative inquiry.
- **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 continued implementation are included in the Governor's Budget. In 2016, the planning for the implementation of the CCR on January 1, 2017 was budgeted for and stakeholders worked toward this commencement date.

- **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. 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 more than 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. U.S. Census Bureau reporting

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.

- **Developmental Centers and Regional Center Services.** Responding to years of consistent advocacy, the Legislature and Governor last year enacted changes and provided resources that reflected rate increases for various community services providers and other augmentations authorized by special session legislation and increased community services spending due to new policy changes as well as caseload increases and utilization changes. Community service providers that devote most of their time to providing direct care to consumers received salary and/or benefit increases and investments were made to improve case management for Regional Center consumers, including investments intended to reduce coordinate to consumer caseload ratios. California is one of only a few states that has preserved its entitlement, under the Lanterman Act, for the developmentally disabled, striving to meet the needs of consumers in the least restrictive settings possible.

Governor's January Budget Proposal in Human Services

DEPARTMENT OF SOCIAL SERVICES

The Governor's Budget includes \$23.6 billion all funds (\$8.0 billion General Fund) for the California Department of Social Services (DSS) in 2017-18, representing a decrease of \$1.2 billion or 4.8 percent from the current year (2016-17). A large proportion of DSS funding is comprised of federal and realigned funds.

The provisions in the Governor's January proposal discussed below represent significant policy or fiscal change compared to the enacted budget for 2016-17.

Major Provisions for CalWORKs

- **No Major Initiatives Beyond Workload Budget.** The Governor's Budget proposes no major initiatives to the program starting in 2017-18. Grants do not increase further and there are no structural changes to the time limit policy or service provision beyond what has been included as part of legislation and prior budgets.
- **Lower Expenditures and Declining Caseloads.** The CalWORKs program is experiencing a steeper projected caseload decline than anticipated. A mix of factors including the higher minimum wage and declining unemployment rate are bringing the caseload to the low levels experienced pre-recession. In 2016-17, the CalWORKs caseload is projected to decline by 6.5 percent from the previous fiscal year to 463,540 average monthly cases. This represents a 4.6 percent decline from the caseload projections in the 2016 enacted budget. The CalWORKs caseload is projected to further decline by another 0.9 percent to 459,173 average monthly cases in 2017-18.

- **Work Participation Compliance.** California is in the process of correcting and mitigating fiscal penalties totaling \$1.5 billion for failing to meet the federal Work Participation Rate (WPR) from Federal Fiscal Years (FFY) 2011 through 2015. To avoid or reduce the penalties, California entered into Corrective Compliance Plans (CCPs) for FFY 2011 through 2014. The federal Administration for Children and Families recently notified DSS that California had achieved a rate of 55.7 percent in FFY 2015, which satisfies the overall WPR requirement. However, the two-parent rate was 62 percent, which is below the 90 percent requirement, resulting in a \$93 million penalty. California is in the process of disputing the two-parent penalty amount for FFY 2015, and will likely submit a CCP if this dispute is unsuccessful. However, because California met the overall WPR requirements in 2015, DSS recently received notification that the CCPs for 2008 through 2010 were successful, resulting in the elimination of the corresponding penalties, which total approximately \$340 million. Preliminary data submitted to the Administration for Children and Families (ACF) suggest that California continued to meet the overall WPR in 2016, while again falling short on the two-parent WPR requirement. Once ACF reviews the 2016 data later this year, there should be substantial relief for penalties from FFYs 2011 through 2013, which set FFY 2016 as the compliance year.
- **CalWORKs Grants, including MFG Repeal.** The Governor's Budget reflects an accelerated decline in the CalWORKs caseload projection and a lower average cost per case, accounting for decreases in the "assistance" or grants' costs. According to the Administration, actual expenditures from 2015-16 indicate that the cost per case has declined for all families cases from \$462.97 to \$459.72 and two-parent cases from \$563.32 to \$558.70. The major changes in 2017-18 reflect continued caseload decline, which is offset by costs associated with the full year implementation of the MFG Repeal. The 2017-18 budget includes \$224.5 million (\$198.2 million General Fund), primarily grant costs, for the MFG Repeal. Effective January 1, 2017, CalWORKs grant computations no longer exclude the needs of children born into families who already have been aided for more than ten months. The Child Poverty and Family Supplemental Support Realignment Subaccount incrementally supports the costs of the MFG Repeal in future years and, as the fiscal forecast was adopted in the 2016 Budget, was planned to ultimately displace General Fund spending.

CalWORKs grants have long been a subject of legislative and budget attention due to their depressed nature and lack of ability to meet basic living expenses in California for families with children. Grants do not keep pace with inflation due in part to a 2009 statutory change that relinquished the annual Cost of Living Adjustment (COLA). The maximum monthly grant for a family of three (one parent, two children) is \$714 in a high-cost county (e.g. Los Angeles, San Francisco, and Ventura) and \$680 in a lower-cost county (e.g. Fresno, Sacramento, and Riverside), summing to \$8,568 or \$8,160 (respectively for type of county) per year to meet basic living expenses including housing, utilities, and clothing. The aforementioned Child Poverty Subaccount can provide a grant increase in certain years, and, under the scenario of the 2016 Budget, is projected to be able to again once the MFG Repeal costs are fully covered by the Subaccount's resources, however that may be for several years.

- **CalWORKs Services Estimate Changes.** CalWORKs Services are the cost to provide employment services to individuals in the CalWORKs WTW program. A decrease in 2016-17 reflects additional savings due to minimum wage increases as a higher number of cases are assumed to leave the caseload because of higher earnings. These decreases are slightly offset by an increase in Family Stabilization funding, based on county expenditures in the last two-quarters of 2015-16. Following the statewide implementation of the Online CalWORKs Appraisal Tool (OCAT) in October 2015, actual expenditures for Family Stabilization have increased, and it is anticipated that funding needs will be consistent with continued use of the OCAT. The overall Employment Services decrease in 2017-18 reflects the anticipated Employment Services caseload decline. The funding for Expanded Subsidized Employment maintains the same number of previously budgeted slots as counties continue to expand their subsidized employment programs and the number of clients served. Revised projections relative to the 2016 enacted budget for 2016-17 decreased about eight percent from 211,965 adults to 195,209 adults. The 2017-18 projection is anticipated to decrease another half-percent to 194,360 adults.
- **Stage One Child Care.** The principle change to Stage One Child Care in 2016-17 is an increase in the Regional Market Rate (RMR) costs. For 2017-18, the revised CW 115/115A report, which implemented July 2015, is used to estimate costs. The report now reflects the number of children served rather than the number of payments claimed. This change results in a lower base cost per case, which decreased from \$758.40 to \$675.38, excluding the changes to the RMR listed above. The total Stage One Child Care cost per case for 2017-18 including services, administration, and all RMR increases is \$756.06. Revised projections relative to the enacted budget for 2016-17 decreased about 2.8 percent from 42,995 children to 41,806 children. The Stage One Child Care caseload is projected to slightly increase to 42,060 children in 2017-18. Despite this increase in caseload, the reduction in the cost per case results in a lower budget for 2017-18.
- **TANF Transfer.** Due to the lower expenditures and the declining caseloads, 2017-18 reflects an additional \$120.1 million for a total of \$130.1 million of Temporary Aid to Needy Families (TANF) to Title XX transfer to the California Department of Education for the Stage Two Child Care program. The proposed budget continues to maximize the transfer of TANF to the California Student Aid Commission to fund Cal Grants (\$925.7 million in 2016-17 and 2017-18).
- **Delay of Planned Improvements.** The Governor's Budget includes a proposal to delay the adoption of the CalWORKs Welfare to Work (WTW) 25/25A Report with a savings of \$5.9 million realized in 2017-18 as a result. This report has historically provided a monthly breakdown of cases for every county and was posted regularly on the DSS public website. The information has not been available for some time, due, according to DSS, to issues with data collection and management given the SAWS systems. It is unclear what activity toward resolution this amount is associated with, as details are being requested.
- **Alternatives to In-Person Interviews.** The CalWORKs budget also reflects costs for recently enacted legislation to provide Alternatives to In-Person Interviews (Senate Bill (SB) 947), including total funds of \$0.8 million in 2016-17 and \$4.6 million in 2017-18 for grants, administration, employment services and child care.

- **Federal Health Care Reform County Savings.** The Governor's Budget proposes a one-time General Fund decrease of \$265.9 million resulting from additional county savings related to federal health care reform. Actual statewide indigent health savings in 2014-15 were higher than previously estimated. Pursuant to current law, these additional county savings are redirected to the CalWORKs program to offset General Fund costs.

Key Provisions for CalWORKs Automation

- **CalWIN Enhancements.** The California Work Opportunity and Responsibility to Kids Information Network (CalWIN) enhancements are scheduled to begin in July 2017. According to the Administration, the enhancements to the CalWIN system will ensure the ongoing efficiency and dependability of operations, the interoperability with other partner systems and proficiency in adaptations to address changes in the health and human services environment. The enhancements are expected to be complete in 2019-20. DSS states that funding for this effort is pending, federal approval for federal financial participation.
- **Statewide Fingerprint Imaging System Expiring.** The Legislature has recently been informed that DSS is exploring options for replacing the Statewide Fingerprint Imaging System (SFIS) in anticipation of the contract expiration in August 2017. The replacement option would use a form of Knowledge-Based Authentication, which queries public and private data sources to determine the likelihood that the person is who they claim to be. This change is funded within the existing \$12.1 million budget for SFIS. Starting early 2017, up to six counties are expected to participate in a pilot program that will run parallel to SFIS. If successful, CDSS would propose to procure a long-term agreement to implement the new service statewide. Legislative staff have requested an analysis of what identify verification tools exist without SFIS, which could potentially negate the need for a replacement once the SFIS contract expires.
- **Online CalWORKs Appraisal Tool (OCAT).** The Budget Act of 2016 included a total of \$13.5 million for various aspects of OCAT automation, including development and implementation of the tool, interview costs, and Statewide Automated Welfare System (SAWS) automation costs. OCAT is a client and family assessment and case management tool that was implemented as part of an effort to bolster early engagement in the CalWORKs program, corresponding to the reduced time limits adopted in the 2012 Budget. The Governor's proposal ceases efforts to integrate OCAT with the SAWS, which was a planned next step, scoring savings of \$2.6 million General Fund in 2016-17 and \$8.8 million General Fund in 2017-18. The Administration states that embedding OCAT functionality within SAWS as a shared service remains a DSS strategic automation goal. The current OCAT contract with ICF International is set to expire on June 30, 2018 and currently includes the online hosting of the tool, hosting of an online learning center, learning center updates and support, maintenance, technical support, tool development and modification for data reporting or other DSS requested changes. The budget proposes to further extend this contract in light of the investment delay to integrate OCAT with SAWS.

- **Los Angeles Eligibility, Automated Determination, Evaluation and Reporting Replacement System (LRS)/Consortium IV (C-IV) Migration.** The Governor's Budget proposes \$38.6 million (\$7.5 million General Fund) in 2017-18 for LRS/C-IV migration within SAWS. The SAWS is currently made up of three systems: CalWIN, C-IV, and LRS. They support functions such as eligibility, benefit determination, enrollment and case maintenance at the county level for many of the state's major health and human services programs. The LRS and C-IV will design, develop and implement incremental changes in the LRS to migrate the 39 counties utilizing C-IV to the new 40-county consortia, creating the newly named California Automated Consortia Eligibility System. The LRS project shifted to the M&O phase during 2016-17. The LRS implementation occurred October 24, 2016 and decommissioning of the Los Angeles Eligibility, Automated Determination, Evaluation and Reporting (LEADER) system is currently in process. The C-IV migration efforts are set to begin July 2017 and are expected to be complete in 2020-21.

The costs noted above reflect funding for project planning, including development of a detailed line item cost of the project, vendor procurement and conversion design. Expenditure of these funds is contingent upon approval of project documents by the Department of Finance and the Department of Technology, which is included in associated, proposed Budget Bill Language.

- **Automation Changes for Recently Enacted Legislation.** The current year budget (2016-17) includes a total of \$1.7 million one-time funding for SAWS updates to implement recently enacted legislation:
 - Inter-County Transfers – SB 1339 (Chapter 801, Statutes of 2016) waives the interview requirement for the receiving county and requires transfers to be timely for CalWORKs, CalFresh and Medi-Cal.
 - Consumer Credit Reports – SB 1232 (Chapter 308, Statutes of 2016) requires authorization to use credit reports for CalWORKs and CalFresh eligibility determinations.
 - Overpayments on CalWORKs Reporting – AB 2062 (Chapter 795, Statutes of 2016) requires timely notification of reduction in benefits in order to be deemed an overpayment.

Major Provisions for SSI/SSP

- **Caseload Changes.** The SSI/SSP budget reflects a net decrease in 2016-17 due to slower caseload growth, partially offset by a higher average SSP grant than previously projected. The 2017-18 Governor's Budget projects an increase of \$123.2 million total funds in 2017-18 due to a higher average SSP grant, partially offset by lower caseload. The average monthly caseload is projected to be 1,282,787 cases (individuals and couples cases combined) in 2016-17, which reflects a 0.6 percent decline from the previous projection. The total average grant is projected to be \$626.54 after COLAs are applied. In 2017-18, the average monthly caseload is projected to be 1,284,131 cases (again, all cases, not counting all individual people in both types of cases) and the total average grant is projected to be \$636.45 after COLAs are applied.

- **Pass-Through of Federal COLA and Funding of One-Time State COLA.** The Governor's Budget passes through the federal COLA for SSI/SSP recipients, 0.3 percent for 2017 (at a cost of \$20.2 million total funds) and a projected 2.6 percent for 2018 (at a cost of \$106.6 million total funds). These changes keep the SSI/SSP grant levels at their minimum as allowed under federal law for both couples and individuals in order to maintain eligibility for Medicaid funding. With the projected federal COLA for January 1, 2018, grants will rise by \$20 and \$29 for individuals and couples, respectively. In addition to the federal COLA, the proposed Budget funds a one-time state discretionary COLA that went into effect as part of the 2016 Budget on January 1, 2017 (\$36.5 million General Fund in 2016-17 for half-year costs). This costs \$73.2 million General Fund for the full-year in 2017-18, providing a 2.76 percent COLA to the SSP portion of the grant. Today, as a combined result of the federal and one-time state COLAs, maximum grant levels are \$895.72 per month for an individual and \$1,510.14 per month for couples.
- **Housing Disability Advocacy Program.** The Governor's Budget includes one-time savings of \$45 million General Fund in the current year from halting implementation of the Housing and Disability Advocacy Program funded and approved as part of the 2016 Budget. The program is intended to provide state matching funds to participating counties for the provision of outreach, case management, advocacy services and housing assistance to individuals in need. The program will assist homeless individuals apply for disability benefit programs including the SSI/SSP for the Aged, Blind and Disabled; the federal Social Security Disability Insurance program; the Cash Assistance Program for Immigrants; and veterans benefits provided under federal law, including disability compensation. The appropriated funding is available over a three-year period through June 30, 2019. The Administration proposed halting the funding in the current year and, as a result, has not progressed to implement the new program.

Major Provisions in CalFresh and Other Food Assistance

- **Declining Caseload.** The non-assistance CalFresh caseload is projected to decrease 2.8 percent in 2016-17, which reflects a directional shift from 15 years of caseload growth. This decline is primarily attributed to fewer applications and more discontinuances due to higher household earnings in the first six months of 2016. The CalFresh program is projected to reach an average of 2.0 million total households (public assistance and non-assistance) in 2016-17 and 2017-18.
- **Drought Food Assistance Program.** The Drought Food Assistance Program (DFAP) is a temporary program. The 2016-17 Appropriation included \$18.4 million General Fund in local assistance funding to operate the DFAP. DSS states that this funding will provide sufficient inventory for the program through December 2017. There is no proposed funding included for continuation in 2017-18.
- **State Emergency Food Assistance Program.** The 2016 Budget included \$2 million General Fund (one-time) for the State Emergency Food Assistance Program (SEFAP). The Governor's Budget has no proposed funding for the SEFAP continuing in 2016-17 because it was considered to be a one-time augmentation.

- **Improving Participation for Elderly and Disabled (IPED) Initiative.** The DSS proposes what it calls a multi-year, multi-faceted initiative to improve CalFresh and California Food Assistance Program (CFAP) participation among elderly and disabled individuals. Elements of this initiative focus on simplifying enrollment, deductions and reporting requirements for this population. Beginning in July 2017, pending federal approval, households consisting entirely of elderly or disabled members will be certified or recertified for a three-year period with annual reporting for those with no earned income or semi-annual reporting for those with earned income. Additionally, no interview will be required for those households with no earned income, unless requested by the recipient. This change will improve access for the elderly and disabled as well as result in \$4.6 million in administrative savings. These savings are slightly offset by estimated costs of \$0.4 million for one-time programming updates to SAWS. All eligible households, approximately 300,000 households, will be converted to the three-year recertification by the end of June 2019.

Beginning in January 2018, pending federal approval, households consisting entirely of elderly or disabled members with verified medical expenses of \$35 or more will be granted a standard medical deduction. The recipient may claim more than the standard medical deduction if their verifiable receipts exceed that amount. The amount of the medical deduction has not yet been established. This simplification policy is expected to increase benefits for those eligible but will not increase total benefits due to federal cost neutrality requirements. Increased benefits for the elderly and disabled will be offset by a small decrease in the Standard Utility Allowance for the entire CalFresh and CFAP caseload resulting in no net benefit change. No administrative impact is expected; reduced verification efforts on some cases are expected to be off-set by households who had not previously submitted medical receipt due to the complexity of the current process.

- **Able-Bodied Adults Without Dependents (ABAWD) Caseload and Administrative Impact.** California is currently operating under a federal waiver of time limits for ABAWD individuals receiving CalFresh benefits. The statewide ABAWD Waiver was expected to end on December 31, 2017, but an extension request was recently approved by the federal U.S. Department of Agriculture, moving this date to August 31, 2018. The expiration of the waiver would have meant that some non-assistance CalFresh recipients would be required to satisfy the ABAWD work requirement as a condition of CalFresh eligibility unless they reside in a county or part of a county that meets federally established waiver criteria.

The 2016 Budget Act included funding to modify automated systems to begin tracking ABAWD cases and the time limit. The administrative costs of \$12.7 million were anticipated to be partially offset by administrative savings of \$9.2 million from ABAWD cases that would be discontinued from CalFresh for failing to meet participation requirements in 2017-18. With the waiver extension, these costs will presumably be adjusted in the May Revision. The ABAWD caseload is 451,812 in 2017-18. Loss of the ABAWD waiver was expected to result in approximately 10,000 individuals being discontinued from CalFresh.

Major Provisions for In-Home Supportive Services (IHSS)

- **Discontinuation of the Coordinated Care Initiative, Effects on IHSS.** The Governor's Budget reflects a reduction in General Fund of \$622.6 million in 2017-18 because pursuant to current law, the Coordinated Care Initiative (CCI) is no longer cost-effective and has been discontinued. As a result, the IHSS county maintenance-of-effort is discontinued in the same year as this determination is made, returning to prior state-county sharing ratios, and requiring counties to pick up the full costs of the MOE since its inception above the base. Additionally, responsibility for collective bargaining returns to the counties and the Statewide Authority dissolves. Below this is described in further detail and how this relates to other changes in the IHSS estimates in the revised and proposed Budget.
- **Current Year Changes.** The Governor's Budget includes a net increase in 2016-17 of \$133.2 million total funds (\$73 million General Fund) reflects additional cases associated with undocumented minors transitioning into IHSS as a result of SB 75 (Chapter 18, Statutes of 2015) and increases in minimum wage from \$10.00 per hour to \$10.50 effective January 1, 2017. It also reflects a higher caseload, cost per hour, paid hours per case and administrative costs based on updated actual caseload and expenditures.
- **Budget Year Changes and MOE Shift.** The net increase in 2017-18 of \$796.2 million total funds (with a savings of \$301.9 million General Fund) is largely due to the increase in minimum wage from \$10.50 per hour to \$11.00 effective January 1, 2018, higher caseload, cost per hour, paid hours per case and administration costs. The net decrease in General Fund reflects the impact of eliminating the county Maintenance of Effort (MOE). This results in the shift of \$622.6 million from the state to the county share effective July 1, 2017.
- **Caseload and Other Cost Changes.** The average monthly paid caseload for IHSS Basic in 2016-17 is projected to be 491,141 cases, a 0.07 percent increase compared to the 490,797 cases projected in the 2016 enacted budget. The average monthly paid caseload for IHSS Basic in 2017-18 is projected to be 516,935 cases, a 5.3 percent increase over 2016-17.

The caseload projections for this program are developed using a 15-month period of actual paid caseload data through July 2016 received from Case Management, Information and Payrolling System (CMIPS II). Additional projected caseloads not subsumed in the IHSS Basic caseload include the Affordable Care Act (2,183 cases in 2016-17 and 6,472 in 2017-18), CCI (6,968 cases 2016-17 and 7,477 in 2017-18), and Implementation of SB 75 (114 cases in 2016-17 and 185 in 2017-18).

The average monthly hours per case are projected to be 105.2 in 2016 17 and 2017 18 compared to 104.2 in the 2016 enacted budget. The average cost per hour is projected to be \$13.38 in 2016 17, compared to \$13.33. The average cost per hour is projected to be \$13.50 in 2017 18.

- **Estimate Changes Due to SB 75.** The Governor's Budget includes funding for IHSS provided to undocumented minors who would become eligible IHSS recipients based on their eligibility for full scope Medi-Cal as a result of SB 75. Under the authority of SB 75, beginning no later than May 2016, undocumented minors in California were eligible for full-scope Medi-Cal coverage instead of limited-scope Medi-Cal. Although California currently receives federal funding for emergency and pregnancy related services for this population, any non-emergency services provided under this change will be ineligible for federal financial participation and be funded solely by General Fund. Based on the Department of Health Care Services estimate, approximately 119,076 undocumented minors transitioned into full scope Medi-Cal in May 2016. Based on that estimate, it is assumed that approximately 65,462 undocumented minors will transition to full scope Medi-Cal over 12 months. The 2017-18 Governor's Budget assumes it will take a year to realize the full impact of the new enrollments. It is estimated that this policy will result in 185 new IHSS cases by May 2017 and the cost in 2017-18 is expected to be \$2.6 million General Fund.
- **Fair Labor Standards Act (FLSA) Regulations.** The Governor's Budget includes funding for program service requirements and exemptions related to FLSA overtime. California's implementing statutes established limits on the number of authorized hours providers in the IHSS and Waivers for Personal Care Services programs are permitted to work in a week. They also reimburse wait time and travel time for certain providers. The decrease in cost for 2016-17 of \$5.9 million (\$0.2 million General Fund) is due to fewer providers claiming travel time and a lower total exempted population than previously projected. Based on updated actual data, the cost is offset by higher caseload growth, cost per hour and more travel time between recipients (from 10 hours to 17.1 hours) than was previously projected. The increase projected in 2017-18 of \$58.5 million (\$28.1 million General Fund) is due to increases in caseload and cost per hour. It is assumed that approximately 1,300 providers will qualify for the first exemption in 2016-17 and 2017-18, a slight increase from the previous estimate in the 2016 enacted budget. It is assumed that approximately 250 providers by the end of 2016-17 and 500 providers by the end of 2017-18 will qualify for the second exemption (compared to the 5,000 that was assumed in the 2016 enacted budget).
- **Case Management, Information and Payrolling System II (CMIPS II).** The CMIPS II premise provides funding for the operation and maintenance of the automated system used to house IHSS case information, issue payroll to care providers and provide caseload data for each recipient and provider in the IHSS Program. The system also generates notices of action and rate changes. There is no change in 2016-17. In 2017-18, additional funding of \$4.8 million (\$2.5 million General Fund) is provided to implement SB 3 (Chapter 4, Statutes of 2016) for provider paid sick leave. The CMIPS II changes associated with the implementation of SB 75, which expands Medi-Cal IHSS benefits to undocumented children, are expected to be minimal and are assumed to be paid through the existing M&O funds. The current CMIPS II prime vendor contract expires on March 31, 2018 and a procurement to obtain continued M&O services is in progress. If the contract is awarded to a new prime vendor, there will be a transition period during which the incumbent will wind down operations and the new vendor will ramp up activities. Corresponding Budget Bill Language has been proposed to authorize the costs of this activity once known.

Additionally, there are two Budget Change Proposals (BCPs) in the Office of Systems Integration within the Health and Human Services Agency sections of this Review that affect the CMIPS II system. These two BCPs are described briefly there.

Major Provisions for Child Welfare Services/Foster Care

- **Overall Estimate Changes.** The Governor's Budget includes approximately \$6.0 billion total funds (\$332.2 million General Fund) in 2016-17 for Children and Family Services programs. In 2016-17, there is a net decrease of \$4.8 million total funds (\$3.6 million General Fund increase) from the 2016 enacted budget, primarily due to updated Foster Care caseload projections, slightly offset by a one-time payment of the Relative Foster Care Home Disallowance.

The 2017-18 Governor's Budget includes approximately \$6.2 billion total funds, (\$408.6 million General Fund) for children's programs. There is a net increase from the 2016 enacted budget of \$203.8 million total funds (\$80.0 million General Fund) due in large part to the Child Welfare Digital Services (CWDS) Project, implementation of the Continuum of Care Reform (CCR), and implementation of the Approved Relative Caregiver (ARC) Program.

- **Caseload Changes.** The average monthly Aid to Families with Dependent Children-Foster Care caseload is projected to decrease 5.7 percent from the previous projection to 43,102 cases in 2016-17. The caseload is projected to increase to 43,129 in 2017-18.
- **Continuum of Care Reform.** The Governor's Budget includes \$192.3 million (\$150 million General Fund) and revises the timeline for DSS, county child welfare agencies, and county probation departments for implementation of the Continuum of Care Reform (CCR) efforts codified in Chapter 773, Statutes of 2015 (AB 403). The CCR provides funds to implement reform of the State's current rate-setting system and program services for children and families in foster care placements. The reform also advances California's long-standing goal to decrease the State's reliance on long-term group home care by increasing youth placements in family settings. Cost components of the CCR include:
 - The CCR assistance costs reflect updates to foster care caseloads, which were previously held to the 2016-17 Governor's Budget. This includes revised assumptions as to the number of cases that will transition out of group homes. In 2017-18, it is assumed that 115 group home placements will move to an intensive services foster care (FC) placement; 345 group home placements will move to a short-term residential therapeutic program placement; and 515 group home placements will move to a family-based setting. The remaining 4,630 group home placements will not yet transition.
 - The 2017-18 Governor's Budget also reflects a phased approach and updated pace of CCR implementation due to the timing limitations of the necessary automation changes. Phase I, which establishes the basic rate, implemented January 1, 2017. Phase II, which will implement the various levels of care for the Home-Based Family Care rate structure, is anticipated to begin December 1, 2017.

- The 2017-18 costs, \$9.1 million total funds (\$2.6 million General Fund), reflect program reinvestments (assistance placement savings beginning July 1, 2017). These CCR assistance placement savings will be used to offset CCR administrative costs. The 2017-18 administrative costs reflect a full-year of funding for Child and Family Teams and implementation of the Resource Family Approval process.
- Effective January 1, 2017, the basic level rate of \$889 is paid for all new placements in one of the following settings: county foster family homes, relatives (including both federal and non-federal relative cases and regardless of participation in the ARC Program), non-relative extended family members, non-minor dependent in a supervised independent living placement, Kinship-Guardianship Assistance Payment placements, Nonrelated Legal Guardians, and Adoption Assistance Program placements. Current placements (cases existing prior to January 1, 2017) identified above that are receiving a basic rate less than the basic level \$889, effective January 1, 2017, receive a rate increase up to the basic level rate.
- **Approved Relative Caregiver (ARC) Program.** The Governor's Budget includes funding for the rate paid for non-federally eligible foster care children placed with relatives. This amount is \$161.8 million total funds (\$121.9 million General Fund) in 2017-18, reflecting an increase of \$9.1 million total funds (\$2.6 million General Fund) from prior projections. This program provides an additional amount above the CalWORKs grant to bring the total payment for non-federally eligible children placed with relative caregivers up to the same amount as the rate paid for federally eligible children placed with relative caregivers.

Effective January 1, 2017 as outlined in AB 1603 (Chapter 25, Statutes of 2016), counties not participating in the ARC program are required to make payments equal to the foster care basic rate paid to non-relative foster family homes (the same level of payments as those made by ARC opt-in counties). This requirement equalizes support for relative caregivers regardless of whether they live in a county that participates in the ARC program. Funding for the ARC Program will be based on updated caseload projections using actual caseload (4,857 cases statewide in 2017-18) instead of the 2011 capped caseload projections of 6,252 cases.

- **Relative Foster Care Home Federal Disallowance.** The Governor's Budget includes a current year increase of \$17 million General Fund for a one-time payment to the federal Administration for Children and Families. Previously, the Budget included a set-aside of \$50 million General Fund for this disallowance attributed to the state improperly claiming federal reimbursement funds between 2000 and 2001. This repayment of federal funds was required due to an audit performed by the federal Office of Inspector General in Los Angeles County in October 2009. The disallowance was for federal Title IV-E foster care funds paid in 2000-01 to relative foster care providers that did not meet the federal relative home approval requirements. The review findings indicated that relative homes were not approved using the same state safety standards as licensed non-relative foster care providers. The DSS appealed and conducted settlement negotiations with ACF concerning the \$45.5 million disallowance as well as interest that accrued from the date of the demand letter.

The CDSS negotiated a revised disallowance amount with ACF that was favorable to the state using a sample review of relative foster care cases. The resulting \$17 million required repayment is to be made in January 2017.

- **Child Welfare Digital Services (CWDS).** The Governor's Budget includes funding increased funding of \$120.4 million (\$60.2 million General Fund) for costs associated with the development and implementation of the CWDS Project, which will replace the aging CWS/CMS. Funding is needed in 2017-18 for development services associated with several interfaces, as well as for state resources to extend and enhance the technology platform, begin providing Development and Operations services and fill critical resource gaps existing in the Project's staffing model. Additional vendor services are required to provide implementation support and software development services. Increased county implementation readiness, project management, data conversion, policy and training activities also will be done in 2017-18. The Administration states that the 2016-17 and 2017-18 costs are consistent with Special Project Report #2 and reflect baseline budget adjustments.
- **California's Foster Care Eligibility Determination (FCED) Solution.** The current FCED functionality resides in each of the three SAWS Consortia. The ACF has stated that the current California model for FCED does not meet the federally acceptable level of automation. The 2017-18 Governor's Budget proposes a new single statewide FCED solution that will leverage the existing SAWS to comply with the federal requirement that a Title IV-E agency use the same automated functions for all Title IV-E determinations. The FCED hosting solution will ultimately consider all 58 counties' business processes and will include a governance structure that will support all counties. This integrated solution will standardize processes and reduce the amount of work put into exchanging information between the SAWS, Child Welfare Services/Case Management System (CWS/CMS), Child Welfare Digital Services (CWDS) Project and California's court systems. The design, development and implementation activities are scheduled to occur from April 2018 to October 2019. The Governor's Budget proposes \$4.6 million (\$2.7 million General Fund) for this purpose.
- **Budget Change Proposal (BCP) for Full-Year Costs for Child Welfare Services Near Fatality Case Reviews.** The Governor's Budget proposes permanent resources, including 4.0 positions and \$483,000 (\$282,000 General Fund) in funding to continue compliance with federal requirements to review and report on child near fatalities as required by AB 1625 (Chapter 320, Statutes of 2016). This recent legislation brought California into compliance with the federal Child Abuse Prevention Treatment Act (CAPTA). This legislation is projected to double the annual number of near fatality cases reported to DSS and requires additional staff time to review each near fatality incident to analyze statewide trends and systemic issues, conduct onsite reviews, and respond to public record act (PRA) requests consistent with the work performed for child fatalities. DSS has six staff performing this work for fatalities and the addition of near fatality incidents require the four additional staff requested by this proposal.

- **Medi-Cal Verification for Exiting Foster Youth.** The Governor's Budget includes a total of \$0.02 million (\$0.01 million General Fund) related to AB 1849 (Chapter 609, Statutes of 2016) to provide written verification to an eligible non-minor that he or she is enrolled in Medi-Cal prior to exiting foster care. The county is also required to provide eligible non-minors with a Medi-Cal Benefits Identification Card and ensure the eligible non-minor is transitioned into the Medi-Cal program, upon case closure, without interruption in coverage.

Key Provisions for Community Care Licensing and Horizontal Integration Efforts

- **BCP for Continuance of Community Care Licensing Staffing Resources.** The Governor's Budget proposes expenditure authority of \$3.3 million (Special Fund) from the Technical Assistance Fund (TAF) to continue licensing activities associated with Residential Care Facilities for the Elderly (RCFEs), group home oversight and complaint investigations, and to address a backlog in licensing applications.

Of this total amount, \$2.6 million is requested for 2017-18 and 2018-19 for the following: \$1.4 million for resources required to complete timely complaint investigations which continue to accrue due to an increase in the amount and complexity of complaints; \$1 million to address the growing backlog of Residential Care Facilities for the Elderly (RCFE) and Adult Residential Facilities (ARF) applications; and \$125,000 to continue implementation of significant licensing reform efforts related to the RCFE Reform Act of 2014. These short-term resources require a total of 9 two-year limited positions.

In addition, DSS requests an ongoing increase in TAF expenditure authority in the amount of \$690,000 for 2017-18 and \$625,000 in 2018-19 and ongoing to fund 5.5 permanent positions to continue providing functions mandated by AB 388 (Chapter 760, Statutes of 2014). The limited-term resources are scheduled to expire at the end of fiscal year 2016-17, but the temporary workload became permanently extended due to the Continuum of Care Reform (CCR) effort.

- **BCP for Horizontal Integration Office Transfer to the Office of Systems Integration.** The Governor's Budget proposes transferring the Office of Horizontal Integration (HI) and three existing staff, funded with \$371,000 (\$149,000 General Fund), from the Department of Social Services to the California Health and Human Services Agency's Office of the Agency Information Officer (AIO) at the Office of Systems Integration. DSS states that the role of the HI Office is more appropriately aligned with the AIO, which already has the responsibility to look at issues across the entire HHSA making the mission of the HI Office a natural fit. This is a cost-neutral proposal.

The HI Office was created in 2013 and DSS states that the staff has spent considerable time developing the office and relationships specifically bridging a critical divide between DSS and Affordable Care Act (ACA) related activities. In 2015, the HI Office and its positions were made permanent with a recognized scope beyond the ACA. The HI Office is a cross-programmatic and cross-departmental team working on large-scale efforts as well as more targeted initiatives to create a more client-centered enterprise of support.

DEPARTMENT OF DEVELOPMENTAL SERVICES

The Governor's Budget includes \$6.9 billion total funds (\$4.2 billion General Fund) for the Department in 2017-18, which is an increase of \$241 million or 3.6 percent from the current year. The Department of Developmental Services (Department or DDS) is responsible under the Lanterman Developmental Disabilities Services Act (Lanterman Act) for ensuring that approximately 300,000 persons with developmental disabilities receive the services and support they require to lead more independent and productive lives and to make choices and decisions about their lives.

California provides services and supports to individuals with developmental disabilities two ways. The vast majority of people live in their families' homes or other community settings and receive state-funded services that are coordinated by one of 21 non-profit corporations known as regional centers. In contrast, a small number of individuals live in three state-operated developmental centers (DCs) and one state-operated community facility. The number of individuals with developmental disabilities in the community served by regional centers (consumers) is expected to increase from 303,447 in the current year to 317,283 in 2017-18. The number of individuals living in state-operated residential facilities is estimated to be 490 on July 1, 2018.

Major Provisions

Community Services (or Regional Centers) Program

- **Caseload and Utilization.** For 2016-17, the Community Services Program is expected to provide services and support to 303,447 individuals in the community. The Governor's Budget updates the 2016 enacted budget to \$6.064 billion (\$3.56 billion General Fund). This reflects a net decrease of \$37.2 million (\$74.7 million General Fund decrease) as compared to the enacted budget for regional center Operations (OPS) and Purchase of Services (POS). For 2017-18, the Governor's Budget projects the total community caseload at 317,283 consumers, reflecting an increase of 13,836 consumers over the updated 2016-17 caseload. Total funding of \$6.4 billion (\$3.8 billion General Fund) is proposed for services and supports for regional center consumers living in the community. This reflects a net increase of \$359 million (\$280 million General Fund) from updated 2016-17 figures.
- **Minimum Wage Increase.** The Governor's Budget includes a \$7.5 million increase (\$4.4 million General Fund increase) in POS to reflect increased expenditures based on caseload and utilization growth for the continued implementation of Assembly Bill (AB) 10, Chapter 351, Statutes of 2013. The Governor's Budget also includes \$77.2 million increase (\$43.6 million General Fund increase) in POS to reflect full-year costs of the state-mandated hourly minimum wage increase from \$10.00 to \$10.50 effective January 1, 2017, as well as the increase from \$10.50 to \$11.00 effective January 1, 2018 required by Senate Bill (SB) 3, Chapter 4, Statutes of 2016.
- **Special Session Rate Increases.** The Governor's Budget includes \$14.3 million increase (\$8.4 million General Fund increase) to reflect the full amount of funds

appropriated through special session for the implementation of Assembly Bill 1, 2nd Extraordinary Session, Chapter 3, Statutes of 2016 (ABX2 1).

- **Community Placement Plan (CPP) - DC Closure.** The Governor's Budget includes a \$53.1 million decrease (\$55.3 million General Fund decrease) in DC Closure-specific CPP funding. This reduction represents the portion of CPP funds no longer required for start-up costs to develop resources for residents transitioning out of Sonoma, Fairview, and Porterville GTA. DDS has allocated the majority of closure-specific CPP startup funds to projects currently underway, and in 2017-18 will require a reduced amount for placement activities only.
- **Best Buddies.** The Governor's Budget proposes a \$1 million total and General Fund decrease in 2017-18 for Best Buddies due to the removal of the 2016-17 one-time funding.
- **Proposed Trailer Bill.** The Governor's Budget includes proposed statutory amendments in the following areas related to the Community Services Program:
 - **Exemption from Federal Funding Requirements for Enhanced Behavioral Supports Homes and Community Crisis Homes with Secured Perimeters** - Allows for the development of enhanced behavioral supports homes and community crisis homes with secured perimeters to meet the needs of individuals with developmental disabilities who have complex service needs.
 - **Allow Regional Center Consumers Aged 18-22 to Participate in Paid Internships** - Allows consumers aged 18-22, who are still receiving educational services, to participate in paid internships for the purpose of gaining experience in competitive, integrated job placement.
 - **Update Service Rates Set in Statute** – Updates service rates for supported employment and vouchered community-based training services that increased under the provisions of ABX2 1.
 - **HCBS Waiver Authority** - Allows the Department to issue policy directives in advance of emergency regulations to align State requirements with new HSBC regulations by March 2019.
 - **Reporting of Employment Outcomes by Regional Centers** - Requires regional centers to include consumer employment outcomes in their annual performance contracts to assist the State in measuring progress towards increasing competitive integrated employment opportunities for individuals with developmental disabilities.
 - **Broaden the Use of Community Placement Plan (CPP) Funds to Include Additional Community Resources** – Allows a designated portion of CPP funds to be utilized to develop services and supports for consumers already living in the community, including those with specialized and complex service needs.

Developmental Centers

- **Caseload and Utilization.** The actual DC population on July 1, 2016, was 963 residents. The Department projects an ending population of 760 residents on June 30, 2017. The Governor's Budget updates the 2016 Enacted Budget to \$529.8 million (\$368.5 million General Fund), a net increase of \$3.9 million (\$29.3 million General Fund increase). The net increase is a combination of control section and funding adjustments as described further below. The Governor's Budget proposes a total of \$450 million (\$330 million General Fund) for the DC Program for 2017-18, reflecting a net decrease of \$76.2 million (\$9.3 million General Fund decrease) from the 2016-17 enacted Budget. The net decrease is comprised of adjustments as described below.
- **Control Section 3.60 Retirement Adjustment.** The Governor's Budget includes a \$3.6 million increase (\$2.2 million General Fund increase) consistent with Control Section (CS) 3.60 of the Budget Act, which specifies the employers' retirement contributions for the 2016-17 fiscal year.
- **Employee Compensation.** The Governor's Budget proposes \$1.1 million increase (\$0.6 million General Fund increase) due to 2016-17 employee compensation adjustments, which reflect incremental changes approved through the collective bargaining process and included in Item 9800, Employee Compensation Adjustments. There is also an adjustment for 2017-18 reflecting \$1.3 million increase (\$0.8 million General Fund increase) due to 2016-17 employee compensation adjustments, which reflect incremental changes approved through the collective bargaining process and included in Item 9800, Employee Compensation Adjustments.
- **Lease Revenue Debt Service.** The Governor's Budget proposes \$0.7 million total and General Fund decrease due to Control Section (CS) 4.05 for an adjustment to Lease Revenue Debt Service. For 2017-18, the Governor's Budget includes \$1.0 million total and General Fund decrease due to CS 4.05 for an adjustment to the Lease Revenue Debt Service.
- **Non-Budget Act Lottery Adjustment.** The Governor's Budget proposes a \$0.1 million decrease (\$0.0 General Fund) in funds available to the Department. The same is proposed for 2017-18.
- **Fund Shift.** The Governor's Budget proposes a \$27.1 million shift from reimbursements to the General Fund for a reduction in estimated Medi-Cal reimbursements receivable. The reduction in reimbursements is based on an analysis of expenditures by DC and by unit acuity level, the total number of days residents receive eligible services in the fiscal year, and past reimbursement amounts. DDS proposes this request be funded by a transfer from the Local Assistance budget in Item 4300-101-0001, which is currently projecting a savings in 2016-17.
- **DC Operations Expenditure Decrease.** A net decrease of \$80.8 million (\$11.9 million General Fund decrease) and -489.2 positions resulting from an estimated resident population decrease of 257 residents, as well as the removal of one-time funding to complete an assessment of the Sonoma property and buildings. With a

reduced population, the Department will consolidate units, and decrease staff and Operating Expenses and Equipment (OE&E) costs. The General Fund decrease as compared to the overall fund decrease reflects the reduction of Medi-Cal reimbursements consistent with the updated 2016-17 budget, as based on an analysis of expenditures by DC and by unit acuity level, the total number of days residents receive eligible services in the fiscal year, and past reimbursement amounts.

- **Sonoma Closure Activities.** The Governor's Budget proposes a \$0.3 million increase (\$0.2 million General Fund increase) in 2017-18 to fund the disposal and/or relocation of physical property and equipment assets in preparation for facility closure.
- **Fairview and Porterville GTA Closure Activities.** The Governor's Budget proposes a \$0.5 million increase (\$0.4 million General Fund increase) in 2017-18 to inventory, scan, and archive clinical records at both Fairview and Porterville GTA.
- **Proposed Trailer Bill.** The Governor's Budget includes a proposed statutory amendment to the Public Contract Code to clarify the point at which a DDS employee must terminate State employment when they enter into an agreement to develop a service and become a regional center vendor.

Other Key Provisions

- **Headquarters.** The Governor's Budget reflects an increase to the 2016-17 Headquarters' operations funding of \$0.5 million (\$0.4 million General Fund increase) for Retirement Rate Contribution and Employee Compensation. The total updated 2016-17 Headquarters budget is \$51.2 million (\$33.8 million General Fund).
- **BCP for Increased Housing Development within the Community Placement Plan (CPP).** The Governor's Budget requests \$597,000 (\$554,000 General Fund) for 4.0 permanent positions for development and oversight of permanent community housing

for DD clients transitioning from the Developmental Centers (DCs), specifically Sonoma, Fairview, and Porterville General Treatment Area, and Institutions for Mental Disease (IMDs), or who are at risk of moving to more restrictive settings. DDS states that this will provide the infrastructure necessary to increase the State's program and fiscal oversight of CPP, support the Department's expansion of the Buy-It-Once housing model through CPP, and advance the DS Task Force's recommendations for the development of specialized residential resources in the community. With current workload demands, this alternative provides the most effective use of state resources to manage the aggressive housing development needs to meet the developmental center closure deadlines.

- **BCP for Information Security and Privacy Support.** The Governor's Budget requests \$398,000 (\$317,000 General Fund) for 3.0 permanent positions to provide resources to monitor, train, advise, and support required security activities at headquarters, the DCs, and the regional centers (RCs) for compliance with state and federal information security and privacy laws. Two specialists will assist and support DC and regional center security efforts, and conduct activities in compliance with the State Administrative Manual (SAM), the State Information Management Manual (SIMM), and federal requirements. Duties will

include regular travel to regional centers and developmental centers. The third specialist will be dedicated full-time to threat monitoring and risk reduction, and provide expertise to staff in utilizing complex security monitoring tools, including vulnerability scanning, centralized logging, anti-virus monitoring, patch management and firewall configuration management, and security audit log monitoring.

- **BCP for Capital Outlay Request - Nitrate Removal System (NRS) at Porterville DC.** The Governor's Budget requests \$3.7 million General Fund to install a nitrate removal system to remove to a safe level excess nitrates from domestic water supply, as supported by the Department of General Services contracted study. Groundwater in certain areas of the Porterville region is particularly impacted by nitrate contamination due to agricultural, commercial, and industrial activities including fertilization and discharges from animal operations.

The Tule Lake Water Basin on which the Porterville DC is located has been affected by high nitrate contamination levels which has made water delivery increasingly difficult to handle. Nitrate levels have been up to 33% higher than the Minimum Contamination Levels (MCL) of 45ppm. Nitrate is a carcinogen and if not properly blended (diluted) or treated, nitrate contaminated water can pose significant health risks. Production limitations of the existing water well portfolio have restricted Porterville DC's ability to mitigate nitrate contamination through blending and DDS states that an auxiliary means of treating the nitrate contamination is needed to assure a reliable and sufficient quality water supply to the facility.

DEPARTMENT OF REHABILITATION

The Governor's budget proposes total spending of \$446.6 million (\$61.5 million General Fund), representing virtually no change from the current year. 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

- **Traumatic Brain Injury Fund.** The Traumatic Brain Injury Fund receives a portion of specified fines and penalties from the State Penalty Fund to support an array of rehabilitation services for adults 18 years of age and older with an acquired traumatic brain injury. The State Penalty Fund has suffered reduced revenues over the last 10 years. The Governor's Budget states that given this decrease, the current funding model is unsustainable and broad changes are needed to address this problem. For 2017-18, the Governor's Budget transfers \$800,000 from the State Penalty Fund to the Traumatic Brain Injury Fund on a one-time basis to continue support for the program.
- **BCP for California Innovations Program: Federal Work-Based Learning Grant for Students with Disabilities.** The Governor's Budget requests 1.0 permanent full-time position to manage this \$9 million federal grant over a six-year total period. The position will provide program oversight and perform contracting and data management activities

required to administer the grant. The grant activities, according to DOR, will provide increased self-sufficiency through planned education and work-based learning experiences for students with disabilities. The federal grant has a five-year grant period (there is a post-grant period of one year where the staff will still be needed for reporting and close out) and there is no state match requirement. DOR will utilize existing federal funds authority for the expenditure.

DOR intends for the grant program to reach 800 students with disabilities who are between the ages of 16-21 and have either an individualized Educational Plan or 504 plan. DOR will collaborate with Local Education Agencies (LEAs) to provide services such as paid and non-paid career focused internships, participation in career pathway programs and collaboration with local Workforce Development Boards (WDBs), and entrance into post-secondary education and/or Competitive Integrated Employment (CIE) to students with disabilities.

- **BCP for Information Security Compliance.** The Governor's Budget requests \$281,000 General Fund for 2.0 permanent full-time positions to provide adequate staffing for DOR's Information Security Office (ISO), compliance with information security and privacy policies, standards, and procedures, and maintain the overall safety and security of DOR data. DOR states that these positions will provide the staff resources necessary to develop and manage an effective information security and risk management program covering over 1,800 employees in 86 offices throughout the state and safeguarding the data of over 100,000 individuals with disabilities. In the past 12 months, the DOR has undergone several security assessments and determined its information security program to be lacking, putting the Department at risk. The DOR has developed a Plan of Action and Milestones (POAM) to address areas identified as being below the Nationwide Cyber Security Review recommended maturity levels and requires sufficient staffing to implement it.
- **BCP for Supported Employment Program: Increase job coaching rates.** The Governor's Budget requests on-going funding of \$500,000 General Fund to match the increased supported employment (SE) provider hourly rate identified in the DDS June 2016 New Provider Rate memo as required by AB X2 1 of 2016 that increased DDS SE rates. SE job coaching is a Vocational Rehabilitation service that provides individuals with the most significant disabilities with on-the-job support, enabling them to become employed in competitive and integrated work environments. SE job coaching services are provided by both DOR and DDS regional centers. DOR is the main vocational rehabilitation program provider for adults with developmental disabilities and is responsible for identifying and making arrangement with private non-profit organizations to provide SE job coaching services. DDS SE job coaching hourly rates, intake, placement, and retention services are statutorily-defined. Although not required to comply, DOR has historically set a rate structure consistent with DDS to avoid disparity among the job coaching service providers.

CALIFORNIA COMMISSION ON DISABILITY ACCESS

The Governor's Budget included \$644,000 total General Fund for the California Commission on Disability Access (CCDA) in 2016-17, which had grown slightly from \$530,000 in 2015-16.

Key Provisions

- **Transfer of the Commission to the Department of General Services.** The Governor's Budget proposes for the CCDA to consolidate into the Department of General Services (DGS) effective July 1, 2017. In conjunction with DGS's concurrent proposal, the CCDA will be established within DGS's Statewide Support Services Administration. General Fund expenditure authority in the CCDA budget will be transferred to the DGS in the amount of \$650,000 and five program positions. The CCDA is a 17-member independent commission consisting of 11 public members and 6 ex-officio nonvoting members. The CCDA was established through Chapter 549, Statutes of 2008 (SB 1608). Statutory code sections relevant to CCDA will also be transferred to DGS.

The Legislature created the CCDA with a vision of developing recommendations that will enable persons with disabilities to exercise their right to full and equal access to public facilities, and that will facilitate business compliance with the applicable laws, building standards and regulations to avoid unnecessary litigation. By the Administration's recommendation, the CCDA will be consolidated into DGS.

DEPARTMENT OF AGING

The Governor's Budget includes \$200.6 million all funds (\$33.7 million General Fund) for the California Department of Aging (CDA) in 2017-18, for a decrease of \$4 million 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 \$150.5 million in 2017-18, slightly lower than the current year.

Major Provisions

- **Multipurpose Senior Services Program (MSSP).** CDA contracts with agencies that operate the Multipurpose Senior Services Program (MSSP), which was scheduled to transition to managed care in the Coordinated Care Initiative (CCI) counties. This transition is proposed to be delayed now as a result of the CCI changes proposed in the Governor's 2017-18 Budget. MSSP's planned transition, with the hopes of minimizing disruptions for elderly and frail consumers who are nursing home eligible, continues to be a timely area of inquiry for the Legislature.
- **Long-Term Care Ombudsman Program.** The 2016 Budget approved a one-time shift of \$1 million to assist with the unmet program demands and activities of the Long-Term Care Ombudsman Program. The advocacy proposal advanced last year requested funds for Ombudsman staffing to enable unannounced monitoring visits, complaint investigation, and volunteer recruitment, training, and supervision. This shift is not proposed to be repeated as part of the Governor's proposal for 2017-18.

CALIFORNIA SENIOR LEGISLATURE

The Governor's Budget includes \$250,000 General Fund for the California Senior Legislature (CSL) in 2017-18. The CSL was established in 1980 for the purpose of providing model legislation for older citizens and advocating for the needs of seniors.

Key Provisions

- **BCP for 2016 Budget Act General Fund Reappropriation.** The Governor's Budget requests Budget Bill Language allowing reappropriation of any unexpended balances from 2016-17 funding received from the General Fund to be available for encumbrance through the end of 2017-18. CSL states that the reappropriated funds will be used to sustain the Senior Legislature's basic operational costs while it pursues a permanent fund source other than General Fund.

In 2015, the new California Senior Legislature Fund's voluntary tax check-off contribution revenue was only \$60,000, well below the Senior Legislature's anticipated expenditures of \$320,000. The Legislature subsequently included a \$500,000 General Fund appropriation on a one-time basis in the 2016 Budget Act to support the Senior Legislature's operations due to insufficient tax check-off revenues. In 2016, the California Senior Legislature Fund was removed from the state tax form voluntary contribution tax check-off list due to not meeting the \$250,000 minimum contribution requirement.

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 \$252.7 million (no General Fund) for CSD for 2017-18, a decrease overall of \$152.9 million or almost 38 percent from the current year.

Key Provisions

- **BCP for Low-Income Weatherization Program Reappropriation.** The Governor's Budget requests reappropriation of any unexpended balances of fiscal year 2014-15 local assistance appropriations received from the Greenhouse Gas Reduction Fund (GGRF) to be available for encumbrance until the end of 2017-18 and liquidation until the end of 2018-19. All of CSD's 2014-15 \$70.3 million local assistance appropriation has been awarded to vendors. However, there have been a series of impediments that make the liquidation of all of the funds by the end of 2016-17 difficult or impossible. If the Reappropriation authority is not granted, CSD anticipates reverting a total of \$11 million in GGRF.

DEPARTMENT OF CHILD SUPPORT SERVICES

The Department of Child Support Services (DCSS) establishes and enforces child support orders, locates parents, establishes paternity, and collects and distributes support. DCSS is also responsible for oversight of county and regional local child support agencies that work directly with families in the community. The Governor's budget proposes total spending of just over \$1 billion (\$314.1 million General Fund) for the Department of Child Support Services for 2017-18, with a slight increase from the current year.

- **Revenue Stabilization Funding Has Helped Ease Strain on the System.** The Department issues a report every year that evaluates the impact of Revenue Stabilization Funding that was provided at \$18.7 million (\$6.4 million General Fund) in the 2009-10 Budget. In its most recent report released in January, 2017, DCSS has continued to find that the revenue stabilization funds are having the effect of maintaining statewide child support collections. DCSS states that in the absence of the revenue stabilization funding, the impact of staffing reductions would have decreased assistance collections by \$15.2 million and non-assistance collections by \$120.1 million, or a total loss of \$135.3 million (\$7.2 million General Fund) for 2015-16. The Legislature should continue to monitor revenue stabilization funding and revenue stabilization collections in order to ensure that the funding is still yielding more than the investment and that counties are performing to federal performance measures in the program.

HEALTH AND HUMAN SERVICES AGENCY

The Governor's budget includes \$456.2 million for the Health and Human Services Agency in 2017-18, an increase of \$51.9 million or 12.8 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)

- **BCP for Child Welfare Digital Services Adjustment.** The Governor's Budget requests increased funding of \$51 million (\$25.5 million General Fund) to continue activities related to delivering the Child Welfare Services - New System (CWS-NS), including a total of 57.0 permanent positions and vendor contract increases. OSI states that the successful execution of the CWS-NS will deliver business value to county social workers in a more efficient and effective manner. The project's agile approach to develop functionality will allow for rapid development and validation of services. Vendor performance is measured by working software, which gives county and state end-users immediate visibility and the opportunity to provide expedited feedback. Problems are able to be identified and corrected more quickly, reducing the cost of defect resolution and potential misalignment to use requirements. OSI states that this approach is consistent with previously approved Special Project Reports (SPRs) and the project's federal Implementation Advance Planning Document (IAPD).

The resource and cost adjustments requested through the BCP are as follows: \$6.2 million for 57.0 new state positions; \$72,000 associated with reclassified 10 existing state positions; \$2.5 million for total county consultant resource adjustments; \$7.4 million for project support consultant resource adjustments; \$30.8 million for software customization vendor resource adjustments; \$4.4 million for interface partners adjustment; and \$702,000 for operating expenses and equipment (OE&E). OSI states that additional project funding in the amount of \$70 million is requested through the Local Assistance subvention process. These funds will be utilized for costs associated with county participation, state transition, contract services, and OE&E. The majority of this funding (\$58.1 million) is associated with county participation costs that are integral to the project's user-centered design process.

- **BCP for Case Management, Information, and Payrolling System (CMIPS) II - Vendor Contract Transitional Activities.** The Governor's Budget requests a one-time increase of \$8.9 million in spending authority to support potential prime vendor contract transition activities if a planned cutover to a new vendor materializes, with a corresponding Budget Bill Language request. The current CMIPS II prime vendor contract expires on March 31, 2018. The competitive procurement contract for CMIPS II maintenance and operation services is anticipated to be awarded August 2017. If the contract is awarded to a new prime vendor, there will be an eight-month transition period (from August 2017 to March 2018) during which time the incumbent prime vendor winds down operations and the new prime vendor would ramp up activities.

The transitional activities are intended to minimize the risk of service degradation and system failures after the March 2018 expiration of the existing vendor contract. Among critical contract services that would transition include program support for IHSS case management and payroll, including timesheet processing; system operations to ensure CMIPS maintains system performance levels with no outages or slowdowns; and system development and testing to ensure system changes continue with no defects. DSS requests corresponding changes as the department reimbursing for these activities.

- **BCP for CMIPS II - Implementation of Paid Sick Leave for IHSS Providers.** The Governor's Budget requests a one-time increase in spending authority of \$4.8 million to implement paid sick leave for IHSS and Waiver Personal Care Services providers beginning July 1, 2018, pursuant to Chapter 4, Statutes of 2016 (SB 3). SB 3 entitles IHSS providers who work in California for 30 days or more within a year from the commencement of employment to paid sick days, subject to specified full amount of leave time amounts and the rate of accrual. Implementation of the paid sick leave functionality is scheduled to be deployed in a phased approach, beginning July 2018.

Half of the \$4.8 million is for application changes, business interface process changes, training of county staff, and provider help desk resources. The remaining half of the requested \$4.8 million is to provide four statewide mass mailings informing recipients and providers about changes to the IHSS program resulting from SB 3. OSI states that the requested resources are comparable to previous one-time CMIPS II system support services changes, such as those resulting from the federal Fair Labor Standards Act requirements. The \$4.8 million amount is based on a high-level estimate submitted by the

current CMIPS II prime vendor. DSS requests corresponding changes as the department reimbursing for these activities.

- **BCP for Office of Law Enforcement Support (OLES) Request for Information Technology and Leased Vehicle Funding.** The Governor's Budget requests additional funding of \$271,000 for 2017-19 and \$146,000 after and ongoing for information technology and leased vehicles to meet the mandates of WIC 4023.6-8 and 4427.5 enacted in 2015. This law requires OLES to conduct investigations, provide contemporaneous monitoring and oversight of certain investigations conducted by the Department of State Hospitals (DSH) and DDS, and issue reports to the Governor, policy and budget committees, and the Joint Legislative Budget Committee no less than twice annually. Specifically, OLES has identified the need for additional resources to cover operating expenses for leased vehicles as well as contract costs for reengineering, implementation, licensing, and support of information technology systems.

The proposal will allow OLES to make critical and necessary changes to the Records Management System (RMS), utilized by the Department of State Hospitals (DSH) and DDS, and Tracking and Oversight Program (TOP) systems, including one-time costs of \$150,000 for RMS implementation and reengineering, and ongoing annual costs of \$25,000 for system maintenance, support, and updates. The TOP case management system requires \$50,000 for system updates and report development and \$50,000 for ongoing annual costs including system maintenance, support, and updates.

OLES currently leases eight vehicles. These vehicles accommodate the needs of the attorneys and investigators to travel to facilities throughout the state to conduct interviews and investigations, and provide oversight and training to facility staff. The estimated cost for eight vehicles including gas, maintenance, and leasing is \$71,000 annually.

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. Below are a selection of ideas on what the Legislature might consider as it contemplates oversight and a renewed look at investments to prioritize and discuss in the effort to address poverty and create positive social and economic outcomes for struggling Californians.

CalWORKs

- **Grants and COLAs.** Grant levels, in spite of the modest increases in recent years and the repeal of the Maximum Family policy, remain at historically low levels and don't keep pace with inflation. For many families, this grant is below 50 percent of the federal poverty level, meaning that the family is living in "deep poverty." Given the evidence on the long-term effects and brain damage caused by poverty for children, and the multiple barriers that many families face in poverty, the level of the grants becomes an important tool to assist with the possibility that a family can actually break the cycle of poverty. A COLA in the program to allow the grants to keep pace with inflation and a paced, phased-

in approach to grant increases, akin to the method adopted for the minimum wage, may be proposed by anti-poverty advocates in the coming cycle.

- **Time Limits and Workforce Preparedness.** The time limits were substantially reduced in 2011 and 2012 from 60 months to 48 months, then to 24 months for receiving critically important, barrier-reducing Welfare to Work services. This continues to be an area for oversight and evaluation of if the shortened time limits are limiting the ability of CalWORKs families to lift themselves out of poverty. Extending the time limits has been a priority in the past policy and budget discussions and may be raised in the coming cycle.
- **Home Visiting.** Adding a program facet to provide home visiting for new mothers to increase the effectiveness of CalWORKs has been urged by anti-poverty advocates. This initiative would provide additional support for new mothers and mothers of very young children in the program, aiding in their ability to provide the early childhood care, health, and social supports needed for the child or children to have the maximum opportunity to receive the right start in life. Programs in other states have been lauded for their short and long term effects for families living in poverty and there are national models upon which a California proposal could be based.
- **Housing and Homelessness.** Key investments and policy changes have occurred over the last few years to create more housing supports and homelessness prevention/assistance for families on CalWORKs. The Housing Support Program is in its second year of county supports for rapid rehousing services, and the augmentation provided last year of \$12 million is expected to serve an additional 1,900 families with 3,800 children in counties with existing programs and new counties wishing to participate. Oversight over this program will go hand in hand with a review of the Homeless Assistance Program, which was changed in the 2016 Budget to life the once in a lifetime restriction on access to these services to once every twelve months. A look at the level of assistance, today \$65 per day for a family of four, could also be a part of the conversation in evaluating the level of intervention and its likelihood for long-term success in avoiding homelessness for families with children.
- **Eliminate SFIS.** The Statewide Fingerprint Imaging System (SFIS) has long been a subject of scrutiny for the Legislature. Currently, state law requires applicants and recipients of CalWORKs benefits to provide fingerprint images a condition of eligibility. Counties have the option to image applicants for county General Assistance/General Relief as well. The current SFIS contract is set to expire August 31, 2017 and DSS has recently informed the Legislature that it is reviewing the possibility of a replacement system. A question for the Legislature is what currently exists today to verify eligibility and avoid duplicate aid fraud, and if that infrastructure is sufficient without any continuation of a SFIS replacement. SFIS, after multiple legislative attempts, was removed as a requirement for CalFresh, but retained for CalWORKs.

CalFresh and Food Programs

- **CalFresh Food Benefits.** Advocates are engaged in multiple legislative efforts to simplify and expand access to CalFresh benefits. Hunger rates in California remain high, correlating to our poverty numbers. CalFresh caseloads are experiencing the first year of year over year decreases in some time, tied to the economy's continued, but not infinite, expansion. Advocates are considering questions and issues to bring before the Subcommittee in the coming cycle around continued work to assure that California's participation in this federal program is maximized.
- **Able-Bodied Adults Without Dependents.** A waiver that California has relied upon to provide benefits to ABAWDS is scheduled to now end in August 2018. Simultaneously, advocates are considering a host of strategies to put forward that may benefit this caseload. Once the waiver ends, additional requirements for participation and limitation on their ability to access food would likely go into effect for these adults living in deep poverty.
- **Emergency Food.** Advocates are requesting an augmentation for CalFood (formally called the Emergency Food Assistance Program) to provide more emergency meals disseminated through local food banks. They note that the discontinuation of the drought funding for food will further restrict the number of available meals for those living in poverty across the state.

Immigration Services

- **Immigration Services Program.** To advance immigrant integration in California and help low-income residents access powerful opportunities like citizenship or affirmative relief, including through the Deferred Action for Childhood Arrives (DACA) program, the 2015 budget established the Immigration Services Program, a community based program funding qualified and culturally competent services to low-income immigrants. Under the program, qualified nonprofit organizations may apply for competitive grants to provide education, outreach, and application assistance to immigrant community members eligible for either deferred action programs or naturalized citizenship. Oversight over the Immigration Services Program and potential requests from advocates on additional services for families and individuals threatened with deportation will be discussed in the coming cycle.
- **Safety Net Resources for Immigrants.** Some of the core state programs that assist refugees and immigrants are state-only programs with no support from the federal government. Depending on changes at the federal levels, the State may need to take a fuller profile of immigration services, funding, and goal-setting.

Child Welfare Services and Foster Care

- **Continuum of Care Reform (CCR).** This is the first year of implementation of an enormously complicated effort to reduce reliance on group homes as permanent placement settings for children removed from their homes as result of abuse or neglect. Foster Family Recruitment, Retention, and Support and the provision of appropriate and

customized mental health services for children are pillars for the ultimate success of the CCR. The adequacy of certain rates and automation capabilities are a few of the many issues that impact the timeline and efficacy of the CCR. Careful oversight and discernment around additional barriers that may impede future progress of addressing childhood and adolescent trauma with specialized care and finding permanent family placements will be reviewed as the implementation unfolds.

- **Older and Homeless Youth.** Advocates have made a multitude of budget asks in the past and have seen some profound investments, though more requests remain to address deep and multiple needs for older foster youth. These requests in the past have centered on the needs of youth accessing Transitional Housing Program services, pregnant and parenting foster youth, and homeless youth. Homelessness and suicide rates among foster youth remain disturbingly high.

In-Home Supportive Services

- **Overtime Pay.** Oversight will continue on the implementation of the Fair Labor Standards Act, on its exemptions for consumers and providers with certain relationships and under certain challenging circumstances, and on the provider violations policy. Disability rights advocates, labor organizations, and other stakeholders may request changes to the rules or to the method by which timesheets are filled in and processed to aid in the best possible implementation of this new, complicated policy for IHSS.
- **CCI Unraveling Effects on IHSS.** The Governor's Proposal on the CCI is to continue the pieces of the initiative that enrolled the Duals (Seniors and Persons with Disabilities who are eligible for both Medi-Cal and Medicare) with new statutory authorization, but to eliminate the IHSS Maintenance of Effort (MOE) for counties, and impose a new unfunded and growing cost to counties, dismantle the Statewide Authority for Collective Bargaining, and discontinue the development of the Uniform Assessment Tool. The Subcommittee will need to closely review the effects of the unraveling of the CCI on consumers enrolled in the CalMediconnect counties under the reauthorized program. The shift of \$663 million in accumulated IHSS costs to the counties is drawing intense reaction from counties, who say that this new arrangement as proposed is untenable because it requires them to both shoulder this one-year shift and meet future expected costs of IHSS (e.g. with the minimum wage increasing).

Supplemental Security Income/State Supplementary Payment

- **Grants and COLAs.** There has been ongoing interest in the Caucus to raise grant levels and provide an on-going state COLA for SSI/SSP. SSI/SSP grants do not allow a senior to afford the most basic housing in most of our California counties. Efforts to increase grants have not met with success because they generate inordinate spending given the caseload. The Subcommittee could review if there are options for increasing benefits for SSI/SSP recipients that can be managed within the cost constraints of the budget landscape this year and into the future.

- **Reversal of Cash-Out.** SSI/SSP recipients who qualify for CalFresh receive this benefit as part of their grant, but there has been an effort among advocates to reverse this to allow for an increase for some, not all, recipients. A hold harmless approach that is sought by some to implement cash-out without any net reduction for any case would require a General Fund complimentary investment. Federal context considerations would need to be carefully reviewed if this change were pursued.
- **Implementation of the Housing and Disability Income Advocacy Program.** This \$45 million investment, provided with a one-time appropriation in the 2016 Budget, is an effort to enroll homeless and near-homeless seniors and persons with disabilities into federal programs that will aid them in being able to afford housing and other basic necessities. DSS has not moved forward with implementation given the Governor's proposal to recoup this funding. Statute remains in effect to implement the program in the current year, and the Administration is not proposing trailer bill language to remove the statutory framework for the program.

Aging

- **Supports for Aging and Needy Californians.** Cuts made during the Great Recession diminished what California uniquely provides for community supports and services for the aged. The State passes through federal Older Americans Act funding and grant dollars, and attempts at restoration of past funds have sadly been challenged by the enormity of the senior poverty issue. Advocates for long-term supports and services for the aging community reference the high numbers of aging Californians who are isolated, encountering hunger and the inability to meet basic needs every day. Among their advocacy requests could be funding for Senior Nutrition programs, including Home-Delivered Meals and Congregate Meals, a request for a rate increase for the Multipurpose Senior Services Program, and funding for the Long-Term Care Ombudsman program.

Developmental Services

- **Regional Centers.** The 2016 Special Session yielded rate increases and service investments long sought by the disability advocacy community and regional center providers. Advocates have signaled that these investments, though significant, still leave areas of access and case management with needs that require additional attention. In light of this, the Subcommittee will be interested in the outcomes and impacts of the recent investments and rate increases. Assessing the impact and identifying areas of continued, persistent need either on top of or outside of what was funded in the 2016 Special Session will be a focus of the Subcommittee's work for DDS and the populations affected.
- **Developmental Centers.** The pending closure and longer-term closure plans of the DCs will continue to an areas of close scrutiny for the Subcommittee. Assessment of community placement, readiness, and support will be discussed in the spring process to assure the well-being for movers from the DCs. The quality of services and care within the DCs for the remaining consumers until they transition will also continue to be an area for oversight.



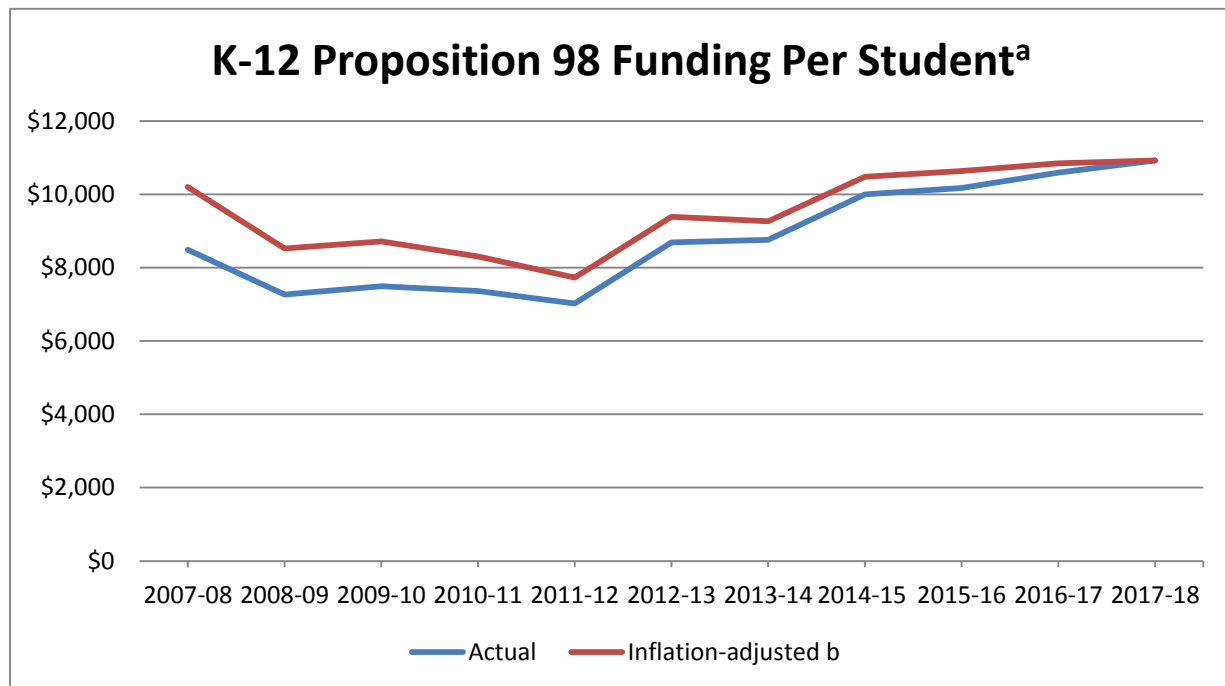
K-12 EDUCATION AND EARLY CHILDHOOD EDUCATION

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 (about 60 percent). Local funding, such as property taxes, makes up about 30 percent of school funding and federal funds contribute about 10 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 \$73.5 billion in 2017-18, a slight increase from the level enacted in the 2016-17 Budget. As shown in the chart below, per-pupil spending under the Governor's plan is expected to be \$10,924 in 2017-18, a significant increase from 2011-12.



a. Reflects all Proposition 98 funding except the amount going to the California Community Colleges.

b. In 2017-18 dollars. Adjusted using the state and local government price index.

Source: Legislative Analyst's Office

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. Currently, the LCFF is funded at 96 percent of the target. The Department of Finance estimates that the LCFF will be fully funded by 2020-21.

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, also require districts to describe how they are enhancing services to English learners, low-income and foster youth students.

EARLY CHILDHOOD EDUCATION

The state provides subsidized child care and preschool through a variety of programs, including the California Work Opportunity and Responsibility to Kids (CalWORKs) program, General Child Care, Alternative Payment Programs, and the California State Preschool Program, among others. These programs are administered by the Department of Education and the Department of Social Services. Families can access child care and preschool subsidies through centers that contract directly with the CDE, local educational agencies, or through vouchers from county welfare departments or alternative payment program providers.

During the recession, child care and preschool programs experienced significant cuts. Between 2008-09 and 2012-13, overall funding for child care and preschool programs decreased by \$984 million (31 percent), resulting in the loss of approximately 110,000 slots. During this time, the state also froze provider rates, cut license-exempt provider payments, and lowered income eligibility for families.

Since the recession, the state has invested a total of \$786 million (\$388 million in Proposition 98 General Fund and \$448 million in non-Proposition 98 General Fund) back into the child care and early education system, including \$289 million in 2014-15, \$283 million in 2015-16 and \$239 million in 2016-17 (once annualized). Total early education and child care funding provided in 2016–17 is approximately \$3 billion (including General Fund and federal funds), serving approximately 860,626 young children.

This section will outline the current issues in K-12 and early education, how the Governor responded to some of these issues in his January budget proposals and considerations for the Legislature when crafting the 2017-18 budget.

Major Issues in K-12 Education

- **Federal impact unknown.** California received approximately \$7.6 billion in federal funding for K-12 education in 2016-17. It is too early to know what the impact of the new Trump Administration will be on education funding. However, it is unlikely that any changes will impact the 2017-18 budget. Some of the issues to watch for at the federal level include vouchers for private schools, changes to Title I funding for low-income students, funding for charter schools and potential cuts to federal child care programs.
- **Teacher shortage remains.** School districts across the state are facing teacher shortages. The number of credentials issued to new teachers is at a historic low, while school districts are expanding programs and restoring positions eliminated during the recession. Although teacher shortages are currently occurring in all subject areas, the problem is most severe in math, science and special education. The 2016-17 budget included a number of efforts to address the teacher shortage, including providing \$20 million in one-time funding for the California Classified School Employee Teacher Credentialing Program to recruit classified employees into the teaching profession, \$10 million in one-time funding for California postsecondary institutions to develop four-year integrated teacher credential programs, and \$5 million in one-time funding to create the California Center on Teaching Careers to strengthen statewide teacher recruitment

efforts. While these efforts will help to alleviate the teacher shortage in the longer term, schools are still faced with immediate staffing needs.

- **Special education reforms needed.** While the state enacted major reforms with the LCFF, no changes were made to the state's special education finance system. Many education stakeholders agree that California's special education funding system is inequitable and not consistent with the principles of the LCFF. In 2015, the California Statewide Special Education Task Force provided recommendations for better integrating services and supports for students with disabilities within one unified education system. Additionally, the Public Policy Institute of California recently released a report on California's special education finance system. The report included recommendations to better align special education finance with the principles of the LCFF, including providing special education funding directly to school districts through the LCFF, instead of through regional Special Education Local Planning Areas. These reports have resulted in further engagement from policymakers and the education community around California's special education finance system.
- **Is the state's new accountability system working?** Under the LCFF, the state's accountability system consists of the Local Control Accountability Plan (LCAPs), Annual Update, evaluation rubrics, and the California Collaborative for Educational Excellence (CCEE) support system. School districts, charter schools and county offices of education have already begun setting goals under this new system through the LCAP and Annual Update. The State Board of Education recently adopted the evaluation rubrics, or California School Dashboard, which will provide specific data about the performance of schools and districts, including test scores, graduation rates, English learner reclassification rates, suspension rates and other locally collected data. The California School Dashboard will be available to the public in late February or March and will be fully operational for the 2017-18 school year. Questions remain on whether school districts will be able to adequately use the dashboard in developing their LCAPs and whether it will be utilized by parents and community members. Additionally, lawmakers will be asking if the new accountability system is working to ensure LCFF funding is reaching the students it was intended to help.
- **School facilities funding approved by voters.** Proposition 51, a \$9 billion state bond for community college and K-12 school construction, passed by voters in 2016. Governor Brown and others opposed the measure arguing that the current system of awarding funding on a first-come, first-serve basis is inequitable because it advantages big districts with full-time facilities staff. Since the current funding structure was explicitly left in place in Proposition 51, the Legislature and Governor are unable to make changes to the program. However, the Governor could delay bond funding going out to schools.
- **California's child development system still has unmet need.** Despite the state's increases in funding for child development programs in recent years, California still has significant unmet need for subsidized child care. According to the California Budget and Policy Center's analysis, in 2015, an estimated 1.5 million children from birth through age 12 were eligible for care, while only 218,000 children were enrolled in programs that could accommodate families for more than a couple of hours per day and throughout the entire year.

- **Income eligibility requirements for subsidized child care are outdated.** The income eligibility limit for subsidized child care and preschool is currently at 70 percent of the state median income (SMI) from 2005. California has not updated the income eligibility limit since 2007-08, and actually lowered the limit from 75 percent to 70 percent in 2011. This has resulted in many low-income families losing access to subsidized care. Additionally, as the minimum wage increases go into effect, more and more families will become ineligible for subsidized child care and preschool.
- **Reimbursement rates for providers are too low.** Currently, the state reimburses child care and preschool providers at rates that have failed to keep pace with inflation. Inadequate provider rates impact access for families and quality of subsidized care. If reimbursement rates are too low, providers are less likely to provide subsidized care, limiting access for families. Additionally, insufficient provider rates hinder child care and preschool providers from investing in quality improvements and retaining skilled caregivers and teachers. The state has invested in increasing provider reimbursement rates in recent years. However, the current rates are still low, especially with the planned increases to the minimum wage.

Governor's January Budget Proposal in K-12 Education

Major Provisions

- **Proposition 98 Minimum Guarantee.** The Governor's January budget provides a total Proposition 98 funding level of \$73.5 billion in 2017-18, \$2.1 billion above the revised 2016-17 level. However, the Governor's budget revises the Proposition 98 minimum guarantee downward by \$379 million in 2015-16 due to decreased General Fund tax revenue. The Governor's budget also revises the 2016-17 minimum guarantee downward by \$506 million mostly due to the lower Proposition 98 level carrying over from the prior year. The Administration now projects "Test 3" to be operative in 2015-16 through 2017-18.

In order to reduce spending to match the lower estimated Proposition 98 levels in the prior years, the Governor's budget proposes shifting some one-time payments from the 2015-16 fiscal year to the 2016-17 fiscal year. The Governor also proposes shifting \$859.1 million in LCFF funding from the 2016-17 fiscal year to the 2017-18 fiscal year.

- **Local Control Funding Formula.** The budget proposes to provide \$744 million in Proposition 98 funding in 2016-17 for school districts and charter schools to further implement the LCFF. This amount is equal to the cost of applying the statutory 1.48 percent cost-of-living adjustment (COLA) to the LCFF. The Governor's budget estimates the LCFF would be 96 percent funded in 2017-18, about the same percentage as in 2016-17. The administration continues to project LCFF will be fully funded by 2020-21.
- **LCFF Payment Deferral.** The budget proposes to shift \$859.1 million in LCFF expenditures from June 2017 to July 2017. This shift is necessary in order to address the reduction to the 2016-17 Proposition 98 funding level. The Governor proposes to immediately repay this payment deferral in 2017-18. The state has a long history of

making payment deferrals instead of making programmatic cuts to schools. The state recently eliminated the education deferrals remaining from the recession in the 2014-15 fiscal year.

- **Education Mandate Backlog.** The Governor's budget provides \$287 million in one-time Proposition 98 funding for school districts, charter schools and county offices of education to use for any educational purpose. Consistent with prior years, this funding would be distributed on a per-pupil basis and would offset any mandate reimbursement claims owed by the state. Over the past three budgets, the state has provided \$4.9 billion for this purpose, in an effort to pay down the education mandate debt owed to schools, while at the same time freeing up needed funding for schools to use on standards implementation, technology, professional development or other initiatives. The Department of Finance estimates that at the end of the 2016-17 fiscal year, the state will still owe a total of \$1.8 billion for the education mandates backlog (\$1.5 billion for K-12 education and \$300 million for community colleges).
- **Special Education Funding.** The Governor's budget summary discusses the need to reform the state's special education finance system in order to be more consistent with the Local Control Funding Formula. The Governor argues that California's system of special education finance is complex, state-driven and administratively costly. The Governor's budget summary also cites two recent reports done by the California Statewide Special Education Task Force and the Public Policy Institute of California, that provide recommendations for reforming the special education funding system.

The Governor's budget does not include a specific proposal on how to reform the special education finance system, but states that the Administration will engage stakeholders throughout the spring budget process for feedback on the current system and the recommendations provided in these recent reports. The Governor's budget summary also states:

"Central to these discussions will be the following principles, which are consistent with the Local Control Funding Formula and apply to all students, including students with disabilities:

- *School funding mechanisms should be equitable, transparent, easy to understand, and focused on the needs of students.*
- *General purpose funding should cover the full range of costs to educate all students.*
- *School districts should be provided the flexibility to establish goals and design innovative ways of delivering services to all students.*
- *School districts are responsible for planning and implementing programs that lead to continuous improvement, measured by academic outcomes."*

- **K-12 School Facilities.** The Governor's budget proposes additional accountability and oversight requirements for all participants in the School Facilities Program. The Governor's budget summary points to a 2016 audit that found instances in which school districts inappropriately used school facilities bond funding as the need for additional oversight. Specifically, the Governor proposes to implement front-end grant agreements

that define basic terms, conditions, and accountability measures for participants that request bond funding. Additionally, the Governor proposes requiring facility bond expenditures to be included in the annual K-12 Audit Guide.

- **Career Technical Education.** The Governor's budget provides \$200 million in one-time Proposition 98 funding for the third and final year of the Career Technical Education Incentive Grant program. This program was established in the 2015-16 budget and committed to allocating \$900 million over three years (\$400 million in 2015-16, \$300 million in 2016-17 and \$200 million in 2017-18).
- **Tobacco and Nicotine Prevention Programs.** Proposition 56 was approved by voters in 2016 and increases the cigarette tax by \$2.00 per pack of cigarettes and increases taxes on other tobacco products. The Governor's budget estimates total revenue generated from Proposition 56 to be \$1.7 billion in 2017-18. After making specified allocations, Proposition 56 requires two percent of the remaining revenue to be allocated to CDE to be used for school programs to prevent and reduce the use of tobacco and nicotine products by young people. The Governor's budget provides \$31.5 million for tobacco and nicotine prevention programs at K-12 schools (of this amount \$1.6 million is provided for CDE to administer the program).
- **Truancy and Drop-Out Prevention Programs.** Proposition 47 was approved by voters in 2014 and reduced the penalties for certain non-serious and non-violent property and drug offenses. The proposition requires 25 percent of any state savings to be allocated to the California Department of Education (CDE) to support truancy and dropout prevention programs. The Department of Finance is charged with calculating the state savings compared to the 2013-14 funding level. The 2016-17 budget included \$9.9 million in savings to support truancy and drop-out prevention programs in K-12 schools. The Governor's 2017-18 proposed budget includes \$10.1 million to support these programs.

Other Key Issues

- **Energy Efficiency Projects.** The Governor's January budget includes a total of \$422.9 million in energy efficiency funds for K-12 education 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. Specifically, the Governor's budget proposes to allocate the funding as follows:
 - \$422.9 million to K-12 schools and \$52.3 million to community colleges for energy efficiency project grants
 - \$5.7 million to the Conservation Corps for technical assistance to K-12 school districts
 - \$3 million to the Workforce Investment Board for job training programs

- **Local Property Tax Adjustments.** The Governor's budget includes a decrease of \$149.2 million in 2016-17 and a decrease of \$922.7 million in 2017-18 for school districts and county offices of education due to higher offsetting property tax revenues.
- **School Attendance.** The Governor's budget includes a decrease of \$168.9 million in 2016-17 for school districts as a result of a decrease in projected average daily attendance (ADA) from the 2016 Budget Act, and a decrease of \$63.1 million in 2017-18 for school districts as a result of further projected decline in ADA for 2017-18. The Governor's budget includes an increase of \$93 million to support projected charter school ADA growth and a decrease of \$4.9 million to reflect a projected decrease in special education ADA.
- **Cost of Living Increases.** The Governor's budget includes \$58.1 million for a 1.48 percent cost-of-living adjustment (COLA) for education programs funded outside the LCFF. These programs include: special education, child nutrition, foster youth services, American Indian education centers and American Indian early childhood education programs. The budget also includes \$2.4 million to provide a COLA and make attendance adjustments for county offices of education.
- **Mandate Block Grant.** The Governor's budget proposes an increase of \$8.5 million in Proposition 98 funding for the K-12 Mandate Block Grant to reflect the addition of the Training for School Employee Mandated Reporters program, established through AB 1432 (Chapter 797, Statutes of 2014). On December 3, 2015, the Commission on State Mandates found this program imposed a reimbursable state-mandated program on K-12 school districts and county offices of education.

EARLY CHILDHOOD EDUCATION

The Governor's January budget includes a slight increase (two percent) for overall child care and preschool funding in 2017-18, as shown in the chart below.

Child Care and Preschool Budget (Dollars in Millions)

				Change from 2016-17			
	2015-16 Revised	2016-17 Budget Act ^a	2017-18 Proposed	Amount	Percent		
Expenditures							
CalWORKs Child Care							
Stage 1	\$334	\$418	\$386	-\$32	-8%		
Stage 2 ^b	\$419	\$445	\$505	\$60	13%		
Stage 3	\$257	\$287	\$303	\$15	5%		
Subtotals	\$1,010	\$1,150	\$1,193	\$43	4%		
Non-CalWORKs Child Care							
General Child Care ^c	\$305	\$321	\$319	-\$1	0%	d	
Alternative Payment Program	\$251	\$267	\$279	\$12	4%		
Migrant Child Care	\$29	\$31	\$31	\$0	0%	d	d
Care for Children With Severe Disabilities	\$2	\$2	\$2	\$0	0%	d	d
Infant and Toddler QRIS Grant (one-time)	\$24	-	-	-	-		
Subtotals	\$611	\$620	\$630	\$10	2%		
Preschool Programs^e							
State Preschool--part day ^f	\$425	\$447	\$445	-\$2	0%		
State Preschool--full day	\$555	\$627	\$648	\$21	3%		
Preschool QRIS Grant	\$50	\$50	\$50	\$0	0%		
Subtotals	\$1,030	\$1,124	\$1,143	\$19	2%		
Support Programs	\$76	\$89	\$82	-\$7	-8%		
Totals	\$2,727	\$2,984	\$3,049	\$66	2%		
Funding							
Proposition 98 General Fund	\$885	\$975	\$995	\$20	2%		
Non-Proposition 98 General Fund	\$885	\$984	\$1,002	\$18	2%		
Federal CCDF	\$573	\$639	\$606	-\$32	-5%		
Federal TANF	\$385	\$385	\$446	\$61	16%		

a. Reflects Department of Social Services' revised Stage 1 estimates for cost of care and caseload. Reflects budget act appropriation for all other programs.

b. Does not include \$9.2 million provided to community colleges for certain child care services.

c. General Child Care funding for State Preschool wraparound care shown in State Preschool-- full day.

d. Less than \$500,000 or 0.5 percent.

e. Some CalWORKs and non-CalWORKs child care providers use their funding to offer preschool.

f. Includes \$1.6 million each year used for a family literacy program at certain State Preschool programs.

Source: Legislative Analyst's Office

Major Provisions

- **Pause Early Education Increases.** The 2016-17 budget agreement included a three year investment in early education programs, including increased provider rates and additional slots for the California State Preschool Program. The agreement included a total investment of \$527 million by 2018-20. The chart below summarizes the increases.

2016-17 Budget Agreement	Rates		Slots	
	Prop. 98 (in millions)	General Fund (in millions)	Prop. 98 (in millions)	Total Package Funding by Year
2016-17 BA over 2016-17 MR	27.000	78.000	7.838	112.838
2017-18 over 2016-17 MR	83.000	238.000	39.624	360.624
2018-19 over 2016-17 MR	110.000	317.000	73.050	500.050
2019-20 over 2016-17 MR	110.000	317.000	100.000	527.000

The Governor's budget includes an increase of \$87.9 million General Fund and \$23.5 million in Proposition 98 General Fund in order to fund the full-year costs of the rate and slot increases included in the 2016 Budget Act. However, the Governor proposes to pause the additional increases agreed upon for 2017-18 due to the lower than expected revenue growth and a more constrained budget environment. The Governor proposes pausing additional augmentations until 2018-19 and extending the agreement over four years, instead of three years. The Administration estimates that pausing these increases will save \$121.4 million non-Proposition 98 General Fund and \$105.4 million in Proposition 98 General Fund.

- **Aligning Child Care and Early Education Requirements.** The Governor's budget proposes a number of policy changes intended to alleviate some of the administrative requirements that providers face when operating multiple early education programs. The Governor proposes the following changes to better align child care and early education programs:
 - Allow children with exceptional needs whose families exceed income eligibility guidelines to access part-day state preschool if all other eligible children have been served. The intent of this proposal is to allow part-day state preschool providers to fill unused slots.
 - Eliminate licensing requirements for state preschool programs utilizing facilities that meet transitional kindergarten facility standards, specifically K-12 public school buildings.
 - Allow state preschool programs flexibility in meeting minimum adult-to-student ratios and teacher education requirements, allowing for alignment with similar transitional kindergarten requirements. Under the Governor's proposal, programs that meet Tier 4 standards of the Quality Rating and Improvement System matrix would be exempted from the State Preschool teacher-child ratio, class size, and teacher qualification

requirements. Additionally, State Preschool classrooms would be required to have a minimum of one adult for every 12 students (rather than the 1:8 ratio currently required) if the lead teacher has a multiple subject teaching credential.

- Simply the process for school districts to align program minutes for state preschool and transitional kindergarten students. Currently school districts must submit a waiver to the State Board of Education in order to de-link the minutes for kindergarten and transitional kindergarten classes. The Administration intends to introduce trailer bill language to exempt districts from this process, if the purpose is to align their transitional kindergarten program with their State Preschool program.

The Governor proposes making these policy changes through trailer bill language, but the specific language was not available at the time of writing this (trailer bill language will be available on February 1st).

- **Administrative Efficiencies.** The Governor's budget also includes the following proposals intended to provide administrative efficiencies for early education providers:
 - Authorize the use of electronic applications for child care subsidies. The Administration argues that this change will improve access for families and help providers process applications more efficiently.
 - Align the state's definition of homelessness with the federal McKinney-Vento Act for purposes of child care eligibility. This change will alleviate the administrative burden for providers receiving both state and federal funds.
- **No Cost-of-Living Adjustment.** The Governor's budget does not provide a cost-of-living adjustment (COLA) for child care or preschool programs. In order to provide a 1.48 percent cost-of-living adjustment for these programs in 2017-18, the cost would be approximately \$14 million in Proposition 98 General Fund and \$12 million in non-Proposition 98 General Fund. The state suspended COLA for these programs in 2012-13, 2013-14, and 2014-15, due to the recession.

DEPARTMENT OF EDUCATION: STATE OPERATIONS

The Department of Education's state operations are funded through a combination of non-Proposition 98 General Fund and federal funds. The Governor's budget includes no General Fund increases for CDE's state operations, but includes a total increase of \$1.7 million in federal funds (\$1.2 million in one-time funding and \$518,000 in ongoing funding). These increases are described further in this section.

Additionally, the Governor proposes to delay a number of deadlines for the Instructional Quality Commission in order to save General Fund. The Governor's proposal includes delaying the deadline to revise the content standards for visual and performing arts and world language, develop standards for computer science, and create model curriculum in ethnic studies. The Governor also proposes delaying the deadline for the Superintendent of Public Instruction to convene a computer science strategic implementation advisory panel. The Administration intends to introduce trailer bill language specifying these changes, which will be available on February 1st.

Major Provisions

- **County Office of Education Technical Assistance.** The Governor's budget includes \$1 million in one-time federal Title III local assistance carryover funding for county offices of education to provide additional technical assistance to schools on the use of Title III federal funds targeted for English learners. The CDE currently has an agreement with 11 county offices of education to assist local educational agencies in the region in meeting state and federal requirements in serving English learners. As the state prepares to merge the state and federal requirements into one comprehensive plan, this funding is intended to help schools with this change.
- **Child Nutrition Program Procurement Reviews.** The Governor's budget provides \$479,000 in ongoing Federal Nutrition State Administration Expense (SAE) Funds to comply with federal procurement regulations and respond to U.S. Department of Agriculture audit findings related to management and oversight of School Nutrition Programs.
- **Special Education English Learners.** The Governor's budget includes \$143,000 in one-time Federal Individuals with Disabilities Education Act (IDEA) funds to develop an English learners with disabilities manual and provide technical assistance to local educational agencies in identifying, assessing, supporting, and reclassifying English learners who may qualify for special education services, and pupils with disabilities who may be classified as English learners, pursuant to AB 2785 (Chapter 579, Statutes of 2016).
- **Homeless Youth Liaisons.** The Governor's budget allocates \$49,000 available from the federal McKinney-Vento Homeless Assistance grant to provide professional development and training materials to local educational agency liaisons for homeless children and youth pursuant to SB 1051 (Chapter 538, Statutes of 2016). Of the amount provided, \$10,000 is available on a one-time basis for the development of informational and training materials for homeless youth liaisons.

COMMISSION ON TEACHER CREDENTIALING

The Commission on Teacher Credentialing (CTC) is responsible for overseeing educator preparation for California's public schools. The CTC's state operations are funded through special funds, mostly generated by credential fees and educator exam fees. In recent years, the state has provided some one-time General Fund for one-time activities performed by the CTC.

The Governor's budget summary highlights many of the one-time investments made in 2016-17 aimed at increasing teacher recruitment, including the Integrated Teacher Preparation Program, the Classified School Employee Teacher Training Program, and the California Center on Teaching Careers. However, the Governor's 2017-18 budget proposes no new funding for the CTC in 2017-18.

Staff Comment and Analysis of Governor's Budget Proposal

The Governor's 2017-18 proposed budget for K-12 and early education can be described as a "workload budget," as it simply proposes to keep pace with prior investments and does not propose funding for any new initiatives. Not surprisingly, the Governor takes a cautious approach due to lower than expected revenue projections and uncertainty at the federal level. The Governor's budget provides a good starting point for the Legislature to consider other priorities and alternatives to the Governor's approach. This section highlights issues for the Legislature to consider when crafting the 2017-18 budget.

- **Governor's revenue estimates could be too low.** According to the Legislative Analyst's Office (LAO), the Administration's estimate of state revenue is too low. The LAO believes the Governor's estimate of personal income tax growth in 2017-18 is too low and inconsistent with other economic assumptions. As a result, the state could have more General Fund in 2017-18 at the May Revision, which would result in additional funding for schools due to the Proposition 98 minimum guarantee.
- **Special education reform needs time for vetting.** The Governor's budget does not include a specific proposal to reform the special education finance system, however the Administration plans to engage stakeholders throughout the spring budget process on feedback of the current special education system and recommended changes. Although this is an important conversation to have, the Legislature should ensure enough time for stakeholders and the public to review any changes. If the Governor introduces a new proposal at the May Revision, the Legislature may not have enough time to properly vet the proposal. Additionally, reforming the special education funding system would have major policy implications and should also be considered in the policy process.
- **Delaying school facilities funding hurts schools and students.** The Governor's proposal to increase accountability and oversight for participants of the School Facilities Program sounds reasonable. However, if the intent of this proposal is to delay the bond funds going out to participants, this proposal could hurt schools in need

of facilities funding. Although the current system for distributing bond funding is flawed, the Legislature should consider how this proposal will impact schools and students.

- **Teacher recruitment and retention still needed.** The Governor's budget summary acknowledges the state's critical investments made in the 2016 Budget Act to address the teacher shortage, but the budget includes no additional solutions for 2017-18. The Legislature may wish to consider how the state can continue to support teacher recruitment and retention.
- **Governor's budget does not honor early education budget deal.** The Governor's proposal to pause additional early education increases agreed upon in the 2016-17 budget is disappointing, especially since this was a high priority for the Assembly. However, it is not surprising that the Governor did not prioritize early education in his budget. The Assembly has been a champion for child care and early education for many years and will need to continue to be again this year, in order to make progress in this area.
- **Income eligibility for early education still needs to be addressed.** Since the income eligibility requirements for child care and preschool programs have not been updated since 2007-08, in addition to the increasing minimum wage, low-income families are losing access to subsidized care. Most of the early education community sites this as their top concern for the sustainability of the early education system. The Assembly should consider updating the income requirements for these programs.



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. Estimated UC enrollment for 2016-17 is 217,800 full-time equivalent students, with 180,114 undergraduates.

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. Estimated CSU enrollment for 2016-17 is 376,411 full-time equivalent students, with 338,948 undergraduates.

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. Estimated community college enrollment for 2016-17 is 1,176,100 full-time equivalent students.

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

- The Cost of College is Overwhelming Students and Their Families.** According to a survey of Californians conducted in Fall 2016 by the Public Policy Institute of California, 57% of respondents identified the lack of college affordability as a big problem. An overwhelming majority – 78% - agreed with the statement that students have to borrow too much money to pay for college. Data compiled by The Institute for College Access and Success (TICAS) indicates that 54% of California students graduate with loan debt, and the average amount owed is \$22,191.

Costs seem likely to continue rising. Both the UC Board of Regents and the CSU Board of Trustees will discuss this spring potential tuition increases that could be implemented in Fall 2017. UC is considering a 2.5% tuition increase, taking tuition from \$11,220 annually to \$11,502 annually. CSU is considering a 5% increase, growing tuition from \$5,472 annually to \$5,742. Beyond tuition, California's housing crisis impacts students significantly, particularly at UC campuses located in some of the highest-priced rental markets in the country. UC estimates a student's total cost of attendance in 2016-17 to range from \$30,300 to \$34,200 annually. A CSU student faces a total bill ranging from \$21,722 to \$26,084 annually. And while tuition is much lower at community colleges and not likely to rise soon, living expenses for community college students can be similar to those faced by UC and CSU students.

California has long been a leader in helping students handle college tuition costs. The Cal Grant program is expected to serve 347,936 low-income students in 2016-17, while the Middle Class Scholarship program, established in 2013, provides 55,000 students with discounted tuition of up to 40%. Additionally, all three segments provide some institutional aid to some students. Altogether, the state and public segments provide California students with at least \$4.7 billion annually in aid. But is this aid designed in the best way to help the most students with college costs? The Assembly will focus on this question this year, as it contemplates how best to ensure students graduate from college with little or no debt. The 2016 Budget Act required the Legislative Analyst's Office (LAO) to provide a report this year on options for revamping financial aid programs to create a path toward debt-free college.

- Despite Increased Enrollment, Californians' Access to UC and CSU Remains Constrained.** Due largely to leadership from the state Assembly, California enrollment at UC and CSU is headed in the right direction. Enrollment funding provided in the previous two budget acts have allowed CSU to expand by more than 14,000 full-time equivalent California students and UC by more than 5,000 students. UC is in the middle of an effort to add 10,000 new Californians to its campuses over a three-year period. The chart below compiled by the LAO shows California undergraduate enrollment during the past three years.

	2014-15	2015-16	2016-17	% Change
CSU	324,019	334,271	338,948	5%
UC	175,024	173,406	180,114	3%

Despite this growth, access remains a significant problem at both UC and CSU. CSU continues to turn away thousands of California students who qualify for admission: more than 30,000 students who met Master Plan admissions standards were denied admission to CSU in Fall 2014 and Fall 2015. At UC, significant growth in nonresident students, both from other states and countries, has clearly crowded out some California students, particularly at the Berkeley, Los Angeles and San Diego campuses. Nonresident enrollment doubled between 2012 and 2016, growing from 9% of the undergraduate student body to 16.5%. Nonresident students pay about \$24,000 more in tuition than California students, and UC contends that the extra funding is necessary to support its operations.

The 2016 Budget Act required the UC Board of Regents to adopt a nonresident enrollment cap by May 2017. Budget deliberations this year should include further discussion of the impact of the nonresident influx at UC on California enrollment. At CSU, the Assembly should focus on increasing enrollment funding, as well as CSU practices, such as impactation and service areas, that can affect enrollment. Impactation at CSU campuses and programs lead to higher admissions standards, which can shut out California students who otherwise qualify for CSU. In addition, CSU campuses set service area boundaries, which allow students within those boundaries more access to campuses. Changes to those boundaries can impact students' ability to attend a local campus.

- **Improving Student Success Critical for CSU and Community Colleges.** In addition to affordability and access, student success has become a key higher education priority for the Assembly. Graduation rates are relatively high at UC: 64% of the Fall 2011 freshmen cohort graduated within four years, while the six-year graduation rate for freshmen is about 85%.

Completion rates are more problematic at CSU and community colleges. At CSU, only 19% of freshmen graduate in four years, while the six-year rate is 57%. (Community college transfer students do better, with a two-year graduation rate of 31% and a four-year rate of 73%.) According to the 2016 Community College Scorecard, about 47% of community college students complete a certificate, degree or transfer degree program within six years.

The Legislature and Administration have both considered improving these completion rates a high priority in recent years.

The 2016 Budget Act provided CSU with \$35 million in one-time funding if CSU adopted a specific plan to improve graduation rates both system-wide and at each campus. The Board of Trustees approved a plan in September 2016, called Graduation Initiative 2025, to increase graduation rates significantly by 2025: 40% of freshmen will graduate within four years under the new target; while the six-year target is 70%. The new plan also proposes to eliminate achievement gaps by ethnicity, income level and for students who are the first in their family to go to college. The funding was provided to CSU in December 2016 to support many different activities, including improved counseling, increasing the number of courses students take each semester and increasing summer and winter courses, and redesigning courses that have a high failure rate.

Funding for student success programs at community colleges has increased dramatically in recent years. The Student Success and Support Program, a categorical program that supports activities such as counseling, assessment, placement and orientation services, has grown from \$49 million in 2012-13 to \$285 million in the current year. Significant funding - \$155 million annually - is also provided for Student Equity Plans, which allow colleges to identify and address achievement gaps. Additionally, the Assembly has led a two-year effort to dramatically overhaul community college remediation programs. Both the 2015 and 2016 Budget Acts provided incentive funding to districts willing to redesign remedial programs, also called basic skills programs, to implement evidence-based practices that improve results. These efforts include revamping procedures around student placement, to ensure students who can handle college-level work are placed appropriately, and shortening and improving remedial sequences to allow students to get more quickly into college-level courses.

The Assembly in 2017 will continue its focus on these activities at both CSU and community colleges, and what specific activities are producing better student outcomes.

- **All Three Segments Must Improve Faculty Diversity.** A growing body of research indicates the educational benefits of a diverse campus faculty, both in terms of closing achievement gaps, improving campus climate and expanding areas of instruction, research and public service. Despite this, all three public segments have struggled to increase diversity among tenured or tenure-track professors. A joint hearing in October 2016 between the Assembly Higher Education Committee and Assembly Subcommittee No. 2 on Education Finance reviewed current faculty demographics and explored paths all three segments are taking to improve in this area.

Data discussed at the hearing indicated that even as student bodies have dramatically diversified over the past decade, faculties have not. For example, while only 27% of UC students in Fall 2015 were white, 72% of faculty were white. At CSU, 40% of students are Mexican American or Latino, while only 9% of faculty are Latino.

All three segments are making efforts to improve. The 2016 Budget Act provided each segment with \$2 million in one-time funding to conduct equal employment opportunity practices, and each segment has used the funding in different ways. UC distributed funding to three departments at three different campuses, allowing for a very focused approach to increase diverse faculty in three fast-growing departments – the UC Davis College of Agricultural and Environmental Sciences, the UC Riverside Bourns College of Engineering, and the UC San Diego Jacobs School of Engineering. CSU provided some grants to campuses to recruit and retain diverse faculty, supported each campus in developing an action plan, and provided system-wide training. Community colleges distributed the funding through an existing but revamped categorical program that supports equal employment opportunity practices. The program requires colleges to develop a plan and conduct other specific activities, including outreach, ongoing training, and incorporating diversity into employee evaluations and tenure review.

The Assembly should review these efforts in 2017 as it considers how to support improved faculty diversity going forward.

- **California Is Not Producing Enough Educated Workers.** 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.

The Legislature will receive several reports this spring that may help in planning to address this issue. The LAO will release a study it has conducted on the need and feasibility of new campuses in both the UC and CSU systems. Additionally, the 2016 Budget Act directed UC, CSU and the community college system to report by March 2017 on the funding and other resources necessary to ramp up degree attainment to meet the PPIC and California Competes shortages described above. UC was asked to describe what it would take to award 250,000 more bachelor's degrees by 2030 than current enrollment projections indicate. CSU was asked how it could produce 480,000 more degrees by 2030, and the community colleges were asked to detail changes needed to produce 1 million more credentials or degrees.

The Assembly should focus on a long-term goal for expanding higher education to improve Californians' lives and meet the state's economic needs.

- **New Administration May Threaten Undocumented Students.** Thousands of students attending UC, CSU and the community colleges are undocumented. Many have entered the federal Deferred Action for Childhood Arrivals (DACA) program, which allows children who were brought to this country as a minor, stayed out of trouble and pursued an education to remain. More than 43,000 students applied for the Cal Grant or Middle Class Scholarship program through the Dream Act application, which allows undocumented students in California to access state financial aid programs.

As President Donald Trump begins his term, it is unclear how new federal policies may impact these students. The president has pledged an immigration crackdown, causing alarm among students. All three segments have pledged to protect students, with both the UC Board of Trustees and the California Community College Board of Governors approving resolutions in January indicating campuses will not cooperate with federal authorities seeking to remove undocumented students. CSU Chancellor Timothy White issued a memo in July 2016 indicating a similar position at CSU campuses.

The Assembly will monitor this situation as the new Administration's policies become clearer.

Governor's January Budget Proposal in Higher Education

The *Governor's Budget Summary* notes that since the passage of Proposition 30 in 2012, funding has grown for UC by \$817.8 million, for CSU by \$1.1 billion, and for core community college programs by \$1.8 billion. Cal Grant spending also has grown significantly, rising by 29%, or \$442 million. The Administration indicates it will continue its focus on improving student outcomes and addressing the cost of instruction at the university systems.

Below are descriptions of new proposals for the 2017-18 budget for the three segments and other higher education issue areas.

UNIVERSITY OF CALIFORNIA

The Governor's budget includes \$32.8 billion all funds for the University of California (UC) in 2017-18, an increase of \$839 million, or 2.6 percent, from the current year. Of this funding, \$3.5 billion is direct General Fund support, or about 10.8% of UC's overall budget.

Major Provisions

- **Continues Small Increase in General Fund Support.** Direct General Fund support to UC increases by \$131.2 million ongoing over the current year, continuing the Administration's recent practice of small, unallocated increases for UC (and CSU.) As in previous years, the Administration provides no direction to UC on how to spend the funding. The Budget Summary notes the Administration expects UC to continue work on reforms proposed in a 2015 agreement between UC President Janet Napolitano and the Governor, which include easing the transfer pathway for community college students and conducting "activities-based costing" pilot projects on three campuses, which attempt to calculate the amount of money spent on specific courses.
- **Assumes Incentive Funding.** The 2016 Budget Act included \$18.5 million General Fund for UC if it enrolls 2,500 more California undergraduates in 2017-18 than it did in 2016-17, and if the UC Board of Regents adopts a nonresident enrollment cap. This money will be released on May 1 if these conditions are met. The Governor's Budget assumes that UC will adhere to these requirements and will receive the funding.
- **Provides Final Payment for Pension Liability.** The Budget provides \$169 million of Proposition 2 funding to address some of the unfunded liability of the UC Retirement Plan. This is the last of three payments from Proposition 2 to UC to address this liability. Total state support for this issue will be \$436 million.

Other Key Issues for UC

- **Proposition 56 Swap.** The Budget reduces General Fund support for UC by \$50 million and replaces it with \$50 million for graduate medical education provided by Proposition 56 (the Cigarette and Tobacco Products Surtax Fund, adopted by voters in 2016).
- **Eliminates Sustainability Plan.** The Budget eliminates previous language requiring the UC Board of Regents to prepare a report in November projecting revenue, expenditures, enrollment and performance goals for the next three years.

CALIFORNIA STATE UNIVERSITY

The Governor's budget includes \$9.6 billion all funds for California State University in 2017-18, an increase of \$53.8 million, or 0.6 percent from the current year. Of this funding, \$3.4 billion is direct General Fund, or about 35% of CSU's overall budget.

Major Provisions

- **Continues Small Increase in General Fund Support.** Direct General Fund support to CSU increases by \$131.2 million ongoing over the current year, continuing the Administration's recent practice of small, unallocated increases for CSU (and UC.) As in previous years, the Administration provides no direction to CSU on how to spend the funding.
- **Provides Other Small Funding Increases.** The Budget provides an additional \$26 million ongoing General Fund, reflecting a 2015 agreement in which savings from the Middle Class Scholarship program have been redirected to CSU. The Budget also provides \$5 million ongoing General Fund to CSU as part of an agreement to provide additional funds based on previous capital outlay commitments.
- **Eliminates Sustainability Plan.** The Budget eliminates previous language requiring the CSU Board of Trustees to prepare a report in November projecting revenue, expenditures, enrollment and performance goals for the next three years.

CALIFORNIA COMMUNITY COLLEGES

The Governor's budget includes \$9.2 billion all funds for California Community Colleges (CCC), an increase of \$145.2 million, or 1.6 percent from the current year. Of this funding, \$5.5 billion is Proposition 98 General Fund, or about 59.5% of overall CCC funding.

Major Provisions

- **Proposes New Guided Pathways Program.** The Budget proposes \$150 million Proposition 98 General Fund to create a new Guided Pathways program within the Student Success and Support Program (SSSP.) Guided pathways are an emerging concept in higher education, and allow students to choose an area of interest, develop an academic plan with specific courses to achieve completion of a program, and receive significant guidance and counseling as they seek to complete their program.

Trailer bill language with more detail is pending, but the Administration states that funding could be used for activities such as designing academic roadmaps for specific credential or degree programs, advising and other student support services, redesigning assessment, placement and remedial education policies and courses, or redesigning or refreshing courses and programs to better align with labor market needs.

- **Funds 1% Enrollment Growth and Makes Other Apportionment Changes.** The Budget proposes \$79.3 million Proposition 98 General Fund to support 1.34% enrollment growth, or about 11,500 new full-time equivalent students. The Budget also makes other adjustments to apportionment funding, including an increase of \$94.1 million for a 1.45% cost-of-living adjustment, an increase of \$3.8 million Proposition 98 General Fund to offset decreased student fee revenue, a decrease of \$56.6 million Proposition 98 General Fund due to unused growth funding in 2015-16, and a decrease of \$147.7 million Proposition 98 General Fund as a result of offsetting local property tax revenue.
- **Provides Unallocated Funding for Operating Expenses.** The Budget provides \$23.6 million Proposition 98 General Fund to support increased operating expenses in areas such as employee benefits, facilities, professional development, and other expenses. Colleges can use this funding however they choose.
- **Proposes New Round of Innovation Awards.** The Budget proposes \$20 million Proposition 98 General Fund to provide grants to colleges who propose innovative practices. This is a similar proposal to one funded in two of the last three budget acts, although the Administration is altering the proposal this time to allow the Chancellor, not a committee chaired by the Department of Finance, to select winners. Trailer bill language is pending that may indicate specific issue areas that the funding could address.
- **Increases Funding for Online Education.** The Budget provides an additional \$10 million Proposition 98 General Fund for the Online Education Initiative. The state began providing \$10 million per year in 2013-14 to support increased development and use of online courses. An additional \$10 million per year is proposed to allow students at all 113 campuses to access online courses offered throughout the system.
- **Funds Integrated Library System.** The Budget provides \$6 million one-time Proposition 98 General Fund to consolidate 100 stand-alone library systems into on consolidated system that would be available to all students and faculty. The proposal would allow all colleges to share a cloud-based library system.

Other Key Issues in Community Colleges

- **Deferred Maintenance.** The Budget proposes \$43.7 million from Proposition 98 General Fund settle-up funds to support campus deferred maintenance projects. Funding can be used for deferred maintenance, instructional equipment or water conservation projects. No local matching funds are required.
- **Proposition 39.** The Budget provides \$52.3 million in Proposition 39 funding to support campus energy efficiency projects.
- **New Positions at Chancellor's Office.** The Budget creates two new Vice Chancellor positions at the Chancellor's Office, and \$378,000 General Fund to support the positions. The new positions would address efforts to improve student success, reduce achievement gaps, and develop the Guided Pathways program. The Administration states its intent to work with the Chancellor's Office this Spring to reorganize administrative operations to better enable the Chancellor's Office to achieve student success and other goals.
- **COLA for Some Categoricals.** The Budget provides \$5.4 million Proposition 98 General Fund to support a 1.48% cost-of-living adjustment for five categorical programs: apprenticeship, the Extended Opportunity Programs and Services, Disabled Student Programs and Services, Special Services for CalWORKS Recipients, and the Child Care Tax Bailout.
- **Capital Outlay Projects.** The Budget proposes five new capital outlay projects using funding from the 2016 California Community College Capital Outlay Bond Fund, approved by voters as Proposition 51. The projects include:
 - Fullerton College, North Orange Community College District, Business 300 and Humanities 500 Buildings Modernization. Preliminary Plans, \$711,000.
 - Compton Center, El Camino Community College District, Instructional Building 2 Replacement. Preliminary Plans, \$765,000.
 - Ocean Campus, San Francisco Community College District, Utility Infrastructure Replacement. Preliminary Plans, \$3 million.
 - Alemany Center, San Francisco Community College District, Seismic and Code Upgrades. Preliminary Plans, \$715,000.
 - Pasadena City College, Pasadena Community College District, Armen Sarafrain Building Seismic Replacement. Preliminary Plans, \$2.2 million.

CALIFORNIA STUDENT AID COMMISSION

The Governor's budget includes \$2.1 billion all funds for the California Student Aid Commission (CSAC) in 2017-18, an increase of \$28.3 million, or 1.4 percent, from the current year. Of this funding, \$1.2 billion is General Fund, or about 54.7 percent of CSAC's total budget.

Major Provisions

- **Eliminates the Middle Class Scholarship.** The Budget proposes to phase out the Middle Class Scholarship program, which provides tuition discounts for UC and CSU students with family incomes of up to \$150,000 annually. The program was set for full implementation in 2017-18, which would provide qualifying students at the lowest income levels with 40% off of tuition. The Administration states that the state's budget condition requires an end to the program. The Budget reduces the scheduled appropriation of \$116 million in 2017-18 to \$74 million, allowing students who received the scholarships to continue receiving it. No new awards would be provided. About 55,000 students received awards in 2016-17.
- **Assumes Reduction in Cal Grant Amount for Private Colleges.** The Budget assumes a reduction in the amount Cal Grant students who attend private colleges will receive in 2017-18. Students previously received \$9,084 annually if they attend a private, WASC-accredited institution, but that amount is set to be lowered to \$8,056 in 2017-18, based on provisions of the 2015 Budget Act. This change would impact about 10,000 students and is expected to decrease Cal Grant costs by about \$8.5 million.

UC HASTINGS COLLEGE OF LAW

The Governor's budget includes \$78.8 million all funds for Hastings in 2017-18, an increase of \$115,000, or 0.1 percent from the current year. Of this funding, \$12.7 million is General Fund, or about 16% of Hastings' overall budget.

Major Provisions

- **Increased General Fund Support.** The Budget provides Hastings with a \$1.1 million General Fund increase, which is part of the Administration's pattern of providing increased, unallocated funding to the segments. As a percentage of its General Fund support, the Hastings proposal is much higher due to much lower overall funding. Hastings will use the increased funding to cover increased employee benefit costs and other operating expenses.

CALIFORNIA STATE LIBRARY

The Governor's budget includes \$48.6 million all funds for the State Library in 2017-18, a decrease of \$5.4 million, or 10 percent from the current year. Of this funding, \$27.9 million is General Fund, or about 57% of the Library's overall budget. There are no significant proposals for the State Library.

Staff Comment and Analysis of Governor's Budget Proposal

This budget proposal contains relatively few new proposals and continues the Administration's habit of providing small increases to UC and CSU with very little direction on how to spend state funding. Thus the central conflict between the Governor and the Legislature over higher education funding and policy remains: the Assembly has long sought to provide more specific earmarks on how funding is used, particularly to support enrollment growth, while the Administration remains reluctant to steer state funding toward any particular activity. The Administration's continuing call for universities to become more efficient and cut costs without any specific policies or direction toward that end have been ineffective.

- **College Would Become Less Affordable.** The Governor's proposal to eliminate the Middle Class Scholarship in the same year that both UC and CSU are considering tuition increases provides a double whammy to students. Based on the current program, the Middle Class Scholarship (MCS) is set to provide up to 40% off of tuition for students with family incomes of \$100,000 or less. It should be noted that this is a significant portion of the students in the program, as Cal Grant eligibility rules prevent many low-income students from receiving a Cal Grant, so they are eligible for MCS. Data provided by the Student Aid Commission indicates that 51% of MCS recipients have family incomes of less than \$100,000. Early analysis indicates that the Governor's proposal would add \$2,200 in annual tuition costs for low- and middle-income CSU students, and \$4,900 for low- and middle-income UC students.

The Governor's proposal has multiple ramifications: students would have to borrow more or work more, adding to student debt or hindering students' ability to attend college full-time. This proposal would make college less affordable and also hinder completion rates, as data clearly indicates that students do better when they work 20 hours or less per week. The Assembly instead will look at preserving the Middle Class Scholarship and expanding financial aid to reduce debt and allow students to attend school full-time if that is their desire.

- **Few Solutions Provided to Increase Access and Address the Impending Degree Gap.** Both UC and CSU argue that the Administration's funding level barely allows them to cover inflationary costs and does not allow for enrollment growth. UC is seeking to increase California enrollment by another 2,500 students in 2018-19, and is seeking \$25 million from the state to support this growth. CSU is proposing 1% enrollment growth, or about 3,616 full-time equivalent students. CSU believes the state should provide \$29 million to support that growth. The Governor's Budget does not provide this enrollment funding for either segment, nor does it include budget language

with direction on enrollment numbers. The Assembly will seek to increase investment in both segments to support enrollment growth. To do otherwise would neglect clear state economic needs for more educated workers. The Assembly also will review the March reports from all three segments on what it will take to dramatically increase bachelor's and two-year degree completion. Long-term planning and goal-setting to address this issue is sorely needed.

- **Continued Focus and Funding on Student Success at Community Colleges is Positive, but Oversight at Both Community Colleges and CSU is Needed.**

Significant state resources have been provided in the past three years to improve community college outcomes. The Guided Pathways proposal may be another positive step toward student success, although it should be noted that according to "What We Know About Guided Pathways," a March 2015 report published by the Community College Research Center, no rigorous research has been conducted on whether whole-college guided pathways reforms improve student outcomes. The Assembly must review the details of this proposal carefully once they are provided in trailer bill language. Additionally, oversight of the \$440-million Student Success and Support Program is appropriate. A report published by the LAO in September 2016 found that implementation of the relatively new program is generally consistent with legislative intent, but many students are still not receiving services such as new-student orientation or academic planning, colleges are not providing timely enough outcomes data to judge results, and more focus should be placed on best practices.

And while the Governor's Budget provides no new funding or proposals related to CSU's Graduation Initiative, the Assembly must continue to monitor this important effort. Because each of CSU's campuses has a distinct plan on how to improve outcomes, it will be important for the Legislature and the CSU Chancellor's Office to work together to ensure campuses are pursuing effective changes and have the resources needed to make those changes. CSU believes it needs \$75 million in 2017-18 for Graduation Initiative activities, but a more thorough review of this proposal is warranted.

- **State Should Explore Options to Protect Undocumented Students.** All three segments leaders – UC President Janet Napolitano, CSU Chancellor Timothy White and Community College Chancellor Eloy Ortiz Oakley – wrote a letter to President Trump in November 2016 urging the president to preserve the DACA program, and all three have pledged to protect undocumented students and ensure that university resources are not used to aid the federal government in deporting students. This is a good sign, but more may be needed to ensure that these vulnerable students retain their rights to attend college, receive state financial aid if needed and access all of the same services as other students. The Assembly will continue to monitor and discuss this issue during budget hearings.



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 cut across a number of agencies and departments — Cap and Trade expenditures, continued emergency drought response, and the implementation of the Water Bond. This section also examines tree mortality and the Beverage Container Recycling Fund.

Major Issues

- **Climate Change.** The National Oceanic and Atmospheric Administration recently released its annual State of the Climate report, which states that the temperature is the hottest it has been since scientists started tracking global temperatures in 1880. It is unclear at this time what the federal government will want to do in this area. The State will need to continue to aggressively reduce its greenhouse gas emissions, and, if federal changes are made that minimize progress in this area, take steps to ensure that California's progress is maintained.
- **Stabilization of the Cap and Trade Program.** The Cap and Trade Program is a reasonable approach for the State to use to meet the 2030 climate target for a reduction of greenhouse gas emissions to 40 percent below 1990 levels, but participation in the allowances market has recently been uneven. A key challenge will be unifying around a strategy to remove uncertainty about the program. Specifically, it is uncertain if the program will exist beyond 2020. In addition, a key question for the Assembly will be, as it has been in past years, for what purposes do we want to spend the Cap and Trade funds?

Legacy of the Drought. The multi-year long drought left California with a range of challenges. The recent change in precipitation provides a much needed break. However, many parts of the state continue to experience the effects of multiple years of drought conditions. The U.S. Forest Service estimates that there to be 102 million dead trees in California. This mass tree mortality presents significant ongoing concerns from increased forest fires and from falling trees that threaten power lines and infrastructure. Further, excessive groundwater pumping has caused our aquifer system to compact, which causes land to sink. The land surface elevation drop not only threatens infrastructure, it also presents serious operational issues for surface water delivery networks.

The Legislature and Governor have deployed significant resources in recent years to address a multitude of drought-related 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.

- **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. 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.

Last year, the Assembly attempted to lead reform efforts to fix the state's recycling program, but was asked to wait for the Administration to offer a comprehensive reform proposal that was promised to be included in the 2017-18 budget submission. The Governor's 2017-18 proposed budget outlines the Administration's commitment to reforming the Beverage Container Recycling Program; however it falls short of a detailed proposal.

- **Parks Forward.** In recent years, the Department of Parks and Recreation has undertaken reform and innovation efforts to address the department's long-term structural shortfalls. The 2015-16 State Budget Package included funding for a Transformation Team to lead in the execution of reforms in a number of areas, including the state parks budget, maximizing partnerships, enhancing the marketing program, and identifying innovative revenue generation opportunities.

Governor's January Budget Proposals

Cap and Trade. The Governor's budget proposes a \$2.2 billion Cap and Trade plan, after legislation is enacted with a two-thirds vote extending the Air Resources Board's authority to administer the program beyond 2020. The proposed expenditures are spread across an array of programs noted in the table below:

2017 18 Cap and Trade Expenditure Plan

(Dollars in Millions)

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

Governor's Drought Response Package: The Governor's budget bundles nine different program initiatives that are related to the recent drought into a \$178.7 million package.

Figure RES-01

Emergency Drought Response

(Dollars in Millions)

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

Key drought- and water-related initiatives include:

- **Emergency Drinking Water:** The budget provides \$5 million General Fund to the Department of Water Resources to provide emergency drinking water supplies and developing new water supplies for small communities impacted by the drought.
- **Tree Mortality and Enhanced Fire Protection:** The budget provides \$88 million General Fund and \$3 million State Responsibility Fund for CalFire to expand fire protection, which includes increased firefighter surge capacity, surge helicopter pilots, and exclusive use of large air tankers.
- **Delta Smelt Resilience:** The budget provides \$2.6 million General Fund and \$900,000 Harbor and Watercraft Fund to the Department of Water Resources to combat the decline of the Delta Smelt.
- **Integrated Water Management:** The budget provides the Department of Water Resources \$248 million in Prop. 1 dollars for integrated regional water management projects.

- **Safe Drinking Water:** The budget provides the State Water Board \$1 million Waste Discharge Permit Fund and five new positions to address contamination of groundwater basins from agricultural practices.
- **Water Investment Storage Program:** The budget provides the Department of Fish and Wildlife \$1.9 million in reimbursements from the California Water Commission's allotment of water storage funding to support initial outreach and technical review of the ecosystem benefits of water storage project proposals.
- **Sustainable Groundwater Management Act Implementation:** The budget provides the Department of Water Resources \$15 million General Fund for statewide technical assistance and other activities. The budget also provides the State Water Board \$2.3 million Water Rights Fund to enforce reporting requirements and to protect local groundwater resources in high- or medium-priority ground water basins that fail to form local governance structures.

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

PUBLIC UTILITIES COMMISSION

The Governor's budget includes \$1.8 billion all funds for the Public Utilities Commission (PUC) in 2017-18, an increase of \$119.8 million or 7.0 percent from the current year. The PUC has 1,158.7 personnel and receives no General Fund support.

Major Provisions

- **Implements Various Reforms.** The Governor's budget provides \$2.7 million from various fund sources and 19 positions to implement legislation related to various reforms to improve safety, governance, accountability, and transparency of the Commission. In addition, the Commission is taking other actions to improve accountability. These proposals are shown on the next page.

**Budget Requests Related to Commission Reforms
(Dollars in Thousands)**

Proposal Title	Requested Funding 2017-18	Requested Positions 2017-18
Contract Services Oversight and Implementation of Audit Findings	\$214	2.0
Enterprise Risk and Compliance Office	696	5.0
Ex Parte Communications (SB 215)	391	2.0
Hearing Reporters-Expedite Availability of Proceeding Records	228	2.0
Internal Audit Positions	266	2.0
Office of Governmental Affairs	227	2.0
Public Contract and DGS Audit Information on PUC Internet Website (AB 1651)	107	1.0
Public Records Act Response	227	0
PUC Intervenor Compensation, Governance, Accountability, Transparency, Outreach (SB 512)	322	3.0
Totals	\$2,678	19.0

- **Increased California Lifeline Costs.** The Governor's budget includes an increase of \$151.6 million (\$147.4 million for local assistance and \$4.1 million for State Operations) for the Universal Lifeline Telephone Service Trust Administrative Committee Fund (also known as the California Lifeline program). This proposal reflects an increase in the total number of program participants, from nearly 3 million to over 3.2 million (driven by an increase in wireless subscribers) and an increase in the subsidy from \$13.75 to \$14.30 in January 2018. This estimate will be updated at the May Revision.

Other Key Issues

- **Implementation of Recent Legislation.** In addition to the various pieces of legislation mentioned above that implement reforms at PUC, the Governor's budget provides \$5.9 million from various fund sources and nine positions to implement nine recent bills:
 - California Lifeline- Portability Freeze Rule AB 2570 (Quirk, Chapter 577, Statutes of 2016).

- Clean Energy Pollution Reduction Act of 2015- Computer Simulations and Modeling SB 350 (de Leon, Chapter 547, Statutes of 2015).
 - Electric Utility and Wildfire Mitigation Plans SB 1028 (Hill, Chapter 598, Statutes of 2016).
 - Energy Storage AB 33 (Quirk, Chapter 680, Statutes of 2016) and AB 2868 (Gatto, Chapter 681, Statutes of 2016).
 - Expanded 2-1-1 Information and Referral Network SB 1212 (Hueso, Chapter 841, Statutes of 2016).
 - Expedited Distribution Grid Interconnection Dispute Resolution AB 2861(Ting, Chapter 672, Statutes of 2016).
 - Greenhouse Gas Emissions and Biomass SB 859 (Committee on Budget and Fiscal Review, Chapter 368, Statutes of 2016).
 - Safe Biomethane Production and Distribution SB 840 (Committee on Budget and Fiscal Review, Chapter 341, Statutes of 2016), SB 1383 (Lara, Chapter 395, Statutes of 2016), and AB 2313 (Williams, Chapter 571, Statutes of 2016).
 - Transportation Network Companies- Personal Vehicles AB 2763 (Gatto, Chapter 766, Statutes of 2016).
- **California High-Cost Fund A—Increase Local Assistance.** The Governor's budget provides an increase of \$6.1 million (bringing the total local assistance funding to \$47.9 million) due to greater projected support for telephone corporations including cost increases from General Rate Cases, increased broadband investment subject to recovery, and additional funding requirements resulting from reductions in federal subsidies.
 - **California Teleconnect Fund—Resources for Compliance Oversight and Administration.** The Governor's budget includes \$3.6 million for consulting resources and two positions to improve program efficiency and reduce costs by complying with reforms recently ordered by the Commission.
 - **Cyber Security Defense.** The Governor's budget provides \$665,000 and four positions to provide oversight and better understand the landscape of cyber security threats facing utilities, use information to protect the grid, evaluate cyber security frameworks, and inform conversations on this topic.
 - **Safety Assurance of Electric and Communications Infrastructure.** The Governor's budget includes \$716,000 and six positions to ensure compliance of electric and communication facilities with the PUC's safety regulations.
 - **Office of the Ratepayer Advocate.** The Governor's budget includes a total increase of \$1.9 million and 16 positions across five proposals for the Office of the Ratepayer Advocate to assess the impact on ratepayers of legislation associated with climate change, safe drinking water, and the impacts of water conservation policies, utility safety-related programs, and to fund staff for a new communications office that will provide information and assistance to the media and public.

ENERGY RESOURCES CONSERVATION AND DEVELOPMENT COMMISSION

The Governor's budget includes \$486.2 million for the Energy Commission in 2017-18, a decrease of \$172.2 million or 26.2 percent from the current year. All of the Commission's budget is special fund and provides for 672.6 personnel.

Major Provisions

- **Implementation of SB 350.** The Governor's budget proposes \$9.1 million from the Cost of Implementation Account (COIA) for 8.0 additional positions and two temporary positions, as well as to shift the fund source for the resources received in the 2016-17 budget (\$7.6 million for 29.5 positions and \$3.5 million in ongoing contract funds funded from the Air Pollution Control Fund civil penalty resources) to the COIA. The new positions will enable the Energy Commission to implement and enforce a building contractor policy to ensure that energy retrofits meet performance standards, establish consumer protection guidelines for energy efficiency products and services, and administer a Renewables Portfolio Standard of 50 percent by December 31, 2030.
- **Energy End-Use Survey Funding Augmentation.** The Governor's budget includes \$5.8 million in one-time contract funding to augment other funding that is available for energy end-use surveys. Every two years, the Commission produces a 10-year forecast of electricity and natural gas use. The surveys are conducted every four years help to inform the forecast.

Other Key Issues

- **One-Time Expenditure Authority for Unspent PIER Natural Gas Funds.** The Governor's budget requests approval of one-time expenditure authority of \$5.9 million in unspent funds from the Public Interest Research, Development and Demonstration (PIER) Natural Gas Subaccount. The PUC will review and approve the Energy Commission's proposed research that it will conduct using these funds by May 2017.
- **Realign ERPA Expenditures.** The Governor's budget requests a reduction and realignment of \$15.4 million from the Energy Resources Program Account (ERPA) to reduce the fiscal demands on the account, which has a structural imbalance, and align program activities with other appropriate funding sources.
- **Implementation of Recent Legislation.** The Governor's budget includes \$386,000 for 1.0 position and \$250,000 in contract funds for two years to implement SB 1414 (Wolk, Chapter 678, Statutes of 2016) for Compliance with Building Energy Efficiency Standards. The budget also includes \$117,000 for 1.0 position to implement AB 1110 (Ting, Chapter 656, Statutes of 2016) Expansion of Power Source Disclosure Program.

AIR RESOURCES BOARD

The Air Resources Board's proposed budget is \$410 million, which represents a 52% decrease in expenditure from last year. This decrease is primarily due to a one-time allocation of \$418 million from the Green House Gas Reduction Fund last year. The Board's entire budget comes from special funds.

Major Provisions

- **Volkswagen Federal Consent Decree.** The budget proposes \$2.3 million Air Pollution Control Fund penalty monies and reimbursements and 14 positions to implement provisions of the federal Consent Decree regarding Volkswagen recalls and engine modifications, California zero emission infrastructure investments, and required Environmental Mitigation Trust activities.
- **Short-Lived Climate Pollutants.** The budget proposes \$826,000 Cost of Implementation Account and five positions to implement a comprehensive strategy to achieve significant short-lived climate pollutant reductions.
- **Greenhouse Gas Scoping Plan Updates.** The budget proposes \$1.5 million various funds and four positions to identify and quantify the social costs of greenhouse gas emissions, support enhanced reporting requirements, and revise the AB 32 Scoping Plan.

Key Provisions

- **Environmental Justice (EJ) Unit.** The budget proposes \$857,000 to institutionalize EJ considerations into its program planning, development, and implementation decisions.
- **Carl Moyer Fund Alignment.** The budget proposes to shift \$32,000, within the Air Pollution Control Fund, from local assistance to state operations for two positions.
- **Revised Fund Source for the Near-Zero Clean Truck and Bus Program and the Advanced Clean Car Program.** The budget requests \$1.2 million in ongoing funding for the Near-Zero Clean Truck and Bus and Advanced Clean Car Programs.
- **Capital Outlay:**
 - **ARB Southern CA Consolidation Project.** The budget proposes \$413 million for the construction phase of a new emissions testing and research facility in Riverside County in order to consolidate and replace existing facilities.
 - **Mobile Source Heavy-Duty In-Use Program Improvements.** The budget proposes \$2.2 million and five positions to procure heavy-duty vehicles and remove engines to facilitate testing, and local assistance funding.

CALIFORNIA COASTAL COMMISSION

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

Major Provisions

- **Protect Our Coast & Oceans Fund-Local Assistance Grants & Outreach.** The budget proposes \$270,000 to support outreach/promotion activities for the "protect our coast fund" and to provide "whaletail" grants.

CALIFORNIA CONSERVATION CORPS

The Conservation Corps' proposed budget is \$97 million, which represents a 4% increase in expenditure from last year. The Corp's budget contains \$44 million General Fund.

Major Provisions

- **Funding for Increased Workers' Compensation Costs.** The budget proposes \$578,000 General Fund and \$473,000 special fund for increased workers' compensation costs.
- **Funding for C3 Operation and Maintenance.** The budget proposes \$15,000 for operation and maintenance cost of C3, the automated data collection and reporting system.
- **Capital Outlay:**
 - **Auburn Campus- Kitchen, Multi-purpose Room, and Dorm Replacement.** The budget proposes to re-appropriate \$19.67 million special fund for the construction phase for the Auburn campus project due to unanticipated project delays.
 - **Funding to Operate the Delta Residential Center.** The budget proposes \$776,000 General Fund and \$635,000 special fund for operating and maintenance costs of the Center.
 - **Residential Center, Ukiah- Replacement of Existing Residential Center.** The budget proposes \$1.87 special fund the acquisition phase of project.
 - **Tahoe Base Center- Equipment Storage Relocation.** The budget proposes \$ 1.62 million special fund to complete the design and construction of project due to unanticipated increases in the real estate market.

Key Provisions

- **Vehicle Replacement Plan Funding Realignment.** The budget proposes to redirect \$812,000 from 2018-19 to 2017-18 in order to complete the fleet replacement by replacing 60 vehicles by June 30, 2018.

CALIFORNIA DEPARTMENT OF FISH AND WILDLIFE

The Department of Fish and Wildlife's proposed budget is \$523 million, which represents an 8.9% decrease in expenditure from last year. Most of the Department's budget is comprised of special funds, with \$89 million of the proposed total coming from the General Fund. The amount above does not include capital outlay expenses.

Major Provisions

- **Fish and Wildlife Preservation Fund Alignment.** The budget proposes to align the non-dedicated Fish and Game Preservation Fund revenues with the expenditures by:
 - Increasing commercial fishing landing fees to \$12.4 million annually in order to fully fund the commercial fishing program.
 - Eliminating the Lifetime License Trust Account and transfer the balance to the non-dedicated Fish and Game Preservation Fund and the Hatchery and Inland Fisheries Fund.
- **Emergency Drought Response.** The budget proposes an increase of \$8.2 million General Fund for the Department of Fish and Wildlife to continue fish rescue and stressor monitoring, improving water efficiency on department lands, law enforcement activities, and to protect salmon.

Key Provisions

- **Harmful Algal Bloom (HAB) Sampling Program.** The budget proposes \$1.7 million to develop and implement a sampling program to prevent fishery closures.
- **Monitoring and Reporting Water Diversions.** The budget proposes \$1.8 million to comply with SWRCB's emergency regulation for measuring and reporting on the diversion of water.
- **Proposition 1- San Joaquin River Settlement and Local Assistance.** The budget proposes to (1) reverse last year's Prop. 1 appropriation for state operations and (2) increase the Prop. 1 appropriation for local assistance.
- **Proposition 84 Reversion.** The budget requests to revert \$9.98 million Prop. 84 funds that were appropriated in 2013-14 and 2014-15.

- **Salmon and Steelhead Trout Restoration Grant Program.** The budget proposes \$140,000 in local assistance grants and takes advantage of federal matching funds.
- **Water Storage Investment Program.** The budget proposes \$1.9 million for support, development, and implementation of the program.
- **Yolo Bypass Wildlife Area- Waterfowl Habitat.** The budget proposes \$246,000 to provide habitat, by installing water infrastructure and excavation, for resident and migratory waterfowl and other wetland dependent wildlife.

CALIFORNIA STATE LANDS COMMISSION

The State Lands Commission's proposed budget is \$39 million, which represents an 8% decrease in expenditure from last year. Most of the Department's budget comes from special funds, with \$14.6 million from the General Fund.

Major Provisions

- **Bolsa Chica Lowlands Restoration Project Operations Management Funding.** The budget proposes \$1 million General Fund for the operations and management costs for the restoration project.
- **Long Beach Office Relocation.** The budget proposes \$382,000 General Fund and \$1.1 million special fund to relocate the Long Beach Office.
- **Records Digitization and Indexing.** The budget proposes \$200,000 special fund to digitize state land ownership and mineral rights interest records.
- **Selby Slag Site Remediation.** The budget proposes \$470,000 General Fund to support the State's obligation to pay a proportionate share of hazardous waste remediation costs at Selby.

Key Provisions

- **Abandonment of the Becker Onshore Well.** The budget proposes \$700,000 General Fund to conduct phase 2 activities of the abandonment of the Becker Onshore Well.

COACHELLA VALLEY MOUNTAINS CONSERVANCY

The Coachella Valley Mountains Conservancy's proposed budget is \$2.9 million, which represents 79.7% decrease in expenditure from last year. This decrease is primarily due to Prop. 1 and Prop. 84 dollars that were appropriated last year. The Conservancy's entire budget is comprised of special funds.

Major Provisions

- **Environmental License Plate Fund Operations Shift.** The budget proposes \$15,000 special fund and a \$35,000 reduction in reimbursement authority to maintain base operations and address anticipated future lower reimbursements.
- **New Appropriation of Local Assistance Grant Program Propositions 12 and 40.** The budget proposes \$73,000 special fund for local assistance grants and program delivery by the Conservancy.

Key Provisions

- **Office Equipment Replacement Funding.** The budget proposes \$15,000 special fund to replace an aging printer and three workstation computers.

DELTA PROTECTION COMMISSION

The Delta Protection Commission's proposed budget \$1.5 million, which represents a 12.7% decrease in expenditure from last year. This decrease is primarily due to a one-time appropriation of \$150,000 of General Fund dollars last year. The Commission's proposed budget this year is solely comprised of special funds.

Major Provisions

- **Delta Plan Implementation.** This budget proposes \$91,000 special fund to coordinate and perform duties related to the implementation of the Delta Plan.

DEPARTMENT OF CONSERVATION

The Department of Conservation's proposed budget is \$128.8 million, which represents a 22% decrease in expenditure from last year. This decrease is primarily due to the various bond funds and the greenhouse gas reduction funds from last year. Most of the Department's budget is comprised of special funds, with \$3.4 million in General Fund.

Major Provisions

- **WellSTAR.** An increase of \$21.1 million Oil, Gas, and Geothermal Administrative Fund and two positions for the Department of Conservation to develop and implement the Well

Statewide Tracking and Reporting system. This centralized system will help run operations and meet the requirements of recent legislation.

- **CA Agricultural Lands Planning Grant Program.** An increase of \$2.2 million from the Soil Conservation Fund for the Department of Conservation to provide grants to local governments to develop Agricultural Lands Conservation Plans.

Key Provisions

- **AB 2729 Implementation, Idle Well Testing.** The budget proposes \$1.5 million and 15 permanent positions to develop the new Idle Well Management Program.
- **AB 2756 Implementation.** The budget proposes to replace the Acute Orphan Well Account with the Oil and Gas Environmental Remediation Account.
- **State Mining and Geology Board Legal Costs.** The budget proposes \$200,000 as a baseline increase to fund legal services and administrative staff.

DEPARTMENT OF PARKS AND RECREATION

The Department of Parks and Recreation's proposed budget is \$676 million, which represents a 7.6% decrease in expenditure from last year. Most of the Department's budget is comprised of special funds, with \$138.8 million of the proposed total funding coming from General Fund. The amount above does not include capital outlay expenses.

Major Provisions

- **Base Funding-Maintain Operations.** \$12.6 million in State Parks and Recreation Fund and \$4 million California Environmental License Plate Fund one-time to continue Parks' current service level. The funding avoids service reductions and allows time to implement new operational reforms and capture efficiencies to gain a clearer picture of ongoing funding need.
- **Hazardous Mine Remediation.** The Budget includes \$14.5 million General Fund for environmental remediation at Empire Mine State Historic Park, Malakoff Diggins State Historic Park, and Mount Diablo State Park. All three parks are currently under cleanup and abatement orders and these funds allow Parks to comply with the orders.
- **Americans with Disabilities Act Compliance.** Beginning in 2017-18, support for the Americans with Disabilities Act Program will shift from the Safe Neighborhood Parks, Clean Water, Clean Air, and Coastal Protection Bond of 2000 (Proposition 12) to General Fund. The Budget includes \$4.1 million General Fund and an equal reduction of Proposition 12 funds for 2017-18, growing to an ongoing shift of \$12.3 million in out-years. This reflects the end of the life of the bond.

Key Provisions

- **Vessel Operator Card Implementation.** The budget proposes \$500,000 special fund to develop, implement, and operate the CA Vessel Operator Card Program.
- **Boating Needs Assessment.** The budget proposes \$300,000 special fund to expand the scope of the "Boating Needs Assessment" to include an assessment of underserves populations and behavioral characteristics of future boaters.
- **Local Assistance Program- Various Grant Funding.** The budget proposes \$151.9 special fund for various local assistance programs.
- **Marsh Creek State Parks.** The budget proposes to reappropriate \$1.29 million, the unencumbered balance of 2015-16 from the settlement paid by Shea Homes.
- **Oceano Dunes SVRA Visitor Center Project.** The budget proposes \$1 million special fund three positions, and six vehicles for facility staffing and maintenance at Oceano Dunes State Vehicular Recreation Area.
- **Oceano Dunes Environmental Compliance Project.** The budget proposes \$880,000 special fund and eight positions for ongoing support of environmental conservation programs and regulatory compliance at Oceano Dunes State Vehicular Recreation Area.
- **Proposition 12 Statewide Bond Close-out.** The budget proposes \$80,000 special fund and one half-time position and funding to provide statewide bond oversight and cash management.
- **Capital Outlay**
 - **Border Field SP- Renovation for Public Use.** The budget proposes \$280,000 special fund for the working drawing phase of flood mitigation project at Border Field.
 - **Calaveras Big Trees SP- Campsite Relocation.** The budget proposes \$140,000 special fund to relocate five existing campsites to new location within park.
 - **Candlestick Point SRA- Yosemite Slough (North) - Public Use Improvements.** The budget proposes \$4.13 million special fund for the preliminary plans, working drawings, and construction phases of Yosemite Slough project.
 - **El Capitan SB- Entrance Improvements.** The budget proposes \$380,000 for the working drawing phase of project to provide an alternate safe route for pedestrians and cyclists.
 - **Fort Ord Dunes SP- New Campground and Beach Access.** The budget proposes \$3.2 million special fund for construction of facilities at the Fort Ord Dunes State Park.
 - **General Plans.** The budget proposes \$2.12 million special fund to fund existing and future planning projects under the general plan program.

- **Hollister Hills SVRA- Martin Ranch Acquisition.** The budget proposes \$5 million special fund to acquire 1800 acres at the Hollister Hills State Vehicular Recreation Area.
- **Hungry Valley SVRA- 4X4 Obstacle Course Improvements.** The budget proposes \$570,000 special fund for preliminary plans to upgrade and enhance existing obstacle course at Hungry Valley State Vehicular Recreation Area.
- **Lake Del Valle SRA- Boat Ramp Replacement.** The budget proposes \$1.23 million special fund for preliminary plans to replace a boat ramp at Lake Del Valle State Recreation Area.
- **Lake Oroville SRA- Gold Flat Campground Upgrades.** The budget proposes \$1.65 million special fund for preliminary plan to upgrade Gold Flat Campground's aging infrastructure.
- **McArthur-Burney Falls Memorial SP- Ground Camp Development.** The budget proposes \$870,000 special fund for the construction phase to develop two adjoining group camps at McArthur-Burney Falls Memorial State Park.
- **McGrath SB- Campground Relocation and Wetland Restoration.** The budget proposes \$1.3 million special fund for working drawings to relocate existing McGrath State Beach campground and associated facility.
- **Mendocino Headlands SP: Big River Boat Launch.** The budget proposes \$1.79 million special fund for preliminary plans to improve existing beach launch by constructing a concrete boat ramp, repaving the park road, and constructing handicapped parking spaces.
- **Oceano Dunes State Vehicular Recreation Area- Grand Avenue Lifeguard Tower.** The budget proposes \$910,000 special fund to develop a lifeguard tower headquarters at Oceano Dunes.
- **Ocotillo Wells SVRA- Holly Corporation Acquisition.** The budget proposes \$3.5 million special fund to acquire 18 parcels adjacent to Ocotillo Wells State Vehicular Recreation Area near Salton City to reduce illegal off-road activity and to protect resources.
- **Ocotillo Wells SVRA- Holmes Camp Water System Upgrade.** The budget proposes \$220,000 special fund for the preliminary plans and working drawings for the construction of a new water treatment/distribution system.
- **Pismo SB- Entrance Kiosk Replacement.** The budget proposes \$120,000 special fund for the preliminary plans to replace an entrance station kiosk in the North Breach Campground at Pismo Beach.

- **Proposition 40- Recreation and Facilities Program.** The budget proposes \$26 million special fund for capital outlay projects related to the Outdoor Environmental Education Facilities Program.
- **San Luis Reservoir SRA- San Luis Ramp Replacement and Parking Improvements.** The budget proposes \$140,000 for preliminary plans to widen the existing two-lane boat ramp by two lanes, adding a third boarding float, and reconfiguring the parking lot.
- **South Yuba River SP- Historic Covered Bridge.** The budget proposes \$2.8 million special fund to restore and rehabilitate the bridge at South Yuba River State Park.
- **Statewide- DBW Minor Capital Outlay Program.** The budget proposes \$680,000 special fund for construction of a restroom, replace a portable chemical toilet and existing wood shower stall building.
- **Statewide- VEP Minor Capital Outlay Program.** The budget proposes \$120 special fund to renovate existing greenhouse and provide upgrades camp host sites.
- **Topanga SP- Rehabilitate Trippet Ranch Parking Lot.** The budget proposes \$220,000 special fund for the working drawing phase to rehabilitate the Trippet Ranch parking lot and surrounding area.

DEPARTMENT OF PESTICIDE REGULATION

The Department of Pesticide Regulation's proposed budget is \$96 million, which is nearly the same in expenditure from last year. The entire Department's proposed budget is comprised of special funds. The amount above does not include capital outlay expenses.

Major Provisions

- **Federal Trust Fund Authority Increase.** The budget proposes \$350,000 in Federal Trust Fund authority to bring the department's federal fund authority in line with the federal grant awards the department receives.
- **Pest Management Research Grants.** The budget proposes \$600,000 to extend, by two years, a 3-year legislative augmentation that appropriated an additional 600K to the Pest Management Research Grant program.

DEPARTMENT OF RESOURCES RECYCLING AND RECOVERY

The Department of Resources Recycling and Recovery's proposed budget is \$1.57 billion, which represents a 2.6 percent increase in expenditure from last year. The Department's entire proposed budget is comprised of special funds. The amount above does not include capital outlay expenses.

Major Provisions

- **Organic Waste Reduction (SB 1383).** The budget proposes six positions and \$650,000 special fund to achieve the organic waste disposal reduction goals of 50 percent from 2014 levels for 2020, and 75 percent from 2014 levels 2025 respectively.
- **Modernizing the Beverage Container Recycling Program.** The budget does not make any specific allocations for this program.

Key Provisions

- **Administrative Support Workload.** The budget proposes \$929,000 special fund and 8 positions to fund and support workload associated with increased fiscal activity, increased demand for IT services, and departmental operations.
- **Bonzi Sanitary Landfill Closure Funding.** The budget proposes \$4.2 million special fund for the closure of the inactive Bonzi Sanitary Landfill in Modesto.
- **Environmental Protection Agencies' Audio and Video Support.** The budget proposes \$227,000 permanent reimbursement authority and two positions to provide audio-visual services for all CalEPA's boards, departments, and offices within the CalEPA building in Sacramento.
- **Implementing Single-Use Carryout Bag Ban.** The budget proposes \$298,000 special fund to implement the single use bag legislation. This allocation was included in the previous budget, but was retracted due to the statewide referendum.
- **Reimbursements Increase for Infrastructure Bank.** The budget proposes \$104,000 reimbursement authority to provide IT support services to the iBank.
- **Solid Waste Enforcement Implementation and Evaluation Program.** The budget proposes \$130,000 and one position to perform duties related to the Solid Waste Enforcement Program.
- **Tire Enforcement Agency Program Evaluation.** The budget proposes two positions and to shift expenditure authority of \$168,000 from local assistance to state operations in the Tire Recycling Management Fund in order to evaluate the Local Government Waste Tire Enforcement Grantee performance.

- **Trailer Bill Language- Project Recycle Amendments.** The budget proposes policy change to allow state agencies to contract for recycling services and retain revenue received.
- **Used Oil Certified Collection Center Staffing.** The budget proposes one position and \$77,000 special fund to implement new fraud prevention procedures, to identify entities not paying the oil fee; and to review new re-refined oil claims.
- **Waste and Used Tire Manifest Program.** The budget proposes seven positions to replace temporary and intermittent positions to provide ongoing support for the Tire Hauler Registration process and the Uniform Waste and used Tire Manifest System.

DEPARTMENT OF WATER RESOURCES

The Department of Water Resources' proposed budget is \$3.1 billion, which represents a 21.4 percent decrease in expenditure from last year. This decrease is primarily due to final appropriation of Proposition 1E (2006 Flood Prevention Bond) and Proposition 84 (Safe Drinking Water Bond) in the 2016-17 Budget. Most of the Department's budget is special funds, with \$129.6 million of the proposed total funding coming from General Fund. The amount above does not include capital outlay expenses.

Major Provisions

- **Long-term Sustainable Groundwater Management Act Implementation.** The budget proposes an increase of \$15 million General Fund for the Department of Water Resources to serve its legislatively-mandated role in implementing the Sustainable Groundwater Management Act and supporting local agencies to achieve regional sustainability.
- **Drought Emergency Response.** The budget proposes \$14 million General Fund for the Department of Water Resources to implement statewide actions, including continuation of the Save Our Water campaign, operation of the drought management operations center, water transfer support and water supply modeling, and emergency drinking water support for small communities. This level of resources recognizes improved conditions in some areas of the state.
- **Central Valley Flood Protection Board Permitting and Enforcement.** The budget proposes \$2.2 million General Fund for the Central Valley Flood Protection Board to support the permitting process and enforcement of encroachments on State Plan of Flood Control and related facilities.

Key Provisions

- **Delta Mine Drainage Impacts Abatement-Combie Reservoir.** The budget proposes \$5.7 million special fund to develop facilities to remove and treat mercury laden sediment derived from abandoned gold mines at Combie Reservoir.

- **Delta Smelt Resiliency Strategy.** The budget proposes \$2.6 million General Fund and \$0.9 million special fund to combat the decline of the endangered Delta Smelt.
- **Safety of Dams Baseline Budget Increase.** The budget proposes \$364,000 for office relocation expenses, and ongoing funds for increased rental costs.
- **San Joaquin River Water Quality Improvement Program.** The budget proposes \$1.26 million special fund to support improving water quality in the Lower San Joaquin River by eliminating discharge of agricultural subsurface drainage water.

FOOD AND AGRICULTURE

The Department of Food and Agriculture's proposed budget is \$408.4 million, which represents a 14% decrease in expenditure from last year. This decrease is primarily due to greenhouse gas reduction fund allocation of \$89 million last year. Most of the Department's proposed budget is comprised of special funds, with \$89 million in General Fund. The amount above does not include capital outlay expenses.

Major Provisions

- **Short-Lived Climate Pollutants.** The budget proposes two positions and \$312,000 special funds to coordinate with the Air Resources Board, to achieve the organic waste disposal reduction goals of 50 percent and 75 percent from 2014 levels, for 2020 and 2025 respectively.
- **Plant Pest Prevention System.** The budget proposes for 190.5 positions, \$1.80 million General Fund, and \$2.6 million special fund to fortify the infrastructure of the pest prevention system by incorporate forward-looking strategic elements to combat Asian citrus psyllid and huanglongbing.
- **Implementation of Cannabis Regulation.** The budget proposes 50.8 positions and \$22.4 million special fund to provide support for cannabis cultivation licensing

Key Provisions

- **Environmental Auditing Unit Program Funding and Produce Safety Rule Implementation.** The budget proposes 7 positions and \$1.9 million Federal Fund authority to provide additional support to the Produce Safety Program.
- **Fertilizing Materials Auxiliary Soil and Plant Substances Biochar (AB 2511).** The budget proposes one position and \$110,000 Department of Food and Agriculture Fund authority to regulate biochar as a fertilizing material.
- **Sustaining the Viability of Emergency Exotic Pest Response.** The budget proposes 20 positions and \$1.75 million in Federal Fund authority to create Emergency Plant Health Response Teams for invasive species eradication.

- **Turlock North Valley Laboratory Replacement.** The budget proposes \$3.1 million General Fund for the acquisition and construction of a new full-service CA Animal Health and Food Safety Lab.
- **Use of Antimicrobial Drugs on Livestock.** The budget proposes 8.5 positions and \$2.05 million General Fund for Animal Health and Food Safety Services and Inspection Services Divisions.

DEPARTMENT OF FORESTRY AND FIRE PREVENTION

The Department of Forestry and Fire Protection's (CALFIRE) budget is \$1.9 billion, which represents a 7.4 percent decrease from last year. This decrease is primarily due to one-time fire protection funding in 2016-17 and \$58 million of Cap and Trade program funding. 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

- **Emergency Drought Actions.** The budget proposes \$90.98 million (\$88 General Fund and \$2.98 million special fund) to address heighten fire conditions by extending firefighter staffing and enhancing fire protection capabilities

Key Provisions

- **Board of Forestry and Fire Protection Fiscal Realignment.** The budget proposes \$293,000 special fund, one attorney position for approved salary increases.
- **Hiring and Training- Permanent Funding and Staffing.** The budget proposes 55 positions and \$9.97 million General Fund, \$332,000 special fund, and \$3.865 million Reimbursements to address increased hiring and training demands.
- **Implementation of AB 1958, AB 2029, and SB 122.** The budget proposes 5 positions and \$1.26 million special fund to monitor use of, compliance with, and effectiveness of exemptions and emergency notice provisions.
- **L.A. Moran Reforestation Center.** The budget proposes 5.8 positions and \$4.8 million special fund to help restore reforestation nursery operations.
- **SB 661- California Underground Facilities Safe Excavation Board.** The budget proposes 11 positions and \$3.8 million special fund to implement SB 661 and to provide regulatory support for ongoing investigations into violations of the Dig Safe Act.

- **Capital Outlay**

- **Badger Forest Fire Station- Replace Facility.** The budget proposes \$4.24 million special fund to complete construction phase of the Badger Forest Fire Station in Tulare County.
- **Macdoel Fire Station- Relocate Facility.** The budget proposes \$500,000 General Fund for the acquisition phase to replace the Macdoel Fire Station in Siskiyou County.
- **Potrero Forest Fire Station- Relocate Facility.** The budget proposes \$865,000 General Fund for the preliminary plans phase to replace and relocate the Potrero Forest Fire Station in San Diego County and construct a standard two-engine fire station.
- **Real Estate Design and Construction.** The budget proposes 15 positions and \$750,000 General Fund to support staff working on agency-retained capital outlay projects.
- **Shasta Trinity Unit Headquarters and Northern Operations- Relocate Facilities.** The budget proposes \$365,000 General Fund for the acquisition phase to construct a new joint facility to co-locate the Shasta-Trinity Unit Headquarters and several Northern Region Operations facilities.
- **Statewide- Replace Communications Facilities, Phase V.** The budget proposes \$1.76 million General Fund for the working drawing phase to replace existing telecommunications infrastructure at six communications sites with new telecommunications towers, vaults, and add an additional tower at a seventh site.
- **Temecula Fire Station- Relocate Facility.** The budget proposes \$1.07 million General Fund for the acquisition phase to replace the Temecula Fire Station in Riverside County.
- **Various Minor Projects.** The budget proposes \$2.38 million perform the following projects: to connect a domestic water line to the Occidental Fire Station, install about 2,800 feet of water pipe, install two fire hydrants, building plumbing upgrades, install a water service meter, paving, construct two metal storage buildings to house 12 fire engines, replace the old warehouse at the Davis Mobile Equipment Facility including site work, upgrade existing and construct new apparatus bays or buildings at various facilities to accommodate the Model 34 fire engines.

NATURAL RESOURCES AGENCY

The Natural Resources Agency's proposed budget is \$60.5 million, which represents an 88% decrease in expenditure from last year. This decrease is primarily due to the one-time allocation of greenhouse gas reduction fund dollars and various bond funds last year. Most of the Department's proposed budget is comprised of special funds, with \$2.6 million in General Fund.

Major Provisions

- **Timber Regulation and Forest Restoration Program.** The budget proposes \$9 million special fund, three additional permanent positions, converts four existing positions from limited-term to permanent, and extends eight limited-term positions for another year in order to implement forest restoration and accountability components of the Program.
- **Once Through Cooling Fees to Complete MPA Management Program.** The budget proposes to transfer \$5.4 million from SWRCB Once-Through-Cooling (OTC) Interim Mitigation Program mitigation payments on a one-time basis to the Ocean Protection Trust Fund to fund projects necessary to mitigate the harm to Marin Protected Areas as a result of once-thru-cooling.

Key Provisions

- **Bonds Unit Positions and Local Assistance.** The budget proposes to revert and appropriate \$4.4 million in Prop 13 river parkway funds and make three limited term positions permanent.
- **Museum Grant Program Staffing.** The budget proposes \$100,000 special fund to make a position permanent to support the Museum Grant Program.

OFFICE OF ENVIRONMENTAL HEALTH HAZARD ASSESSMENT

The Office of Environmental Health Hazard Assessment's proposed budget is \$25.76 million, which nearly the same as the previous year. Most of the Office's budget is comprised of special funds, with \$5 million in General Fund.

Major Provisions

- **Compliance Assistance (Prop 65).** The budget proposes \$304,000 special fund to provide support for the Prop. 65 program and compliance assistance.
- **Indicators of Climate Change in California.** The budget proposes one position to help compile reports on climate change indicators and its impacts on CA.
- **Litigation Costs (Prop 65).** The budget proposes \$574,000 special fund to pay for defense of Prop. 65 civil lawsuits.

- **Well Stimulation Treatment Health and Environmental Risks.** The budget proposes \$366,000 special fund to evaluate chemicals in oil/gas well stimulation treatments in the State and keeping an inventory of them.

Key Provisions

- **Site Risk Assessment Review.** The budget proposes one position to provide technical assistance to the regional water boards. The position will be funded by reimbursements from existing interagency agreements.

SAN JOAQUIN RIVER CONSERVANCY

The San Joaquin River Conservancy's proposed budget is \$1.7 million, which represents a 55.7% decrease in expenditure last year. The Conservancy's entire budget is comprised of special funds.

Key Provisions

- **Environmental License Plate Fund for Administrative and Management Services.** The budget proposes \$30,000 for support and management services due to increases in administrative costs over the past 15 years.

SANTA MONICA MOUNTAINS CONSERVANCY

The Santa Monica Mountains Conservancy's proposed budget is \$4 million, which represents an 82.9% decrease in expenditure from last year. The Conservancy's entire budget is comprised of special funds.

Key Provisions

- **Outdoor Education Local Assistance Program.** The budget proposes \$20,000 special fund for local assistance appropriation for outdoor education program funding.
- **Proposition 1 Baseline Support Budget.** The budget proposes \$750,000 special fund for support, planning, and monitoring. The budget also proposes a corresponding \$750,000 reduction in reimbursement authority.

SIERRA NEVADA CONSERVANCY

The Sierra Nevada Conservancy's proposed budget is \$13 million, which represents a 140% increase in expenditure from last year. This is primarily due to the proposed \$8.1 million increase in prop 1 allocation. The Conservancy's entire budget is comprised of special funds.

Key Provisions

- **Proposition 1 Support Funding.** The budget proposes \$550,000 to support planning and monitoring cost.
- **Proposition 84 Support Funding.** The budget proposes \$80,000 for program delivery and ongoing planning and monitoring costs.

STATE COASTAL CONSERVANCY

The State Coastal Conservancy's proposed budget is \$67.6 million, which represents a 65.8% decrease in expenditure from last year. The Conservancy's budget consists entirely of special funds.

Major Provisions

- **Appropriation for Public Access.** The budget proposes \$89,000 for local assistance and capital outlay and proposes to reduce authority from CA Beach and Coastal Enhancement Account by \$226,000.
- **Federal Trust Fund and Reimbursements- Local Assistance.** The budget proposes a \$2 million increase in Federal Trust Fund authority and \$10 million in reimbursement authority to accommodate the anticipated increase in federal and state grant funding.
- **Proposition 12 Reversion and Appropriation.** The budget proposes a reversion of unencumbered balances of Prop. 12 and a new appropriation of \$14.6 million for local assistance and capital outlay.
- **Request for Increased Federal Trust Fund and Reimbursement Authority.** The budget proposes an increase of \$233,000 in Federal Trust Fund and an increase of \$500,000 in reimbursement authority to accommodate higher volume of grants being awarded.
- **State Operations Funding Realignment.** The budget proposes a funding realignment that shifts \$120,000 from the Environmental License Plate Fund and \$300,000 in adjustments to existing bond allocations and Special Funds.

STATE WATER RESOURCES CONTROL BOARD

The State Water Resources Control Board's proposed budget is \$992 million, which represents a 67% decrease in expenditure from last year. This decrease is primarily due to a substantially smaller Prop. 1 allocation for 2017-18. Most of the Department's budget is comprised of special funds, with \$49 million in General Fund.

Major Provisions

- **Drought Response.** The budget proposes \$5.3 million General Fund and 32 positions to continue enforcement of drought related water rights and water curtailment actions.

Key Provisions

- **Funding for Fish Consumption Advisories.** The budget proposes \$381,000 special fund for continued development of fish consumption advisories.
- **Implementation of Sustainable Groundwater Management Act (SGMA) Intervention Requirements.** The budget proposes \$2.25 million special fund and five additional positions to develop the SGMA reporting unit and contract funding to meet SGMA implementation needs.
- **Irrigated Lands Regulatory Program.** The budget proposes \$1 million special fund five positions to support ongoing regulatory efforts to protect drinking water sources and reduce nitrate loading to groundwater.
- **Lower Klamath Project Water Quality Certification.** The budget proposes \$410,000 and 2.5 positions to develop and implement water quality certification for the project.
- **Oil and Gas Monitoring Program Supplement for Existing Underground Injection Control (UIC) Project Review.** The budget proposes \$1.04 special fund and seven positions to ensure Class II underground injection control projects are in compliance.
- **SB 828 Prop 98 for Schools--Drinking Water Grants - Reappropriation of Contract Funds.** The budget proposes an extension of the encumbrance and liquidation period of the state contract funds to conform to the period of availability of the local assistance grant funds included in SB 838.
- **Technical Bond Adjustments.** The budget proposes to revert and re-appropriate a total of \$8.3 million in order to align budget authority to actual expenditure plan. The budget requests for increases from Prop. 13 and Prop. 50, requests for reversions in Prop. 204, 13, and 84.
- **Underground Storage Tank Cleanup Fund Site Cleanup Request Processing Workload.** The budget proposes \$1 million special fund and seven positions to increase efficiency in processing claims payments.

- **Underground Storage Tank Petroleum Contamination Orphan Site Cleanup Fund (OSCF) Technical Adjustments.** The budget proposes reversion of the unencumbered local assistance authority in OSCF from 2014-15 and an appropriation of \$6.8 million available for encumbrance through 2020.

TAHOE CONSERVANCY

The Tahoe Conservancy's proposed budget is \$10.7 million, which represents a 69% increase in expenditure from last year. This increase is primarily due to additional funding from various bond funds. The Conservancy's entire budget is comprised of special funds.

Major Provisions

- **California Tahoe Conservancy-Local Assistance Funding-Implementation of the Environmental Improvement Program (EIP) for the Lake Tahoe Basin.** The budget proposes \$4.03 million special fund for implementation of the Lake Tahoe EIP.

Key Provisions

- **Support Baseline Adjustment.** The budget proposes \$73,000 Federal Funds and \$175,000 in reimbursement authorities to support the increased workload and funding projections.
- **Capital Outlay**
 - **South Tahoe Greenway Shared Use Trail Phase 1b & 2.** The budget proposes \$250,000 in reimbursement authority from Federal Trust Funds for the working drawing phase of the South Tahoe Greenway Shared Use Trail Phase 1b & 2 project.
 - **Conceptual Feasibility Planning.** The budget proposes \$742,000 special fund for conceptual and feasibility studies of the new Conservancy capital outlay project.
 - **Minor Capital Outlay.** The budget proposes \$475,000 special fund for minor capital outlay projects such as erosion control, restoration, and improvements to secure the sites of Conservancy acquisition.
 - **Opportunity Acquisitions.** The budget proposes \$200,000 for the pre-acquisition and acquisition cost for the purchase of parcels in support of EIP projects.
 - **Upper Truckee River and Marsh Restoration.** The budget proposes \$1.3 million special fund for the working drawing phase of the Upper Truckee River and Marsh Restoration.

DEPARTMENT OF TOXIC SUBSTANCES CONTROL

The Department of Toxic and Substances Control's proposed budget is \$285.8 million, which represents a 9% increase in expenditure from last year. Most of the Department's budget is comprised of special funds, with \$32.1 million in General Fund.

Major Provisions

- **Lead-Acid Battery Recycling Act of 2016.** The budget proposes \$610,000 special fund and five positions to begin initial implementation of the lead-acid battery act, which includes investigating and identifying clean-up areas.
- **Stringfellow Superfund Removal and Remediation Action.** The budget proposes \$2.46 million General Fund for hazardous waste clean-up at the Stringfellow hazardous waste site.

WILDLIFE CONSERVATION BOARD

The Wildlife Conservation Board's proposed budget is \$123.9 million, which represents a 75% decrease in expenditure from last year. This decrease is primarily due to decreases in various bond measure funds. Most of the Department's budget is comprised of special funds, with \$19.2 million in General Fund.

Major Provisions

- **Proposition 1 State Operations Augmentation.** The budget proposes \$850,000 special fund for the proposal review and grant agreement execution to fully implement the interagency agreement with the State Water Resources Control Board.
- **Proposition 84, New Appropriation- Natural Community Conservation Plan.** The budget proposes \$11 million special fund to continue administering grants to local agencies to implement or assist in the establishment of the Natural Community Conservation Plans.
- **Proposition 84, New Appropriation- San Joaquin Delta NCCP.** The budget proposes \$5.7 million special fund to continue administering grants to local agencies to implement or assist in the establishment of the Natural Community Conservation Plans in the Sac-San Joaquin area.

Key Provisions

- **Proposition 12 New State and Capital Outlay Appropriations, Naturally Reverted Funds.** The budget proposes \$3.69 million to continue to implement acquisition and capital outlay improvement programs.

- **Proposition 12 State Operations Request for Project Delivery Funding.** The budget proposes \$140,000 special fund for two half positions for project. The budget also proposes to make a prop 40 reduction to create a net zero increase.
- **Proposition 12, New Appropriation- SJRC Reverted Funds.** The budget proposes \$140,000 special fund for Conservancy's acquisitions, public access, recreation, and environmental restoration projects.
- **Proposition 50, Reappropriation- Colorado River, Salton Sea.** \$32.5 million was appropriated in 2003 for the Colorado River acquisition and restoration program, which includes the restoration of the Salton Sea. The budget proposes to reappropriate the unencumbered balance in order to carry out program.
- **Wildlife Restoration Fund- Minor Capital Outlay (Public Access).** The budget proposes \$1 million special fund for public access development projects.

SPECIAL RESOURCES PROGRAMS

The Special Resources Programs include the Tahoe Regional Planning Agency, the Yosemite Foundation Program, and the Sea Grant Program. The Special Resources Programs' budget is \$5.8 million, which is nearly the same as last year. A substantial portion of the proposed funding comes out of the General Fund.

Major Provisions

- **Tahoe Regional Planning Agency.** The budget proposes \$250,000 special fund for mediation services and environmental review of the Lake Tahoe Shoreline plan. The Agency submitted an identical request to Nevada for equal contribution from both states.

Staff Comment and Analysis of Governor's Budget Proposal

The Governor's 2017-18 proposed budget for environmental protection and resources is nearly the same as last year. Overall, the expenditure reflects a consistent dedication to the major issues in these areas. As the Legislature deliberates the Governor's proposals, it may wish to consider the following:

How Can We Continue to Ensure the State Achieves Greenhouse Gas Reductions?

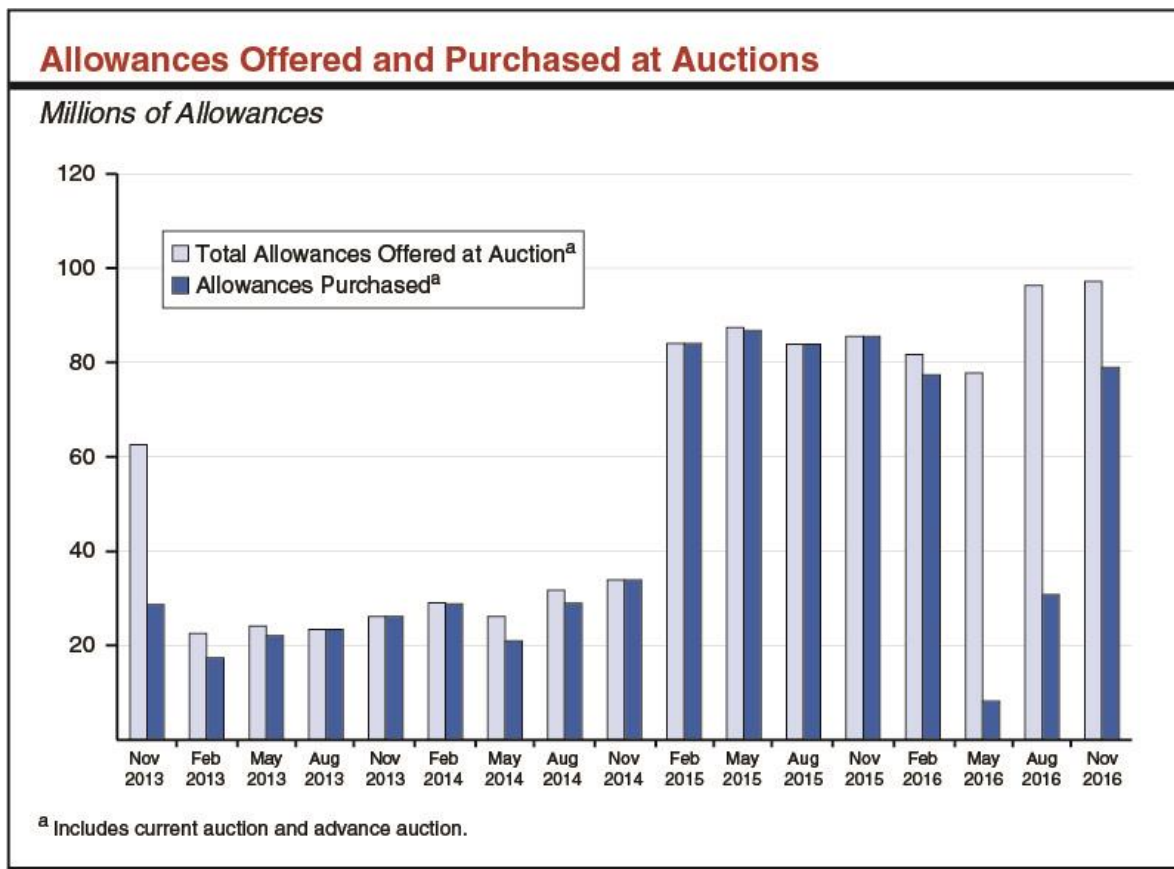
The Cap and Trade program is a key component of the state's efforts to reduce greenhouse gas emissions. Recently the program has experienced instability and a decline in revenues.

How to Stop the Decline and Instability in Revenues? Two key factors that experts have attributed the recent decline and instability in the Cap and Trade auction revenues to are uncertainty about how long the program will last beyond 2020 and an oversupply of allowances. Both of these phenomena are shown in the figures below. The first figure

illustrates an increase in the instability in the amount of revenues generated at each auction, and the second figure shows a sharp increase in the number of allowances offered and not purchased, beginning in May 2016.

Recent Cap and Trade Auction Results (Dollars in Millions)

Auction Date	State Revenue
February 2015	\$630
May 2015	\$627
August 2015	\$645
November 2015	\$657
February 2016	\$517
May 2016	\$10
August 2016	\$8
November 2016	\$365



Source: Legislative Analyst's Office

Steps Could Be Taken to Ensure Program Stability. For example, the Assembly could remove uncertainty about the program's continuation beyond 2020 and it could reduce the number of allowances offered at auction. The Governor's proposal to confirm the Air Board's authority to administer cap and trade auctions beyond 2020 with a two-thirds urgency vote would

remove the program's uncertainty about continuation and use of the funds for certain expenditures. In addition, the Assembly may want to consider adding staff at ARB who are knowledgeable about how markets operate to help ensure the Cap and Trade program remains viable.

In addition, to help the State achieve its greenhouse gas reduction goals, the Assembly should ensure that the state continues to set and expand energy efficiency standards for residential and non-residential buildings and appliances, and evaluate compliance with those standards. Moreover, the Assembly may wish to continue funding research and investments that promote energy innovation, as well as climate change-related research.

Do the Proposed Expenditures Make Sense? The Governor's proposed Cap and Trade expenditure plan builds on the plan that was adopted as part of the 2016 Budget Act. Beyond the continuous appropriations for sustainable communities and clean transportation, the plan continues to make investments in the areas of short-lived climate pollutants, carbon sequestration, and energy efficiency/ renewable energy.

About two-thirds of the total funds go to transportation-related projects, and notably under the Governor's proposal, \$500 million goes towards the Governor's transportation funding plan, which is discussed in the Transportation section of this report. In 2014, the transportation sector was responsible for 37 percent of California's total emissions. In addition, transportation fuels sector make up an even greater percentage of the emissions subject to Cap and Trade, making it reasonable that a significant portion of the funding goes towards projects in this area. However, to truly achieve greenhouse gas reductions in the transportation sector, the Legislature will need to identify ways to increase the utilization and cost-effectiveness of transit and focus on freight. Ways to increase the utilization of transit could include reducing available and low-cost parking and increasing fuel prices. Freight vehicles may also need to be further incentivized to replace vehicles with new, cleaner technology.

The proposed plan does not provide funding for wetlands restoration, which received \$29 million in the current year, and water-use efficiency, which received \$70 million in 2016-17. Previous wetlands funding has restored about 2,500 acres of wetlands throughout the state. Wetlands have among the most efficient carbon sequestration rates per unit of all habitat types. Increasing the quality and quantity of key wetlands in California will assist the state with climate change adaptation and mitigation, as well as wildlife and fisheries management and recovery. In contrast, water-use efficiency projects are estimated to result in fewer emission reductions and do not leverage much additional funding. As funding priorities are considered for 2017-18, the Assembly will want to ensure that the programs being funded are likely to deliver desired results such as 1) the greatest long-term greenhouse gas reductions, 2) the ability to leverage other funds, 3) to satisfy the demand for funding, and 4) benefits to disadvantaged communities.

Should We Pivot to Long Term Drought Planning? The proposed budget assumes drought conditions will persist and includes an additional \$178.7 million one-time commitment to continue immediate response efforts for drought relief. Due to the recent changes in precipitation, the Legislature should consider whether the proposed expenditure represents the best approach in achieving water conservation in the long term as opposed to immediate water conservation.

State Parks and the Transformation Team. In recent years, the Department of Parks and Recreation has undertaken reform and innovation efforts to address the department's long-term structural shortfalls. The 2015-16 Budget included funding for a Transformation Team to lead in the execution of reforms in a number of areas, including the State Parks Budget, maximizing partnerships, enhancing the marketing program, and identifying innovative revenue generation opportunities.

The Governor's 2017-18 budget proposes a one-time increase of \$16.6 million (\$12.6 million State Parks and Recreation Fund and \$4 million Environmental License Plate Fund) to maintain existing service throughout the park system, even though a long term structural shortfall remains. Instead of continuing one-time appropriations to temporarily remedy the problem, the Legislature should look at a long-term solution to address the chronic fiscal deficit of this department.

Department of Fish and Wildlife (DFW) Landing Fees. The Governor's 2017-18 budget proposes an increase of \$12.3 million from commercial fish landing fees in order to address the structural deficit of the Fish and Game Preservation Fund (FGPF). The FGPF is used by the department to support a range of program relating to land management and wildlife protection. The proposed fee increase would be assessed based on the type of fish and value of the catch. This could potentially make this assessment a tax rather than a fee. The Legislature should consider: (1) whether commercial fishermen should bear the burden of balancing the FGPF, which goes toward the protection and preservation of all wildlife in CA, not just fish and (2) how the fee increase should be apportioned and shared amongst the participants of the program.

California Beverage Container Recycling Fund. The Department of Resources Recycling and Recovery provided a policy framework in the proposed budget, which outlines key components of reform, but falls short of a detailed proposal. 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 and the status of discussions with stakeholders on a long-term fix to the problem.



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.

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.
- Is responsible for constructing, operating, and maintaining the state's high-speed rail system.
- 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 in order to tackle the host of challenges faced by our transportation network.

Major Issues in Transportation

- **Funding Problem Persists.** In both 2015 and 2016, bills were introduced and there was much conversation about how to provide additional funding to maintain and expand the state's transportation system. In addition to legislative proposals, the Administration proposed a 10-year funding package. This year's budget will continue discussions regarding how much funding is needed for transportation and what sources should be used to generate additional revenue. Agreement needs to be reached soon on a long-term funding solution for the state's critical transportation infrastructure.
- **Holistic Management of Transportation Infrastructure.** For decades, the state has funded and managed the development and maintenance of the state's highways and bridges in silos. This approach has resulted in inefficiencies and inadequacies, such as the failure to develop complete streets that can accommodate bikes and pedestrians and inadequate wildlife corridors and fish passages to minimize the negative impacts of transportation infrastructure on the natural environment. In the last few years, Caltrans has begun to take significant steps to move away from the silo-approach and use a more holistic asset management approach. The Assembly should ensure that Caltrans has adequate staff resources to fully implement this approach and provide oversight to ensure that this approach is consistent with the Assembly's priorities.
- **High-Speed Rail Construction is Fully Underway.** Construction on the High Speed Rail project is fully underway in the Central Valley. The 2016 Business Plan made some major, positive, changes to the initial operating segment of the project and shifted from the development going south (Central Valley to San Fernando Valley) to the north (Central Valley to Silicon Valley). As with any large infrastructure project, oversight is necessary throughout the project, and the Assembly should continue to ensure that the High Speed Rail Authority has the resources and protocols in place to hold the contractors accountable and ensure the project is delivered as expected, on time, and on budget.
- **DMV Continues to be the Center of Action.** In recent years, the DMV has been tasked with implementing several new initiatives that draw upon its resources. Specifically, AB 60 (Alejo, Chapter 524, Statutes of 2013) allows drivers to obtain a driver's license without documentation related to citizenship. As of June 2016, DMV has issued more than 730,000 driver licenses and has seen over 900,000 applicants since the program began in January 2015. The DMV has also implemented the New Motor Voter Program, AB 1461 (Gonzales, Chapter 729, Statutes of 2015) which automatically registers certain motorists to vote when they apply for or renew their driver's licenses. DMV has also been expanding its use of self-service terminals. In 2017-18, DMV will begin implementation of the expanded ignition interlock device program, SB 1046 (Hill, Chapter 783, Statutes of 2016). The use of self-driving vehicles and the need for regulations and enforcement in this area has also increased DMV's workload.

Governor's January Budget Proposal in Transportation

The Governor's budget includes a package of expenditure and funding proposals for transportation programs. The funding package is similar to the package proposed by the Governor in the fall of 2015 as part of a special session on transportation funding, and in the 2016 budget, and it generates an average of \$4.2 billion annually over the next ten years, which is somewhat greater than the Governor's earlier proposal. The key elements of the plan are described below.

Annual Expenditures

- **State Highway and Bridge Repair.** \$1.6 billion annually for state highway and bridge repair.
- **Local Streets and Roads/Local Partnership Grants.** \$1.2 billion annually to be allocated by the Controller to cities and counties for local road maintenance according to existing statutory formulas and \$250 million for local partnership grants.
- **Transit and Rail.** \$400 million for transit capital investments that provide greenhouse gas reductions, with at least 50 percent of the funds directed to benefit disadvantaged communities.
- **Corridor Mobility Improvements.** \$275 million annually for multi-modal investments on key congested commute corridors that demonstrate best practices for quality public transit and managed highway lanes such as priced express lanes or high-occupancy vehicle lanes. Also included is \$25 million to expand the freeway service patrol program.
- **Trade Corridors.** \$250 million to fund projects along the state's major trade corridors, providing ongoing funding for a program originally established with \$2 billion in one-time Proposition 1B bond funding.
- **Highway Maintenance.** \$120 million for Caltrans to fund repairs and maintenance on the state highway system.
- **Active Transportation.** \$100 million for the grant program for local projects that encourage active transportation such as bicycling and walking, with at least 50 percent of the funds directed to benefit disadvantaged communities.
- **Local Planning Grants.** \$25 million annually for competitive planning grants to assist regions and local governments in achieving the sustainable transportation requirements in SB 375 (Steinberg, Chapter 728, Statutes of 2008), and other state objectives.

Annual Funding

- **Vehicle Registration Charge.** \$2.1 billion from a \$65 vehicle registration tax on all vehicles, including hybrids and electrics.
- **Increase Gasoline Excise Tax.** \$1.1 billion from increasing gasoline excise tax rates to 21.5 cents and indexing the rates for inflation.
- **Greenhouse Gas Reduction Funds.** \$500 million from Cap and Trade auction revenues.

- **Increase Diesel Excise Tax.** \$425 million from an 11 cent increase in diesel excise tax rates to 27 cents per gallon and indexing the rates for inflation.
- **Caltrans Reforms.** \$100 million from efficiencies at the California Department of Transportation. These reforms are described in more detail below.

Loan Repayments

Repay, over the next three years, \$706 million in prior loans made to the General Fund from transportation accounts. Specifically, the transportation funding proposal repays \$127 million to the State Highway Account, \$256 million to the Public Transportation Account, and \$323 million to the Transportation Congestion Relief Fund.

Reforms

- **State Highway Performance Plan.** The Governor's proposal would establish measurable targets for improvements including regular reporting to the California Transportation Commission, the Legislature, and the public.
- **Streamlined Project Delivery.** The proposal would provide a limited California Environmental Quality Act (CEQA) exemption for projects on existing rights-of-way with previously completed CEQA approval; remove the sunset date for the federal delegation of environmental reviews so federal and state environmental review can be completed concurrently.
- **Advanced Mitigation.** The Governor's proposal would advance project environmental mitigation to get early permitting approval as well as stakeholder and advocate buy-in on activities, reducing the challenges that can occur later which sometimes delay projects.
- **Job Order Contracting.** The Governor's proposal would authorize a limited-term, focused pilot program for procuring routine highway, bridge, and applicable culvert projects using the job order contracting method. This will allow the state to complete a large number of routine maintenance activities in a given area with a single, competitively bid contract while eliminating much of the time and expense of the current process of separately bidding each project contract.
- **Extend Public-Private Partnership Authority.** The Governor's proposal would extend the current sunset date by 10 years to allow for these partnerships through 2027.
- **California Transportation Commission Oversight.** The Governor's proposal would expand the Commission's oversight to cover each phase of project delivery to better track Caltrans' staffing needs and increase transparency.

In addition to the efficiencies being proposed in the transportation package, Caltrans is continuing its pilot program to explore the viability of a road user charge, based on the number of miles driven, as an alternative to the current consumption-based fuel excise tax. A report on the pilot project is scheduled to be released in December 2017.

CALTRANS

The Governor's budget includes \$10.9 billion all funds for Caltrans in 2017-18, an increase of \$1.3 billion, or 13.7 percent from the current year. This budget assumes the Governor's transportation package is enacted, resulting in \$1.1 billion in new revenues in 2017-18. The proposed budget for Caltrans only includes special funds, with no General Fund support.

Major Provisions

- **Information Technology Infrastructure Replacement.** The Governor's budget includes a one-time increase of \$12 million State Highway Account funds to replace critical information technology (IT) infrastructure equipment that has reached its end of life and has been identified as the most important to replace for Caltrans' business operations. Caltrans has identified 869 network devices, 126 servers, and 86 storage appliances that it plans to replace in 2017-18 using 16 staff positions.
- **IT Security.** The Governor's budget proposes six additional positions and \$4 million from the State Highway Account to upgrade and improve the IT Cyber Security Program. These IT security enhancements are necessary to address vulnerabilities identified in multiple assessments, protect the state's resources, and to bring Caltrans into compliance with IT security directives and prepare Caltrans for future IT security upgrades.
- **Sustainable Freight, Planning, and Zero Emission Vehicle (ZEV) Facilities.** Caltrans is working to integrate sustainability into all aspects of the Department's planning, project management, operations, and maintenance efforts. The Department has committed to making 25 percent of its light-duty fleet purchases ZEVs by 2020, reducing its greenhouse gas emissions 40 percent by 2030, and constructing public charging stations at 30 locations statewide on Department right-of-way within 30 months.

Other Key Issues in Caltrans

- **Toll Bridge Maintenance.** The Governor's budget proposes an increase in reimbursement authority of \$24.5 million from the State Highway Account for the Bay Area Toll Bridge maintenance work upon execution of a revised memorandum of understanding. This will free up about \$20 million in funding for fix-it-first projects.

CALIFORNIA TRANSPORTATION COMMISSION

The Governor's budget includes \$29.6 million all funds for the California Transportation Commission in 2017-18, an increase of \$502,000 or 1.7 percent from the current year. The Commission is completely funded with special funds and receives no General Fund support.

Key Provision

- **Transportation System Planning and Oversight.** The Governor's budget requests two positions, and funding for an existing position, to allow the Commission to effectively address its statutory role in the implementation of legislative priorities including the Active Transportation Program and the statewide regional transportation planning requirements established by recent legislation.

CALIFORNIA TRANSPORTATION AGENCY

The Governor's budget includes \$336.4 million all funds for the California Transportation Agency (CalSTA) in 2017-18, a decrease of about \$213.3 million or 38.8 percent from the current year. The Commission is completely funded with special funds and receives no General Fund support. The reduction results from about \$267 million less in Greenhouse Gas Reduction Funds being programmed through CalSTA. Otherwise, there are no new proposals in CalSTA.

DEPARTMENT OF MOTOR VEHICLES

The Governor's budget includes \$1.0 billion mostly from the Motor Vehicle Account for the Department of Motor Vehicles (DMV) in 2017-18, which is about the same level of funding as the current year. DMV's budget includes 8,268 positions to support its operations.

Major Provisions

- **Expanded Eligibility for Driver Licenses.** The Governor's budget includes \$8.6 million Motor Vehicle Account for the extension of 91 positions to continue processing and investigating license applications related to the implementation of AB 60 (Alejo, Chapter 524, Statutes of 2013).
- **Implementation of Recent Legislation.** The Governor's budget provides \$1 million Motor Vehicle Account for implementation of new legislation, including \$730,000 and five positions for inspecting ignition interlock devices, pursuant to SB 1046 (Hill, Chapter 783, Statutes of 2016), and \$294,000 for investigator travel, casework, and overtime, and a data aggregation tool to search websites for patterns of suspicious sale activity, as part of the joint task force to address unlicensed auto dismantling businesses that was created by AB 1858 (Santiago, Chapter 449, Statutes of 2016).

Other Key Issues in DMV

- **Capital Outlay Funding Requests.** The Governor's budget includes \$24 million from the Motor Vehicle Account in 2017-18 for capital outlay projects as follows:
 - **Inglewood Field Office.** \$15.1 million for the construction of the Inglewood Field Office replacement project.

- **Reedley Field Office.** \$2.2 million for the acquisition phase of the Reedley Field Office replacement project.
- **San Diego Normal Street Field Office.** \$1.5 million for the working drawing phase of the San Diego Normal Street Field Office replacement project.
- **Oxnard Field Office.** \$418,000 for the preliminary plan phase of the Oxnard Field Office.
- **Minor Capital Outlay.** \$4 million for minor capital outlay projects.
- **Statewide Planning and Site Selection.** \$750,000 for statewide planning and site identification.

CALIFORNIA HIGHWAY PATROL

The Governor's budget includes \$2.5 billion all from non-General Fund sources for the California Highway Patrol (CHP) in 2017-18, an increase of about \$400 or 4 percent from the current year. The CHP has 10,748.7 positions.

Key Provisions

- **Phone System Replacement.** The Governor's budget provides \$2.8 million Motor Vehicle Account for the CHP to replace its older phone systems at both the CHP Academy and Dignitary Protection Section-North Command, with Voice over Internet Protocol (VoIP) systems.
- **IT Privacy and Risk Management.** The Governor's budget provides \$1.8 million Motor Vehicle Account and 14 positions for the CHP to establish a Privacy and Risk Management Program to protect personally identifiable information stored within the CHP's information technology infrastructure and to address other information technology needs.
- **Cloud-Based Disaster Recovery Solution.** The Governor's budget includes \$1.2 million Motor Vehicle Account and 2 positions for the CHP to establish a cloud-based disaster recovery system to replace its tape-based system.

Other Key Issues in CHP

- **Capital Outlay Funding Requests.** The Governor's budget includes \$144.4 million from the Motor Vehicle Account in 2017-18 for the following capital outlay projects:
 - **Hayward, Ventura, San Bernardino, and El Centro Area Offices.** \$138.7 million for the design-build phase of area office replacement projects in Hayward, Ventura, San Bernardino, and El Centro.
 - **Humboldt, Quincy, and Santa Ana Area Offices.** \$4.6 million for the acquisition and performance criteria phases of the area office replacement projects in Humboldt and Quincy, as well as authority to enter into a lease purchase for a new area office in Santa Ana.

- **Keller Peak Tower.** \$223,000 for the preliminary plans phase of the Keller Peak Tower replacement project.
- **Statewide Planning and Site Selection.** \$800,000 for statewide site identification and planning.

HIGH-SPEED RAIL AUTHORITY

The Governor's budget includes \$1.1 billion for the High Speed Rail Authority in 2017-18, a decrease of \$132.1 million or 10.8 percent from the current year. Approximately half of the 2017-18 budget is for capital outlay and comes primarily from Cap and Trade Funds. In addition, \$500 million in local assistance dollars is for blended system projects funded from Proposition 1A.

Key Provision

- **Property Management.** The Governor's budget proposes a baseline appropriation of \$750,000 from the Property Fund to fund expenses associated with owning property. This fund receives proceeds from leases and rents from properties owned by the Authority. The use of these funds may include paying taxes and utilities on acquired properties, fixing deficiencies, and site security.

BOARD OF PILOT COMMISSIONERS

The Governor's budget includes \$2.4 million all funds for the Board for Pilot Commissioners in 2017-18, a decrease of \$56,000 or 2.2 percent from the current year. The Commission is completely funded from the Board of Pilot Commissioners Special Fund receives no General Fund support.

Key Provision

- **Rent Increase.** The Governor's budget includes a budget increase of \$129,000, increasing by \$8,000 each year, for increased costs associated with renting office space in San Francisco.

STATE TRANSIT ASSISTANCE

State Transit Assistance provides funding for local transit agencies through a formulaic allocation administered by the Controller. Proposition 1B bond funding for transit projects has been fully appropriated resulting in a decline in spending. However, the five percent continuous appropriation for Greenhouse Gas Reduction Funds for low-carbon transit projects, has somewhat reduced the impact of the loss of Proposition 1B funds. The table below outlines this funding.

State Transit Assistance Funding (Dollars in Millions)

Funding Sources	Actual 2015-16	Estimated 2016-17	Proposed 2017-18
Public Transportation Account	\$292.4	\$262.5	\$293.8
Greenhouse Gas Reduction Fund	74.7	66.3	74.8
Propositions 1B Bond Funds	118.6	54.5	25.0
Totals	\$485.7	\$383.3	\$393.5

Staff Comment and Analysis of Governor's Budget Proposal

The single greatest need for transportation in the proposed budget is more funding. The quality of the state's roads and bridges continues to deteriorate and funding to preserve this critical asset is inadequate. Workable versions of a long-term funding plan have been proposed by the Governor and in the Assembly and Senate. The Legislature has a great task before it in building political support for a funding plan. The Assembly may wish to consider the following factors when trying to move forward on this issue.

- **What Guarantees and Compromises Are Necessary?** Building political support to pass a tax to increase funding for transportation projects continues to be a challenge in California. Given that transportation affects everyone in the state, it would seem that compromises could be made to achieve support. A successful package may also need to include some more specific guarantees about what would be accomplished with the new funding, which has been a successful approach at the local level for securing additional funding for transportation.
- **Helping Caltrans Do Well.** During discussions about various transportation funding packages concerns have been expressed about the efficiency of Caltrans. Caltrans has made strides in recent years to ensure that it is more appropriately staffed and efforts are underway to continue to streamline and achieve efficiencies within the department. Two key pieces that could benefit Caltrans are the Assembly's support of the implementation of a comprehensive approach to asset management and ensuring that Caltrans is developing staff resources to replace the large cohort of staff that will retire in the near future.
- **Re-examination of the State's role.** Additional funding has to come from somewhere. If the state continues to be unsuccessful at increasing funding at the state level, an option to consider is evaluating where it may make sense to shift primary responsibility and the funding burden for the state's transportation system to the locals. Locals have been able to successfully pass ballot measures that generate additional funding for certain projects and manage local transportation networks.

There are also other issues in transportation that the Assembly should consider in 2017.

- **Oversight of High Speed Rail.** While the budget does not include funding for additional positions for the High Speed Rail Authority, the Assembly should look for best practices to ensure that the State's interest are protected on this expensive and high-profile project.
- **Ensuring DMV's Success.** As mentioned earlier, DMV has been given many new responsibilities in recent years. To implement these changes DMV has had to request new and manage its existing staff resources, sometimes shifting staff to new responsibilities if resources were inadequate. In addition, DMV is attempting to achieve efficiencies with the implementation of self-service terminals. During hearings, the Assembly should help to ensure that DMV has adequate resources and that with the relatively sudden influx of resources there is transparency in budgeting.



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

- **Regulating Cannabis.** Last year, the Legislature established a Bureau to oversee the regulation of medical marijuana. With the passage of Proposition 64, the Adult Use of Marijuana Act of 2016, the Legislature must implement a framework to regulate the sale of cannabis to adults over the age of 21, and create a framework to sell and distribute cannabis as a regulated business. The Assembly may decide to implement both medical and recreational cannabis under an expedited timeline, since the regulations go into effect on January 1, 2018. Additionally, the Assembly should continue to closely monitor the information technology component that accompanies a successful roll out of the program.
- **How does the State Address Housing Affordability?** While the cost of housing continues to rise, a future funding source for housing has yet to be identified. Over the past years, General fund investment for housing has been limited to one-time funding sources, and with the end of the Proposition 46 and Proposition 1C housing bonds, housing funding is vital. Last year, the Assembly proposed funding to help address the housing needs of the state. In response, the Governor introduced legislation at the May Revise to reform and reduce barriers to affordable housing construction because the solution to housing was not just funding, it was reform. At the May Revise, the funding and reforms were linked and ultimately resulted in no policy changes nor funding for affordable housing. This year, the Governor outlined principles to continue the discussion on housing and various members have introduced key legislation to move the conversation forward. The Assembly may wish to continue to discuss how key policy changes and funding will work together to provide relief in California's housing market. Additionally, the Assembly may consider ways to engage locals in order to partner for statewide solutions.
- **Serving Those Who Have Served.** The Legislature has made many efforts to improve service delivery for the nearly 2 million veterans living in California including providing additional resources in order to link veterans to federal benefits and to improve the facilities and care at the state's veterans' homes. However, this vulnerable population still experiences gaps in service and unmet needs. The Assembly may wish to identify other areas of improvement for the state's veterans and ensure that progress that has been made is not lost.

Governor's January Budget Proposal in General Government

- **Housing.** The Governor's January Budget eliminates the one-time investment of \$400 million General Fund since the "by-right" approval process was not adopted. Instead, the Governor's budget proposes principles that the Administration is committed to working with the Legislature through the policy process to develop including:
 - **Streamlining Housing Construction.** Reduce local barriers to limit delays and duplicative reviews, maximize the impact of all public investments, and temper rents through housing supply increases.
 - **Lower Per-Unit Costs.** Reduce permit and construction policies that drive up unit costs.
 - **Productive Incentives.** Those jurisdictions that meet or exceed housing goals, including affordable housing, should be rewarded with funding or other regulatory benefits. Those jurisdictions that do not build enough to increase production should be encouraged by tying housing construction to other infrastructure-related investments.
 - **Accountability and Enforcement.** Compliance with existing laws, such as the housing element, should be strengthened.
 - **No Impact to the General Fund.** No new costs, or cost pressures, can be added to the state's General Fund, if new funding commitments are to be considered. Any permanent source of funding should be connected to these other reforms.
- **Cannabis Regulation.** The Governor's budget discusses the need for one regulatory structure of cannabis to deal with the regulation of both the medical and recreational cannabis. The Governor's budget includes \$52.2 million for the regulation of cannabis in 2017-18 to fund regulatory activities, processing of licenses, and enforcement. The General Fund will provide loans to the Marijuana Control Fund to cover the initial costs of implementation and regulatory costs for cannabis-related activities, since fees will not be collected until January 1, 2018. The Governor's budget includes the following proposals:
 - **Department of Consumer Services.** \$22.5 million to enhance the Bureau of Medical Cannabis Regulation within the Department of Consumer Affairs (DCA). The Bureau will regulate the transportation, storage, distribution, and sale of cannabis within the state and will be responsible for licensing, investigation, enforcement, and coordination with local governments.
 - **Department of Public Health.** \$1 million for the licensing and regulation of medical cannabis product manufacturers.
 - **Department of Food and Agriculture.** \$23.4 million to provide Cannabis Cultivation Program administrative oversight, promulgate regulations, issue cannabis cultivation licenses, and perform an Environmental Impact Report. In addition, this department will play a role in the development of a track and trace program.

- **Board of Equalization.** \$5.3 million in 2017-18 to notify businesses of the new tax requirements and update its information technology systems to register businesses and process tax returns from retail sales.
- **Department of Health Care Services.** \$5 million in 2016-17 for public information program specified in Proposition 64. The program, to be established and implemented no later than September 1, 2017.
- **Civil Service Improvement.** The Governor's budget continues to discuss strategies to improve the state's civil service system to enable state departments to quickly recruit, hire, train, and develop employees. The Governor's budget includes \$2.8 million in reimbursement authority for the Department of Human Resources to expand the capacity of the statewide training center. Additionally, the budget includes trailer bill language to further ongoing class consolidations efforts, which will increase promotional opportunities for employees, with probation periods remaining in place.
- **Five-Year Infrastructure Plan.** The 2017 Five-Year Infrastructure Plan reflects the Governor's proposal for investing \$43 billion in state infrastructure over the next five years. The Governor's budget notes that similar to last year, there is less General Fund available for investment in infrastructure due to a decline in General Fund revenues. The Governor's budget also eliminates a transfer of \$300 million from the General Fund for the State Office Infrastructure Fund, which includes the State Capitol Building.
- **California's Veterans.** The Governor's budget reduces support for the California Department of Veterans Affairs, Veterans Services Division, by \$1.7 million General Fund. The 2016 Budget Act added this \$1.7 million in order to fund 16 existing, but unfunded positions, and reclassify four positions that assist in processing claims for federal veterans benefits and increase oversight of county veterans service officers.

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

The Governor's budget includes \$644.4 million for the Department of Housing and Community Development (HCD) in 2017-18, a decrease of \$295.9 million or 31.5 percent decrease from the current year. HCD is funded from General Fund, Special Funds, and Reimbursements. The California Housing Finance Agency's (CalHFA's) is included for budgetary purposes within HCD's budget, and reports to the Business, Consumer Services and Housing Agency.

Major Provisions

- **Funding for Affordable Housing.** The 2016 Budget Act set aside \$400 million General Fund for affordable housing programs, contingent upon the passage of a "by-right" approval process for affordable housing. According to the Governor's January budget, "as the "by-right" proposal was not passed, the \$400 million is no longer available for housing programs."

- **Veterans Housing and Homelessness Prevention Program.** The 2016 Budget Act made available \$10 million for the construction or rehabilitation of transitional housing or shelter facilities that provides services for homeless veterans. These funds are being reappropriated to extend the timeframe for award through June 30, 2018.

Other Key Issues in HCD

- **Veterans Housing and Homelessness Prevention Program (VHHPP).** The Governor's Budget proposes to increase baseline budget for HCD of \$903,000 and six positions for VHHPP to make awards based on demand for the program, continue with loan closing workload tasks, and conduct required evaluations of program outcomes.
- **Community Development Block Grant Program (CDBG).** The 2017-18 Budget proposes \$157,000 and one position for HCD to meet the federal match requirement for California's CDBG program.
- **HCD Headquarters Lease Amendment.** The Governor's budget includes \$517,000 ongoing budget augmentation to lease additional office space at its current headquarters location.
- **National Housing Trust Fund.** The 2017-18 budget includes additional staff and budget authority in the Federal Housing Trust Fund to clarify that HCD is authorized to expend up to 10 percent of the federal award on administrative costs.
- **California Emergency Solutions Grant Program.** The Governor's budget proposes, for remaining fund balances in the Emergency Housing and Assistance Fund, be used to administer the Emergency Solutions Grant Program for a total of \$2,785,000 in other funds. The requested funding will be combined with the \$35 million General Fund appropriation from the 2016 Budget Act.
- **Proposition 1C Reappropriations.** The Governor's budget includes a reappropriation of \$22.2 million for Infill Infrastructure Grant Program, a reappropriation of \$10 million in local assistance funding for VHHPP, and a liquidation period extension for Housing Related Parks Program.
- **Legislation.** The budget includes two BCPs to implement legislation passed in 2016 including \$360,000 from the Mobilehome Manufactured Home Revolving Fund for four positions to implement AB 587, and an augmentation from the Building Standards Administration Special Revolving Fund for one position for two years to implement SB 7.

DEPARTMENT OF VETERANS AFFAIRS

The Governor's budget includes \$454.1 million (\$377.6 million General Fund) for the Department of Veterans Affairs (CalVet) in 2017-18, a decrease of \$41.9 million or 8.4 percent from the current year. All of the reduction is General Fund. CalVet is funded from General Fund, reimbursements, and special funds. Proposal staffing at CalVet totals 3,196 personnel.

California is home to 1.8 million veterans, more than any other state. 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 veterans age and require greater access to medical facilities and long-term care services.

Major Provision

- **Reduction of Funding for Veteran Services Division Support.** The Governor's budget reduces support for the California Department of Veterans Affairs, Veterans Services Division, by \$1.7 million General Fund. This action reverses last year's addition of this funding which funded 16 existing, but unfunded, positions and reclassified 4 positions that assist in processing claims for federal veterans benefits and increase oversight of county veterans service officers.

Other Issues in CalVet

- The budget includes \$6.5 million for capital outlay construction projects at Fresno (\$1.8 million) and Redding (\$1.3 million). Of the \$6.5 million, \$3.4 million is unallocated.

DEPARTMENT OF CONSUMER AFFAIRS

The Governor's budget includes \$655.4 million (non-General Fund) for the Department of Consumer Affairs (DCA) in 2017-18, an increase of 2.8 percent from the current year. DCA is funded from special funds of the various boards and bureaus. Proposed staffing for the entire department is 3,273.5 personnel.

DCA is responsible for promoting and protecting the interests of millions of California consumers by serving as the guardian and advocate for their health, safety, and economic well-being and by promoting legal and ethical standards of professional conduct. The department establishes minimum competency standards for approximately 250 classifications involving approximately three million professionals.

Major Provisions

- **Cannabis Regulation.** The Governor's budget includes two proposals for the Bureau of Medical Cannabis Regulations for a total of \$22.5 million to enhance the Bureau of Medical Cannabis Regulation within the Department of Consumer Affairs. The Bureau will regulate the transportation, storage, distribution, and sale of cannabis within the state and will be responsible for licensing, investigation, enforcement, and coordination with local governments.
- **Various Requests for Resources for the DCA Boards and Bureaus.** In addition, the Governor's budget includes nearly \$23 million from various funding sources for seven proposals as detailed in the following table. One of the key proposals includes nearly \$20 million to fund the maintenance and operations costs of BreEZe, which is DCA's information technology system that is used to support the department's mission. Another proposal funds 10 positions that would conduct periodic business process reviews of the boards and bureaus under DCA.

**Department of Consumer Affairs Requests from the Administration
(Dollars in Thousands)**

Board/ Bureau	Proposal Title	Requested Funding 2017-18	Requested Positions 2017-18	Proposed Funding 2018-19
Consumer Affairs Administration	BreEZe Maintenance and Operations	\$19,795	43	\$22,483
Consumer Affairs Administration	Organizational Change Management Process Improvement Expansion	\$1,327	10	\$1,207
Medical Board	Staff Augmentation-Enforcement	\$187	2	\$161
Optometry	Occupational Analysis	\$86	0	\$0
Optometry	Registered Dispensing Optician Augmentation	\$86	0	\$86
Psychology	Temporary to Permanent Staff	\$230	2	\$230
Registered Nursing	Licensing Program Staff	\$1,270	16	\$1,142
Total		\$22,981	73	\$25,309

Other Key Issues in the Department of Consumer Affairs

- **Various Requests Related to the Implementation of Recently Passed Legislation.**
The Governor's budget includes within DCA 11 proposals for resources related to the implementation of legislation. The requested increased funding and positions are detailed in the following table.

Department of Consumer Affairs Requests Related to Legislation
(Dollars in Thousands)

Board/ Bureau	Proposal Title	Requested Funding 2017-18	Requested Positions 2017-18	Proposed Funding 2018-19
Consumer Affairs Administration	AB 2105 "Earn and Learn" Training Programs	\$114	1.0	\$106
Contractors State License Board	SB 465 Referral Workload	\$510	2.0	\$494
Dental Board	AB 2235 Reporting Requirements	\$113	1.0	\$105
Dental Board	AB 2331 Exam Analysis and Review	\$112	0.0	\$0
Medical Board	SB 1177 Physician and Surgeon Health and Wellness Program	\$114	1.0	\$106
Pharmacy	SB 1193 Outsourcing Facilities and Automated Delivery Systems	\$481	3.5	\$449
Pharmacy	SB 952 Pharmacy Technician Occupational Analysis	\$154	0.0	\$0
Private Postsecondary Education	SB 1192 Continued Oversight	\$2,008	10.0	\$1,178
Real Estate	AB 2330 Enforcement and Licensing Staff	\$79	1.0	\$412
Registered Nursing	SB 466 Military Education and Experience	\$389	3.0	\$365
Security and Investigative Services	SB 1196 Bureau Firearms Permit	\$172	3.0	\$215
Total		\$4,246	25.5	\$3,430

GOVERNMENT OPERATIONS AGENCY

The Governor's budget includes \$3.5 million for the Government Operations Agency (GovOps), in 2017-18, a decrease of \$180,000 or 5.3 percent from the current year. GovOps funding sources include the General Fund and reimbursements.

GovOps is responsible for coordinating state operations, including procurement, information technology, and human resources. The mission is to improve management and accountability of government programs, increase efficiency, and promote better and more coordinated operations decisions.

Key Issue for GovOps

- **Data-Driven Management Initiative.** The Governor's budget includes \$160,000 reimbursement authority in 2017-18 and 2018-19, and one position to develop and implement a Data-Driven Management Initiative.

DEPARTMENT OF HUMAN RESOURCES

The Governor's budget includes \$103.2 million for the Department of Human Resources (CalHR) in 2017-18, an increase of \$2.1 million or 2.1 percent from the current year. CalHR's funding sources include the General Fund, reimbursements, and special funds.

CalHR is responsible for managing the state's personnel functions and represents the Governor as the "employer" in all matters concerning state employer-employee relations. CalHR is responsible for issues related to recruitment, selection, salaries, benefits, and position classification, as well as provides training and consultation services to state departments and local agencies.

Major Provisions

- **Statewide Training Center.** The Governor's budget includes \$2.8 million in reimbursement authority and three positions to continue expanding the Statewide Training Center to accommodate increasing enrollment.
- **Employee Outreach.** The 2017-18 budget requests \$135,000 in reimbursement authority for 2017-18 and ongoing, to continue implementing a Statewide Employee Engagement Survey program that began in 2015.
- **Dependent Re-Verification Process.** The Governor's budget includes one position and \$175,000 in reimbursement authority for 2017-18, \$118,000 and in 2018-19, and ongoing, to perform the new workload to develop, implement and administer the dependent re-verification process.

Other Key Issue for CalHR

- **Blanket Position Conversion for CalCareer Services.** The Governor's budget proposes converting three positions from limited-term to permanent to address recruitment and retention issues within the CalCareer Services Unit.

CALIFORNIA STATE TEACHER'S RETIREMENT SYSTEM

The Governor's budget includes \$15.1 billion for the State Teacher's Retirement System (CalSTRS) in 2017-18, an increase of \$1.1 billion or 7.7 percent from the current year. CalSTRS is funded through the Teachers Retirement Fund and other special funds.

CalSTRS administers a defined benefit plan, two defined contribution plans, a post-employment benefit plan, and a fund used to account for ancillary activities associated with various deferred compensation plans and programs. CalSTRS provides pension benefits, including disability and survivor benefits, to California fulltime and part-time public school teachers from pre-kindergarten through community college and certain other employees of the public school system.

Key Issues for CalSTRS

- **Risk, Compliance and Security Enhancement.** The Governor's budget includes \$1.39 million to establish 11 positions to address an increasing need in enterprise wide risk management, security, and compliance.
- **Investments Portfolio Complexity.** The Governor's budget includes \$3.23 million for 16 positions to reduce risk and increase efficiencies in the management of the investment portfolio.
- **Member Service Center Resources.** The Governor's budget includes \$1.3 million and positions to support the Member Service Centers and functions within the Retirement Readiness Division.

PUBLIC EMPLOYMENT RELATIONS BOARD

The Governor's budget includes \$10.5 million for the Public Employment Relations Board (PERB) in 2017-18, a slight decrease of \$67,000 from the current year. PERB is funded through the General Fund and reimbursements. The Board administers and enforces California public sector collective bargaining laws in an expert, fair, and consistent manner; promotes improved public sector employer-employee relations; and provides a timely and cost effective method through which employers, employee organizations, and employees can resolve their labor relations disputes.

Key Issue for PERB

- **Provisional Language in the 2016 Budget Act.** Under the 2016 Budget Act, PERB is required to report to the Legislature and the LAO on its workload and resources. There is no BCP related to the PERB workload in the Governor's January budget.

CALIFORNIA SECURE CHOICE RETIREMENT SAVINGS INVESTMENT BOARD

The Governor's budget includes \$15 million for the California Secure Choice Retirement Savings Investment Board, an increase of \$12.9 million or 614 percent increase from the current year. The Board is funded through the Secure Choice Retirement Savings Program.

Major Provision

- **Implementation of the California Secure Choice Retirement Savings Program.** The Governor's budget includes a loan of \$15 million from the General Fund in 2017-18 for the program's startup and administrative costs.

FAIR POLITICAL PRACTICES COMMISSION

The Governor's budget proposes total spending of \$11.8 million (\$11.0 million General Fund) for the Fair Political Practices Commission (FPPC), a decrease of 3.4 percent from the current year. The Commission is funded from General Fund and reimbursements. Proposed staffing for FPPC totals 66 personnel.

The FPPC is an independent nonpartisan agency that has primary responsibility for the impartial administration, implementation, and enforcement of the Political Reform Act of 1974.

Key Issue

- **Cal-ACCESS Replacement Project.** The Governor's budget includes \$145,000 General Fund in 2017-18 and \$139,000 General Fund ongoing to assist the Secretary of State (SOS) in implementing the provisions of SB 1349 (Hertzberg, Chapter 845, Statutes of 2016) to replace the current California Automated Lobbying and Campaign Contributions and Expenditure Search System (Cal-ACCESS). SB 1349 mandates that SOS, in consultation with FPPC, develop and certify for public use an online filing and disclosure system for campaign statements and reports that provides public disclosure of campaign finance and lobbying information in a user-friendly way.

SECRETARY OF STATE

The Governor's budget proposes total spending of \$101.2 million (\$36.5 million General Fund) for the Secretary of State's Office (SOS), a reduction of \$53.7 million, or 34.7 percent from the current year. The SOS is funded from General Fund, reimbursements, and special funds. Proposed staff at SOS totals 571 personnel.

The SOS, a constitutionally established office, is the chief elections officer for 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, SOS is responsible for commissioning notaries public and enforcing related laws, and in conjunction with being the home of the State Archives, SOS preserves documents and records of historical significance.

Major Provisions

- **Cal-ACCESS Replacement Project.** The Governor's budget includes a one-time augmentation of \$5.5 million General Fund and two positions for fiscal year 2017-18 to implement the provisions of SB 1349 (Hertzberg, Chapter 845, Statutes of 2016) and replace Cal-ACCESS. As noted earlier, SOS will work with FPPC on the replacement. SOS anticipates that the requested positions will be needed for the duration of the project and will be included in future requests.
- **Help America Vote Act-VoteCal.** The Governor's budget includes \$7.1 million in spending authority from the Federal Trust Fund to cover the second year of maintenance and operations of the VoteCal system.
- **Help America Vote Act Spending Plan.** The Governor's budget provides \$4.1 million in spending authority from the Federal Trust Fund to continue implementation of the statewide mandates of the Help America Vote Act (HAVA) of 2002.
- **California Business Connect Project.** The Governor's budget provides \$2.1 million from the Business Program Modernization Fund to continue implementation of the California Business Connect project. In addition, \$320,000 is requested for temporary help and to backfill positions redirected to this project.

Other Key Issues in the Secretary of State

- **Information Technology and Management Services Staffing Increases.** The Governor's budget includes \$943,000 (\$165,000 General Fund) for three permanent positions and software licensing costs associated with the Microsoft Enterprise Agreement. The licensing costs are \$650,000 of the total funding provided.

DEPARTMENT OF GENERAL SERVICES

The Governor's budget includes \$1.05 billion for the Department of General Services (DGS), a decrease of \$5.6 million or less than 1 percent from the current year. DGS is funded through the General Fund and special funds.

Major Provisions

- **State Office Infrastructure Fund.** The Governor's budget proposes to eliminate the \$300 million General Fund transfer to the State Office Infrastructure Fund per the 2016 Budget Act.
- **Consolidation with the California Commission on Disability Access.** The Governor's budget includes \$650,000 General Fund and five positions to support the transfer of the Commission's disability access compliance functions to DGS.

Other Key Issues for DGS

- **Legislation.** The Governor's budget proposes implementing two legislative proposals including an augmentation of \$208,000 for one position to implement SB 465 (Chapter 372, Statutes of 2016). SB 465 requires the California Building Standards Commission (CBSC) to submit a report to the Legislature by January 1, 2018, containing the findings and recommendations for statutory changes to the California Building Code; and a permanent augmentation in expenditure authority of \$208,000 and one position to address workload from AB 2515 (Chapter 576, Statutes of 2016). AB 2515 requires the CBSC staff to continuously monitor activities associated with the Model Water-Efficient Landscaping Ordinance (MWELO) and assist the Department of Water Resources in coordinating a standardized MWELO revision process with the triennial code adoption cycle.
- **Fairview Development Center (FDC).** The Governor's budget requests one-time Property Acquisition Law Money Account expenditure authority augmentation and commensurate General Fund loan of \$2.169 million to contract for the services of external consultants to identify alternative reuses of the FDC campus.
- **Mercury Cleaners Site Monitoring.** The Governor's budget includes \$580,000 to continue to monitor/remediate efforts at the former Mercury Cleaners site.
- **Building Standards Workload Increases.** The 2017-18 budget proposes a permanent augmentation of \$154,000 and one position in 2017-18; and an additional \$145,000 in 2018-19, for one position to continue to meet legislative mandates (AB 32, 2006; AB 341, 2013; AB 1092, 2013; SB 401, 2013; and AB 2282, 2014).
- **Office of Legal Services Workload Increases.** The Governor's budget includes \$451,000 and two positions in 2017-2018, to meet growing demands of legal areas such as green technology and procurement processes, and implement Governor's Five-Year Infrastructure Plan.

- **Electric Vehicle Service Equipment Infrastructure Assessment and Facility Development.** The 2017-18 budget proposes \$6.7 million (\$3.3 million General Fund) and three positions to begin the installation of Electric Vehicle Service Equipment in state facilities.
- **Sacramento Region: State Printing Plant Demolition.** The Governor's budget proposes \$909,000 for the preliminary plans phase of the State Printing Plant Demolition project.
- **City of Fortuna: Residential Center.** The 2017-18 budget includes a request to exercise the lease purchase option to acquire the building currently occupied by the California Conservation Corps Fortuna Residential Center.

COMMISSION ON STATE MANDATES

The Governor's budget includes \$39.1 million for the Commission on State Mandates (COSM) in 2017-18, a decrease of \$11.6 million or a 22.8 percent decrease from the current year. The COSM is funded through the General Fund and special funds.

Major Provisions

- **Election Mandates.** The 2015 Budget Act included trailer bill language for the Department of Finance to conduct a survey of county election officials during years in which statewide general election are held, to determine whether or not counties are carrying out the requirements set forth in election mandates that have been suspended. The first report, since this language became law, is due to the Legislature by April 1, 2017.

The budget continues to fund mandates that are related primarily to law enforcement and property taxes consistent with past years. Additionally, the budget proposes a new mandate to be funded, the Sheriffs Court Security.

Proposed to be Funded	2016 Budget Act (\$ in 000s)	2017-18 Proposed Budget Bill (\$ in 000s)
Accounting for Local Revenue Realignment	97	97
Allocation of Property Tax Revenues	611	570
California Public Records Act	7,578	0
Crime Victims' Domestic Violence Incident Reports	166	164
Custody of Minors-Child Abduction and Recovery	13,328	12,555
Domestic Violence Arrest Policies	8,494	7,756
Domestic Violence Arrests and Victims Assistance	2,725	1,896
Domestic Violence Treatment Services	2,019	2,379
Health Benefits for Survivors of Peace Officers and Firefighters	2,943	2,413
Local Agency Ethics	0	5
Medi-Cal Beneficiary Death Notices	26	14
Medi-Cal Eligibility of Juvenile Offenders	11	3
Peace Officer Personnel Records: Unfounded Complaints & Discovery	548	678
Rape Victim Counseling	353	444
Sexually Violent Predators	5,129	3,693
State Authorized Risk Assessment Toll for Sex Offenders	725	629
Threats Against Peace Officers	263	1
Tuberculosis Control	83	97
Unitary Countywide Tax Rates	456	313
Post-Election Manual Tally	626	0
<i>Sheriffs Court-Security*</i>		803
Total Funded Costs	\$46,181	\$34,510

DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL

The Governor's budget includes \$67.4 million for the Department of Alcoholic Beverage Control (ABC) in 2017-18, an increase of \$1.7 million, or 2.6 percent from the current year. ABC is funded through reimbursement and the Alcohol Beverages Control Fund (special fund). ABC is vested with the exclusive power to license and regulate persons and businesses engaged in the manufacture, importation, distribution, and sale of alcoholic beverages in California.

Key Issues for ABC

- **Information Technology – Information Security Office.** The Governor's budget proposes \$278,000 (special fund) in 2017-18, and \$274,000 (special fund) in 2018-19, and ongoing, to establish the Information Security Office (ISO). The establishment of the ISO will provide ABC the appropriate staffing to develop and implement security policy and practices to safeguard ABC's information assets.
- **Database Administration.** The Governor's budget includes \$129,000 (special fund) in 2017-18, \$127,000 (special fund) in 2018-19, and ongoing, for one position to improve the performance of ABC's systems, including the Alcoholic Beverage Information System, ABC's primary business application.
- **Flexible Staffing for Licensing.** The 2017-18 budget includes \$92,000 (special fund) in 2017-18, and \$88,000 (special fund) in 2018-19, and ongoing, for two part-time positions to increase the capacity and flexibility of the licensing program to meet the increasing workload associated with the licensure of businesses seeking to manufacture, distribute, and sell alcoholic beverages in the state.
- **Facilities: Rent Increases and Headquarter Expansion.** The January budget includes \$1,084,000 in 2017-18, \$1,141,000 in 2018-19, \$1,195,000 in 2019-20, (all special fund) to cover the increased rent costs due to various factors.

ALCOHOLIC BEVERAGE CONTROL APPEALS BOARD

The Governor's budget includes \$1.13 million for the Department of Alcoholic Beverage Control Appeal Board in 2017-18, a slight increase of \$109,000, or 10.7 percent from the current year. The Board is funded from the Alcoholic Beverage Control Fund (special fund). The Board provides a forum for appeal to persons who are dissatisfied with ABC's decisions to order penalties or issue, deny, condition, transfer, suspend, or revoke any alcoholic beverage license.

Key Issue for the Board

- **Contract Administrative Services.** The Governor's budget requests \$106,000 to contract with DGS for administrative services.

CALIFORNIA GAMBLING CONTROL COMMISSION

The Governor's budget includes \$103.3 million for the California Gambling Commission (Commission) in 2017-18, a slight increase of \$327,000 or less than 1 percent from the current year. The Commission is funded through special funds.

The mission of the Commission is to ensure integrity in California's gaming environment. The Commission has jurisdiction over gambling establishments (cardrooms), third-party providers of propositions player services, and certain aspects of Tribal casinos, pursuant to its authority under state law and Tribal-State Gaming Compacts. The Commission also has jurisdiction over gaming policies, regulations, criteria, and standards.

Key Issue for the Board

- **Workload Increase.** The Governor's budget proposes \$300,000 and three positions for three years to support an increase in workload associated with reviewing cardroom applications received from the Bureau of Gambling Control within the Department of Justice.

STATE CONTROLLER'S OFFICE

The Governor's budget includes \$205.1 million for the State Controller's Office (SCO) in 2017-18, an increase of 7.7 million or 3.9 percent from the current year. The SCO's funding is comprised of General Fund, special funds and reimbursements. The SCO is responsible for transparency and accountability of the state's financial resources; the Controller ensures the appropriate disbursement and tracking of taxpayer dollars.

Major Provisions

- **California State Payroll System.** The Governor's budget proposes \$3 million (\$1.7 million General Fund) one-time funding to perform business process re-engineering, document requirements, and to begin alternative analysis of a new payroll system.
- **Implementation of SCO's FI\$Cal Control Functions.** The 2017-18 budget includes \$1.5 million General Fund one-time funding for increased workload associated with SCO implementing its control functions with the Financial Information System of California (FI\$Cal).

- **Vendor Management.** The Governor's budget proposes an increase of \$1.2 million (\$674,000 General Fund) in 2017-18, \$1,149,000 (\$655,000 General Fund) in 2018-19, and \$488,000 (\$278,000 General Fund) ongoing, to support new workload associated with converting and maintain the statewide Vendor Management File used to process state payments.
- **State Government Reporting.** The January budget proposes an increase of \$1.1 million (\$617,000 General Fund) to address increasingly complex accounting and reporting standards required by the Governmental Accounting Standards Board and increased workload required to prepare the annual Budgetary/Legal Basis Annual Report and the Comprehensive Annual Financial Report.
- **Information Security.** The 2017-18 budget includes an increase of \$966,000 (\$549,000 General Fund) ongoing to strengthen the Controller's cyber security posture in compliance with statewide information security policy.

Other Key Issues for SCO

- **Unclaimed Property Securities Accounting Workload.** The Governor's budget proposes 23.1 continuing positions and \$2.955 million in 2017-18, and \$2.910 in 2018-19, and ongoing, to properly manage and maintain the security portfolio, pay security claims, and sell securities within the timeframe mandated under the Unclaimed Property Law.
- **Electronic Claims Processing.** The 2017-18 budget includes \$343,000 and three positions in 2017-18, and \$337,000 in 2018-19, and ongoing, to support an increase workload related to processing electronic claims, implementing new electronic claims, system conversions and performing post-payment surveys in conjunction with electronic claims processing.
- **California Automated Travel Expense Reimbursement System.** The Governor's budget includes expenditure authority of \$1.126 million in 2017-18 and \$0.648 for 2018-19 and 2019-20, to continue the analysis for replacing the California Automated Travel Expense Reimbursement System.
- **Proposition 47 Agency and Grant Audits.** The Governor's budget includes \$389,000 and three positions in 2017-18, and \$383,000 in 2018-19, and ongoing, to ensure funds from the Prop. 47 program are disbursed and expended correctly.
- **Local Government Oversight Initiative.** The January budget includes \$1.121 million in 2017-18 and \$1.115 in 2018-19, and ongoing, for nine positions to allow for the continued oversight of local government entities. This will be accomplished by enforcement of the financial transactions reporting (FTR) requirements of local governments; analyzing and monitoring the financial data of potentially distressed entities; and audits.

STATE TREASURER'S OFFICE

The Governor's budget includes \$39.4 million for the State Treasurer's Office (STO) in 2017-18, a decrease of about \$1 million or 2.5 percent less than the current year. STO budget is comprised of General Fund, reimbursements and special funds. STO, a constitutional office is responsible for the custody of all monies and securities belonging to or held in trust by the state; investment of temporarily idle state monies; administration of the sale of state bonds; and payment of warrants of checks drawn by the State Controller and other state agencies.

Major Provision

- **Data and Government Transparency Unit.** The budget proposes \$799,000 in reimbursement and expenditure authority to fund five positions on a permanent basis. This Unit was established on a two-year limited-term basis in July 2015 to pursue innovative online outreach strategies to increase the public's awareness of services offered by the State Treasurer's Office and its Boards, Commissions, and Authorities.

Other Key Issues for STO

- **Debt Management System (DMS) II Project BCP.** The Governor's budget includes \$5.83 million (special funds) to continue the DMS II Project. This BCP fulfills the requirement to request an annual legislative approval to continue the project.
- **Information Security Program Augmentation BCP.** The Governor's budget includes expenditure authority in the amount of \$303,000 to maintain the department's information security tools and administration to sustain adequate support of STO's continuous cyber risk management program and security defense systems.

CALIFORNIA ALTERNATIVE ENERGY AND ADVANCED TRANSPORTATION FINANCING AUTHORITY

The Governor's budget includes \$6.7 million for the California Alternative Energy and Advanced Transportation Financing Authority (CAEATFA) in 2017-18, an increase of \$701,000 or 11.7 percent over the current year. CAEATFA is funded with special funds and reimbursements. CAEATFA was established to promote the prompt and efficient development of energy sources which are renewable or which more efficiently utilize and conserve scarce energy resources. The Authority provides financing and credit enhancements to promote the establishment of facilities that use alternative methods and sources of energy and facilities needed for the development and commercialization of advanced transportation technologies.

Major Provision

- **Energy Efficient Pilot Programs.** The Governor's budget proposes an increase of \$3.7 million in 2017-18, and limited-term funding through 2019-20, to continue administering the ratepayer funded pilot programs designed to encourage private lenders to develop financial products for energy efficiency projects.

CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE

The Governor's budget includes \$8.1 million for the California Tax Credit Allocation Committee (CTCAC) in 2017-18, a slight increase of \$70,000 from the current year. CTCAC is funded through special funds and reimbursements. The mission of CTCAC is to fairly allocate federal and state tax credits to create and maintain safe quality affordable rental housing for low-income households in California by forming partnerships with developers, investors, and public entities.

Key Issue for CTCAC

- **Compliance Section Support Staff Augmentation.** The Governor's budget proposes \$107,000 from the Occupancy Compliance Monitoring Account fund for one position for compliance monitoring related workload.

CALIFORNIA DEBT AND INVESTMENT ADVISORY COMMISSION

The Governor's budget includes \$3.7 million for the California Debt and Investment Advisory Commission in 2017-18, an increase of \$339,000 or 10.2 percent from the current year. The Commission is funded through the California Debt and Investment Advisory Commission Fund and reimbursements. The mission of the Commission is to support and improve the practice of public finance in California by providing responsive and reliable information, analysis, and training. The Commission assists state and local governments to monitor, issue, and manage public debt, and safely invest public funds.

Key Issues for the Commission

- **Personal Services Augmentation.** The Governor's budget includes an increase of \$200,000 in expenditure authority to offset the growth of personal services expenditures.
- **Legislation.** The budget includes an increase of \$139,000 and one position to implement SB 1029 (Chapter 307, Statutes of 2016) that requires California debt issuers to submit annual reports to the Commission that will provide, among other things, the amount of previously reported debt outstanding and how the debt proceeds were spent during the reporting period.

DEPARTMENT OF BUSINESS OVERSIGHT

The Governor's budget includes \$91.9 million for the Department of Business Oversight (DBO) in 2017-18, an increase of \$2.89 million or 3.2 percent from the current year. DBO is funded through special funds and reimbursements. DBO oversees financial service providers, enforces laws and regulations, promotes fair and honest business practices, enhances consumer awareness, and protects consumers by preventing potential marketplace risks, fraud, and abuse.

Key Issues for the Commission

- **Broker-Dealer/Investment Adviser (BDIA) Program – Increase Number of Examinations.** The Governor's budget proposes \$1.7 million and 11 positions in 2017-18, and \$3 million and 20 positions ongoing, to enable the Broker-Dealer/Investment Adviser Program to examine Investment Advisers, Broker-Dealers, and Broker Dealer branches on a four-year cycle.
- **Student Loan Servicing Act.** The 2017-18 budget provides \$1.2 million and three positions in 2017-18, and \$819,000 and five positions in 2018-19, and ongoing to develop and start-up the Student Loan Servicing Office by AB 2251(Chapter 824, Statutes of 2016).
- **Program Consolidation.** The Governor's budget proposes to consolidate the Supervision of CA Business and Industrial Development Corporations; Industrial Banks, and Savings and Loan Programs under the Licensing and Supervision of Banks and Trust Companies Program.

CALIFORNIA SCIENCE CENTER

The Governor's budget includes \$33.7 million in 2017-18 for the California Science Center, a decrease of \$6.8 million or a 16.7 percent decrease 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. For budget purposes, these three departments are collectively known as the California Science Center. The California Science Center is funded through General Fund, Exposition Park Improvement Fund, and Reimbursements.

Key Issue for the Science Center

- **Custodial Support BCP.** The 2017-18 budget includes 13 custodial positions to clean and maintain the California Science Center and \$644,591 from the Exposition Park Improvement Fund.

LABOR AND WORKFORCE DEVELOPMENT AGENCY

The Governor's budget includes \$2.8 million in 2017-18 for the Labor and Workforce Development Agency, a slight increase over the current year. The Labor and Workforce Development Agency was established to address issues relating to California workers and their employees. 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.

Major Provision

- **Associate Secretary for Farmworker and Immigrant Services.** The Governor's budget proposes an increase of \$205,000 reimbursement authority and one position to identify and prevent abuses in the recruitment of H-2A temporary workers and to coordinate the programs within the Agency that are responsible for serving farmworkers and immigrants.

AGRICULTURAL LABOR RELATIONS BOARD

The Governor's budget includes \$9.7 million in 2017-18 for the Agricultural Labor Relations Board (ALRB), a slight decrease from the current year. ALRB is funded through the General Fund and the Labor and Workforce Development Fund. ALRB is responsible for policy that protects the associational rights of agricultural employees, conducting secret ballot elections so that farmworkers may decide whether to have union representation in collective bargaining, and investigating, prosecuting, and adjudicating unfair labor practice disputes.

Key Issue for ALRB

- **Funding for the Agricultural Labor Relations Board.** The 2017-18 budget includes \$573,000 in permanent funding for 2.5 previously approved limited-term positions to address the Board's ongoing workload.

EMPLOYMENT DEVELOPMENT DEPARTMENT

The Governor's budget includes \$14.2 billion in 2017-18 for the Employment Development Department (EDD), an increase of \$372.9 million or 2.7 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.

Major Provisions

- **Tax Appeal Program Stabilization.** The Governor's budget includes \$1.6 million (\$791,000 General Fund) and 12.5 positions for the California Unemployment Insurance Appeals Board to address a high volume of pending payroll tax appeal hearings in the Tax Appeal Program in order to stabilize the program and prevent future backlogs.
- **Benefit Systems Modernization Project.** The 2017-18 budget proposes \$4 million Employment Development Contingent Fund and Unemployment Compensation Disability Fund, and 15 positions to complete stage two of the project approval lifecycle for its Benefits Systems Modernization Project.

DEPARTMENT OF INDUSTRIAL RELATIONS

The Governor's budget includes \$643.3 million in 2017-18 for the Department of Industrial Relations (DIR), an increase of 9.4 million or 1.5 percent from the current year. DIR is funded through special funds and reimbursements, with no General Fund.

Major Provisions

- **Strategic Enforcement of Labor Standards.** The Governor's budget provides \$4.6 million Labor Enforcement and Compliance Fund and 31 positions to implement an enforcement effort to combat wage theft and other labor law violations in specified industries known to have significant non-compliance with the state's labor laws.
- **Process Safety Management Unit, Increased Non-Refinery Inspections.** The 2017-18 budget provides \$2.5 million Occupational Safety and Health Fund and 13 positions to more than double the number of safety inspections at non-refinery facilities over several years.
- **Enhanced Enforcement, Compliance and Apprenticeship Services.** The budget includes \$1.7 million from various special funds and 11 positions to implement six bills from the previous legislative session, (AB 1066, AB 1978, SB 693, SB 1001, SB 1063, and SB 1167).
- **Public Works Education and Enforcement.** The budget proposes approximately \$1 million and seven positions to enhance the overall compliance and enforcement of public works labor law.
- **Division of Apprenticeship Standards and Federal Apprenticeship Grant Funding BCP.** The budget includes \$923,000 of federal grant funds and six positions for the purpose of improving California's apprenticeship programs.

DEPARTMENT OF TECHNOLOGY

The Governor's budget includes \$327 million for the Department of Technology in 2016-17, a decrease of \$20.4 million or 5.9 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 914 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

- **Establishment of a Security Operations Center.** The Budget includes proposal to redirect nine positions internally to establish a new security operations center at the Gold River Data Center to provide a continuous operational security center to detect, prevent, and mitigate the impact of security incidents and cyber-attacks.
- **Microsoft Office 365 Enterprise Agreement.** The Budget includes an augmentation of \$17.6 million to reflect the transition of state email to the Microsoft Outlook cloud system. This augmentation also will provide the state with licenses for other Microsoft Office products.

CALIFORNIA DEPARTMENT OF INSURANCE

The Governor's budget includes \$269.6 million in 2016-17, for the Department of Insurance (CDI), a slight decrease of \$95,000 or less than 1 percent from the current year. CDI is special funds such as Insurance Fund, federal funds, and reimbursements, with \$6.4 million General Fund.

Key Issues in CDI

- **Implementation of AB 72 (Bonta) Out-of-Network Charges.** The budget proposes an increase in special fund authority of \$751,000 in 2017-18, and \$730,000 ongoing, to comply with Assembly Bill 72 (Bonta, Chapter 492, Statutes of 2016). AB 72 prevents out-of-network health care providers from balancing billing for services provided and in-network health facility.
- **Voice-Over Internet Protocol phone system replacement.** The Governor's budget includes an increase in special fund expenditure authority of \$1.3 in 2017-18, and \$140,000 in 2018-19, and ongoing, for hardware, software, and maintenance for a replacement of the obsolete existing VOIP system.
- **Life Insurance Actuary Models.** The budget requests a special fund expenditure authority of \$586,000 in 2017-18, and \$570,000 ongoing to support two additional

positions to evaluate life insurance actuary models that are used to determine life insurance policy rates.

- **Increased Automobile Insurance Workload.** The budget requests special fund expenditure authority increase in 2017-18 of \$2.1 million over a four-year period to support and increase in driver's license insurance consumer services workload associated with the implementation of the AB 60 Driver's License law.
- **CDI Modernization Project –Year 4.** The Governor's budget includes a one-time increase of expenditure authority in 2017-18 of \$2,061,000 to support four positions and two temporary help authority to complete Year 4 implementation of a five-year project to replace its legacy CDI Menu and Integrated Database. This project has been approved in 2014.
- **Sacramento Headquarters Expansion.** The budget includes \$341,000 in 2017-18, and \$489,000 in 2018-19, to lease additional space at 300 Capitol Mall to create a public counter and increase hearing, training, and meeting space.
- **Worker's Compensation Fraud Prevention Program.** The budget includes \$3.4 million for 10 positions and \$1.7 million in local assistance (for local District Attorney's) to fund worker's compensation fraud investigations, pursuant to the recommendations of the Governor-appointed Fraud Assessment Commission. In 2016-17, the Department of Insurance is budgeted to have \$73.8 million and 323.3 positions in the Fraud Division with \$35.1 million allocated to county district attorneys.
- **Implementing AB 1899, Spanish Language Insurance Examinations.** The budget includes an increase in special fund expenditure authority of \$49,000 in 2017-18, and \$16,000 in 2018-19, and ongoing until 2023-24, to address additional workload created by the passage of AB 1899 (Calderon, 2016). The bill requires the Department of Insurance to provide four insurance licensing exams in Spanish.

Fi\$CAL

The Financial Information System for California (Fi\$Cal) is the state's centralized accounting systems that is currently under development. The Governor's budget includes \$130.7 million (\$86.1 million General Fund) a 10.3 percent reduction. This reduction reflects the elongated implementation timeline for the project adopted in 2016, which will allow implementation to continue until 2019.

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 (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

The Governor's budget includes recurring themes under State Administration including resources for veterans, moving projects forward funded by the State Office Infrastructure Fund, additional civil service reforms, and ensuring adequate resources for pension liabilities. The Governor's budget moves the policy discussion on housing from the budget process to the policy arena and lays out the resources through the budget process needed to implement cannabis regulation.

- **Cannabis Regulation.** The Governor's budget proposes one regulatory structure of cannabis activities across the state. The Governor's budget states that implementing the current medical and recreational cannabis statutes separately will result in duplicative costs, and lead to confusion among licensees and regulatory agencies, that could undermine enforcement. The implementation of the cannabis regulation will face various challenges this year. The biggest challenge is an expedited time frame for the Legislature to act to meet the mandated deadline of January 1, 2018. The Assembly may wish to engage with the Administration and stakeholders early in the process in order to avoid the last minute efforts that delayed the process last year.
- **How Should the Assembly Address Housing Affordability?** The Governor's budget moves away from the 2016-17 budget agreement to set aside funding for affordable housing. Additionally, the Governor's budget replaces a 'by-right' proposal with a set of principles to guide the Legislature through the policy process, while highlighting legislative measures that were enacted last year. The principles set out by the Governor is a step in the right direction, since in prior years, the Governor's budget

was silent on housing. Similar to previous years, the Assembly will have to determine the best way to increase the housing stock in California and discuss an ongoing funding source. The Assembly may wish to consider methods to bring local governments, housing advocates, developers and others to the table to reach consensus on a common goal to increase housing stock. The benefits of this common goal will help all Californians by producing more housing, which in turn will reduce rents costs and allow more flexibility in income that can be reinvested into the economy.

- **Improving the Quality of Veterans' Homes.** The mission of the Homes Division at CalVet is to ensure quality care to our aged, homeless, and disabled veterans in a home environment that fosters dignity for our nation's heroes. A recent report by the Legislative Analyst's Office found that (1) the longest wait-lists at the homes are for the highest levels of long-term care and (2) the homes have limited capacity to serve veterans with complex mental and behavioral health needs. The Governor's budget does not include any additional funding to address deficiencies in the services and facilities in the veterans homes. Funding is considered in the Governor's Infrastructure Plan for a new nursing facility at Yountville beginning in 2018-19. The Assembly should take steps to ensure that our veterans receive quality services in well-maintained state veterans' homes. These steps could include examining the most cost-effective way to deliver quality care, restructuring the levels of care at each home, and ensuring adequate staffing ratios for residents.
- **Connecting Veterans to Their Federal Benefits.** Last year the Legislature approved \$1.7 million General Fund to increase support in district offices to ensure that veterans and their families receive their federal benefits in a timely manner and to increase oversight of the county veterans service officers. The Administration proposes to eliminate this support. The Assembly should restore this funding, as well as, identify other ways to ensure the state's veterans receive their federal benefits.



REVENUES

According to the Governor's Budget Summary, California economy and revenues are expected to continue to grow, although slower than what was forecast in the 2016 Budget Act. The Administration's budget forecasts total General Fund revenue of \$119 billion in 2016-17, a decrease of 1.3 percent from the 2016 Budget Act; and \$124 billion in 2017-18, a decrease of 2.2 percent from the 2016 Budget Act. The budget projects an overall revenue decrease of \$5.8 billion below the 2016 Budget Act before transfers to the Rainy Day fund. The projected decrease since the 2016 Budget Act is due to lower forecast in all three major revenue sources.

Major Issues in Revenues

- **Federal Uncertainty.** The state budget relies on the continuation of federal funding in many areas. With the change in the Administration and Congress, there are many programs that are vulnerable to federal action including Medicaid, health care, immigration policy, and the federal tax structure. These changes could have a huge impact on the state budget. However, it is unclear, at this time, how or when these changes will be implemented.
- **Oversight.** Last year, the Assembly concentrated on department oversight, specifically on the high rates of vacant positions at the Board of Equalization. This oversight shed light onto the BOE's budget and pushed the Department of Finance to conduct an audit, which is due on March 31, 2017. The Assembly may wish to continue this oversight into the BOE budget but extend to other departments as well.

Governor's January Budget Proposal in Revenue

Rainy Day Fund

- By the end of 2017-18, the state's Rainy Day Fund will have a total balance of \$7.9 billion (63 percent of the constitutional target). Proposition 2 establishes a constitutional goal of having 10 percent of tax revenues in the Rainy Day Fund.

Personal Income Tax

- The personal income tax (PIT) is the state's largest single revenue source and is expected to generate \$79 billion in \$85.9 billion in 2017-18. The budget estimates that PIT revenues will decrease in 2016-17 by 0.3 percent, from \$83.4 billion to \$83.1 billion from what was assumed in the 2016 Budget Act. Additionally, the budget forecasts that PIT revenues will decrease in 2017-18 to \$85.9 billion, 1 percent lower than what was assumed in the 2016 Budget Act.

- The PIT figures reflect reductions of \$200 million in 2015-16, \$240 million in 2016-17, and \$264 million in 2017-18 for the state's earned income tax credit.
- Proposition 55 (November 2016) extended the three additional tax brackets through tax year 2030 that were created by Proposition 30 (November 2012). These tax brackets for families with rates of 10.3 percent for taxable income above \$500,000, 11.3 percent for taxable income above \$600,000, and 12.3 percent for taxable income above \$1,000,000.

Sales and Use Tax

- The sales and use tax (sales tax) is generally applied to the sale of merchandise, including vehicles, in the state. Sales tax revenues are forecast by relating taxable sales to consumption of goods and business investment. The budget projects sales tax revenues will decrease in 2016-17 by 2.9 percent, from \$25.7 billion to \$25 billion from what was assumed in the 2016 Budget Act. Additionally, the budget estimates SUT revenues will decrease in 2017-18, from \$26.2 billion to \$25.2 billion, 3.9 percent lower than what was assumed in the 2016 Budget Act.

Corporation Tax

- The Corporation tax is estimated to contribute 8.8 percent of all General Fund revenues and transfers in 2017-18. The budget estimates that Corporation Tax revenues will decrease by 5.5 to \$10.4 billion from the 2016 Budget Act. The budget projects that Corporation tax will decrease by 5.8 percent to \$10.9 billion in 2017-18 from the 2016 Budget Act.

BOARD OF EQUALIZATION

The Governor's budget includes \$668.4 million for the State Board of Equalization (BOE) in 2017-18, an increase of \$21.1 million or 3.3 percent from current year. The BOE is funded from General Fund, special funds and reimbursements.

The BOE administers various tax and fee programs, including the Sales and Use tax; adopts rules and regulations to clarify tax laws; acts as an appellate body for the review of property, business and income tax assessments; assesses and allocates the property values of railroads and specified utilities; and oversees the property tax assessment practices of all 58 county assessors.

Major Provisions

- **Audits.** The 2016 Budget Act called for a number of audits to be conducted on the BOE during the fall of 2016. Results of those audits are due to the Legislature by the end of March and beginning of April. The audits will be reviewed by the subcommittee during the annual review of BOE's budget.

- **Centralized Revenue Opportunity System (CROS) Project Implementation Phase.** The Governor's budget provides \$30 million (\$17.2 million General Fund) and 65.4 positions for the implementation phase of the CROS project. The Board approved an \$85.2 million contract with Fast Enterprises on August 30, 2016, to complete the project.
- **Implementation of the California Healthcare, Research, and Prevention Tobacco Tax Act of 2016 (Proposition 56).** The Budget provides \$6.9 million and 40.9 positions to implement and enforce a \$2 per pack increase in the excise tax on cigarettes and electronic cigarettes.
- **Implementation of the Control, Regulate, and Tax Adult Use of Marijuana Act (Proposition 64).** The Governor's budget provides \$1.1 million and 1.9 positions in 2016-17 and \$5.4 million and 22 positions in 2017-18 to implement and administer two new taxes on marijuana: a cultivation tax and a 15 percent excise tax on the price of medical and recreational marijuana.
- **Lead-Acid Battery Fee Program Administration.** The 2017-18 budget provides \$1.2 million and 3.1 positions in 2016-17 and \$837,000 and 6.3 positions in 2017-18 to implement and administer a new fee on consumers and manufacturers of lead-acid batteries beginning April 1, 2017.

FRANCHISE TAX BOARD

The Governor's budget includes \$745.2 million for the Franchise Tax Board (FTB) in 2017-18, a decrease of \$19.9 million or 2.6 percent from the current year. The main funding source of FTB's budget is General Fund, \$712.8 million with the remaining budget coming from special funds.

FTB is responsible for collecting personal income tax and corporation tax revenue; operating various collection programs, and conducting field audits for the Fair Political Practices Commission.

Major Provisions

- **California Competes Tax Credit Reviews.** The Governor's budget provides \$1.7 million General Fund and 14 positions to continue conducting statutorily-mandated reviews of the California Competes Tax Credit agreements.
- **Court Ordered Debt Collection Workload.** The 2017-18 budget proposes \$1.1 million (special fund) and 11 positions to eliminate a backlog of accounts and address a growing number of clients for which FTB provides collection services.

GOVERNOR'S OFFICE OF BUSINESS AND ECONOMIC DEVELOPMENT

The Governor's budget includes \$26.5 million for the Governor's Office of Business and Economic Development (GO-Biz) in 2017-18, a slight decrease of about \$330,000 or 1.2 percent from the current year. Go-Biz is funded from the General Fund, special funds and reimbursements.

GO-Biz provides a single point of contact for economic development, business assistance and job creation efforts. GO-Biz works with companies and organizations across the nation to market the benefits of doing business in California, recruit new businesses, retain businesses, and support private sector job growth.

Major Provisions

- **Sustainable Freight Project Manager BCP.** The Governor's budget proposes funding for an exempt position and ongoing budget authority of \$227,000 (SF) to provide resources to allow GO-Biz to meet the requirements of the Sustainable Freight Action Plan.
- **California Competes Tax Credit Program BCP.** The Governor's budget includes \$1.2 million in 2017-18 thru 2019-20, to make permanent 10 existing limited-term positions, which are scheduled to expire June 30, 2017.

Staff Comment and Analysis of Governor's Budget Proposal

This Governor's January budget discusses slower growth, but an outlook that still shows California's economy and revenues growing. The May Revise will provide a better understanding of the growth in the economy, and will provide some time to understand any changes that are happening at the federal level. The Assembly may wish to consider continuing to push forward California's agenda to provide stability for its residents, while understanding that the State may need to be flexible and reprioritize priorities to respond to federal actions.



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 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.

Recent History and Background

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), Proposition 47 (The Safe Neighborhoods and Schools Act), and Proposition 57 (Parole for Non-Violent Offenders and Juvenile Court Trial Requirements).

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.

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 (SNSF) occurred in August of 2016.

The Department of Finance currently estimates net savings of \$42.9 million when comparing 2016-17 to 2013-14, an increase of \$3.5 million over the estimated savings in 2015-16. 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. In calculating state savings attributable to Proposition 47, the state considers the average length of stay of

offenders that are no longer prison-eligible. Consequently, in future years, Proposition 57 will reduce the estimated length of stay for offenders that would have, absent Proposition 47, otherwise been sentenced to prison. Ongoing savings are currently estimated to be approximately \$69 million.

It is worth noting that the Legislative Analyst's Office assumed that Prop. 47 savings would be approximately \$150 million annually, a large discrepancy from the Administration's assumptions in the January Budget. This discrepancy, the LAO says, is likely because the Administration underestimates the savings and overestimates the costs resulting from Prop. 47. Moreover, the LAO finds that the deposit into the SNSF could be around \$100 million higher than the Administration's estimate.

Proposition 57 (Parole for Non-Violent Criminals and Juvenile Court Trial Requirements). Proposition 57, passed by voters in November 2016 and sponsored by the Governor, will help California maintain compliance with the court-ordered population cap, end federal court oversight, and establish more incentives for inmates to participate in rehabilitative programs. Proposition 57 reforms the juvenile and adult criminal justice system in California by creating a parole consideration process for non-violent offenders who have served the full term for their primary criminal offense in state prison, authorizing the California Department of Corrections and Rehabilitation to award credits earned for good behavior and approved rehabilitative or educational achievements, and requiring judges to determine whether juveniles charged with certain crimes should be tried in juvenile or adult court.

Parole Consideration for Nonviolent Offenders. Proposition 57 changes the State Constitution to make individuals who are convicted of “nonviolent felony” offenses eligible for parole consideration after serving the full prison term for their primary offense. As a result, the Board of Parole Hearings would decide whether to release these individuals before they have served any additional time related to other crimes or sentencing enhancements.

Prop. 57 also requires California Department of Corrections and Rehabilitation (CDCR) to adopt regulations to implement these changes. Although the initiative and current law do not specify which felony crimes are defined as nonviolent, the Legislative Analyst's Office (LAO) assumes a nonviolent felony offense would include any felony offense that is not specifically defined in statute as violent. As of September 2015, there were about 30,000 individuals in state prison who would be affected by the parole consideration provisions of the measure. In addition, about 7,500 of the individuals admitted to state prison each year would be eligible for parole consideration under the measure. Individuals who would be affected by the above changes currently serve about two years in prison before being considered for parole and/or released. Under Prop 57, the LAO estimates that these individuals would serve around one and one-half years in prison before being considered for parole and/or released.

Authority to Award Credits. Proposition 57 also changes the State Constitution to give CDCR the authority to award credits to inmates for good behavior and approved rehabilitative or educational achievements. The Department intends to promulgate regulations to not only continue court-ordered credit increases, but increase earning potential and provide more equality in the credit nature. At this time, it is expected that regulations will:

- Increase and standardize good-time credit earnings, which are earned when an inmate avoids violating prison rules.
- Allow all inmates, with the exception of life- term inmates without the possibility of parole and condemned inmates, to earn milestone credits. Milestone credits are earned when an inmate completes a specific education or training program that has attendance and performance requirements.
- Increase the amount of time an inmate can earn for milestone completion credits from 6 weeks per year to 12 weeks.
- Create new, enhanced milestone credits for one-time significant earned academic and vocational achievements, such as the earning of Associate of Arts and Bachelor's degrees, high school diplomas, the Offender Mentor Certification Program, and Career Technical Education certifications. Enhanced milestone credits will be applied retrospectively for those credits earned during the inmate's current term.
- Establish new achievement credits for inmates that have sustained participation in other rehabilitative programs and activities. Inmates will be able to earn up to four weeks of achievement credits in a 12-month period.

Credits earned by life-term inmates will be credited towards their Minimum Eligible Parole Date. Additionally, consistent with current practices, all credit earning will be revocable based on behavior-based violations

Juvenile Transfer Hearings. Prop. 57 changes state law to require that, before juvenile offenders can be transferred to adult court, they must have a hearing in juvenile court to determine whether they should be transferred. As a result, the only way a youth could be tried in adult court is if the juvenile court judge in the hearing decides to transfer the youth to adult court. Juvenile offenders accused of committing certain severe crimes would no longer automatically be tried in adult court and no youth could be tried in adult court based only on the decision of a prosecutor. In addition, the measure specifies that prosecutors can only seek transfer hearings for youths accused of (1) committing certain significant crimes listed in state law (such as murder, robbery, and certain sex offenses) when they were age 14 or 15 or (2) committing a felony when they were 16 or 17. As a result of these provisions, there would be fewer juvenile offenders tried in adult court.

Major Issues in Public Safety

- **Impacts of Proposition 57.** Proposition 57 is the state's most recent attempt at reforming the criminal justice system. At its core, Prop. 57 aims to reduce the prison overcrowding and establish more incentives for inmates to participate in rehabilitative programs. Prop. 57 also focuses on evidence-based rehabilitation for juvenile offenders and gives discretion to a juvenile court judge to decide whether or not a minor should be prosecuted as an adult. Currently, only basic guidelines on implementation have been drafted and regulations are forthcoming. The Assembly should carefully monitor the development of regulations and ensure that final regulations, as well as outcomes, are true to the intent of Proposition 57.

- **An Overburdened Fine and Fee System.** Over the years, the state has enacted various fines and fees for a variety of purposes. The base and restitution fines are generally tied to the seriousness of the crime; other fees were enacted to generate revenue to fund specific activities, and other fines and fees were enacted to help offset state or local costs for providing particular services to individuals paying the specific charge. While fines and fees provided funding sources for vital programs during hard budgetary times, the addition of various fees has increased the total cost for infractions such that they have become an unnecessary burden for the state's most vulnerable. The Assembly may wish to further examine what is included in fines and fees, whether or not fees and fines aid in the reduction of crime, and how the Legislature can increase oversight over the very complicated fee structure.
- **Focus on Inmate Rehabilitation.** Over the years, the Assembly has prioritized programs and services focused on rehabilitation of inmates, because it has been proven that participation in programs and services make a safer prison environment and increase opportunities for successful reintegration into communities. The Department of Corrections and Rehabilitation recently released a report on Outcome Evaluations, which found that offenders who received in-prison substance use disorder treatment and completed aftercare had a recidivism rate 31.2 percentage points lower than offenders who did not receive any form of in-prison substance use disorder treatment or aftercare. The Assembly may wish to take an in-depth look at and invest in rehabilitation programs that have been proven to reduce recidivism and encourage successful reintegration into communities.
- **Law Enforcement and Community Relations.** The relationship between communities and law enforcement is not only a topic of discussion in California, but nationally as well. Whether or not communities trust that law enforcement efforts are just, is a key component in establishing healthy and positive relationships between law enforcement personnel and the public. As President Obama once said, "When any part of the American family does not feel like it is being treated fairly, that's a problem for all of us. It means that we are not as strong as a country as we can be. And when applied to the criminal justice system, it means we're not as effective in fighting crime as we could be."

Over the years, the legislature has passed numerous measures requiring additional training and accountability for California Peace Officers in order to keep up with ever-growing demands on the state's law enforcement community. In order to continue to improve relations between local law enforcement and the communities they serve, the Assembly may wish to further examine local law enforcement efforts to improve community relations and consider providing additional funding to support efforts that have proven effective.

Governor's January Budget Proposals in Public Safety

- **Proposition 57 Implementation.** The Governor's Budget estimates that Proposition 57 will result in net savings of \$22.4 million in 2017-18, growing to net savings of approximately \$140 million in 2020-21. These estimates will be updated once the regulations are adopted, which are expected to be finalized by October of 2017.
- **Continued Focus on Inmate Rehabilitation and Reentry.** The proposals in the January budget not only expand opportunities for substance use disorder treatment, but also increase accessibility to education courses, which increase the opportunities for successful reentry into society. The Governor's Budget includes \$440 million General Fund in order to support the Division of Rehabilitative Programs, compared to approximately \$300 million in 2012-13. Although we have reduced the prison population, we've The Division prepares offenders for their release by offering various programs and services that promote positive in-prison behavior and support their rehabilitative efforts to provide a better opportunity for them to reintegrate into society upon release. The core of these services is cognitive behavioral treatment programming, which includes the major areas of substance use disorder treatment, criminal thinking, anger management and family relationships. While offenders are prioritized if they are within four years of release and have a moderate-to-high risk to reoffend and a moderate-to-high criminogenic need for services, the expansion of rehabilitative programs and reentry services to all prisons has allowed more inmates to participate in programs to help them prepare for reintegration to the community.
- **Inmate Health Care and Mental Health Services.** The Governor's Budget continues the state's significant financial commitment to improve the Department's delivery of health care services to inmates. The Budget dedicates \$2.9 billion General Fund to health care services programs resulting in inmates having continued access to mental health, medical and dental care that is consistent with the standards and scope of services appropriate within a custodial environment.
- **Community Corrections Performance Incentive Grant.** The Governor's Budget proposes \$114.9 million to continue the Community Corrections Performance Incentive Grant, which was created to provide incentives for counties to reduce the number of felony probationers sent to state prison.
- **Capital Outlay Proposals.** The Five-Year Statewide Infrastructure Plan proposes the following expenditures for the California Department of Corrections and Rehabilitation, Office of Emergency Services, Judiciary Branch, and the California Military Department:
 - \$197.3 million for CDCR to address critical infrastructure and fire and life safety deficiencies.
 - \$21.6 million for the Office of Emergency Services (OES) to address critical infrastructure deficiencies.
 - Judicial Council has six currently authorized projects under construction. No new funding is proposed for the remaining phases of 17 active projects on the Judicial Council's list of projects.

- \$214.7 million to address the most critical infrastructure needs at the Consolidated Headquarters Complex, the San Diego Readiness Center, and includes funding for studies and future planning needs.
- **Reallocation of Judgeships.** The Administration proposes to reallocate four vacant superior court judgeships in order to shift judgeships to the areas of the state where workload is highest without increasing the overall number of judges.

CALIFORNIA DEPARTMENT OF CORRECTIONS AND REHABILITATION

The Governor's budget includes \$11.3 billion (\$11 billion General Fund and \$307 million other funds) for the California Department of Corrections and Rehabilitation (CDCR) in 2017-18, an increase of \$358.8 million or 3.3 percent from the current year. Most of CDCR's funding comes from the General Fund, with a smaller portion coming from various funds such as the Federal Trust Fund and Inmate Welfare Fund. The Governor's Budget provides resources to implement court orders, chaptered legislation, and ballot initiatives. The proposal also provides resources to pay claims for judgments against the state or settlements approved by the Department of Justice and to provide counties with funding for costs incurred due to homicide trials.

The 2016 Budget Act projected an overall adult inmate average daily population of 128,821 in 2016-17. The average daily adult inmate population is now projected to increase by 0.2 percent to 129,015 in 2016-17. Absent the passage of Proposition 57, the Public Safety and Rehabilitation Act of 2016, at the November election, the population would have increased by 1.0 percent to 130,118 in 2017-18 compared to the 2016 Budget Act projection. As displayed in the figure below, the Budget reflects a revised average daily population to account for anticipated population reductions and the population is now projected to decline by 0.7 percent from current levels to 128,159 in 2017-18.

Fall 2016 Population Estimates

	2016-17	2017-18
Adult Average Daily Population Projection	129,015	130,118
Proposition 57 Juvenile Sentencing	-	-81
Proposition 57 Non-Violent Parole Process	-	-524
Proposition 57 Enhanced Credit Earning	-	-1,354
Total Average Daily Population Projection	129,015	128,159

Major Provisions

- **Implementation of Proposition 57.** The Governor's Budget includes \$5.7 million for the Department to implement Proposition 57. Specifically, the Budget includes resources for additional case records staff to review and make various changes to inmate classification files related to the new credit earning structure and parole process, parole workload due to additional releases from prison, and Board of Parole Hearings workload for the increased number of inmates considered for release.
- **Transfer of Intermediate and Acute Levels of Care.** The Governor's Budget proposes the transfer of \$250.4 million General Fund from the Department of State Hospitals (DSH) to CDCR and California Correctional Health Care Services(CCHCS) and 1,977.6 positions to transfer responsibility for psychiatric inpatient care of CDCR inmates to CDCR and CCHCS.
- **Video Surveillance Pilot Program.** The Governor's Budget proposes \$11.7 million General Fund and four one-year limited- term positions in order to implement a comprehensive video surveillance pilot program at Central California Women's Facility and High Desert State Prison.
- **Variations to Standardized Staffing.** The Governor's Budget includes \$5.8 million and 44.1 positions to augment custody standardized staffing levels to provide security coverage in light of additional space that has recently been activated.
- **Health Care Appeals Pilot.** The Governor's Budget proposes \$5.4 million General Fund and 36 positions to provide clinical review at each institution to address additional time requirements related to Effective Communications. Effective Communication is achieved and documented when there is an exchange of health care information with patients that have a hearing, vision, developmental disability, learning disability, and/or speech impairment.
- **California Prison Industries Authority (CalPIA) Janitorial Expansion.** The Governor's Budget includes \$5.9 million in 2016-17, and \$13.8 million General Fund in 2017-18 for CalPIA janitorial services for increased space driven by the Health Care Facility Improvement Program and Statewide Medication Distribution Improvements.
- **Medication Management.** The Governor's Budget proposes \$8.9 million General Fund and 105.2 positions to augment staffing based on medication management program needs in order to provide timely access to prescribed medications.
- **Inmate Rehabilitation and Reentry.** The Governor's Budget includes \$440 million General Fund for the Division of Rehabilitative Programs. This funding will allow CDCR to:
 - Implement the Long Term Offender Program at Richard J. Donovan Correctional Facility.

- Expand the Pre-Employment Transitions Program to all institutions to provide employment preparation, job readiness, and job search and prerequisite skills for the current job market.
- Expand the Offender Mentor Certification Program to train an additional 64 long term and life term inmates to become mentors for alcohol and drug counseling.
- Expand programs and college courses offered in the evenings to maximize the availability of limited program space and enable inmates with in prison jobs to also participate in these meaningful programs.
- **California Leadership Academy.** The Administration proposes no General Fund spending, but states that the Administration will work with external stakeholders to solicit interest from private investors to fund the California Leadership Academy – a program aimed at reducing recidivism among 18-25 year-old male inmates.
- **Capital Outlay Proposals.** The Governor's Budget includes a total of \$197.3 million General Fund for CDCR to address critical infrastructure and fire and life safety deficiencies. This includes the following projects:
 - **Health Care Improvement Program – Phase II.** Proposes \$16 million to provide renovations and additions to the Health Care Administration, Primary Care Clinics in Facilities A, B, C, and D, and Administrative Segregation Unit Primary Care Clinic at Calipatria State Prison.
 - **Potable Water Storage Tank.** Proposes \$6.9 million for a new 1.25 million gallon potable water reservoir at Calipatria State Prison.
 - **Brine Concentrator System Replacement.** Proposes \$1.8 million to replace the existing brine concentrator system for Deuel Vocational Institution's Reverse Osmosis Water Treatment Plant.
 - **50-Bed Mental Health Crisis Facilities.** Proposes \$7.2 million to construct two licensed 50-bed Mental Health Crisis Facility at California Institution for Men and Richard J. Donovan Correctional Facilities.
 - **Medication Distribution Improvements.** Proposes \$2.6 million to design and construct two Medication Distribution Rooms at California Correctional Institution.
 - **Administrative Segregation Cell Door Retrofit.** Proposes \$783,000 to replace existing 144 barred cell front with more secure cell fronts with vision panels at the Correctional Training Facility.
 - **Fire Suppression Upgrade.** Proposes \$1.1 million to correct fire suppression system deficiencies at Pelican Bay State Prison.
 - **Statewide Minor Capital Outlay Program.** Includes \$2 million in order to fund upgrades to the Substance Abuse Treatment Program Spaces at Calipatria and Centinela State Prison, the Minimum Support Facility Perimeter at California State

Prison, Los Angeles County, and the New Central Kitchen Walk-in Freezer Addition at Pelican Bay State Prison.

- **Advance Planning.** Proposes \$250,000 to perform advance planning functions and prepare budget packages for future capital outlay projects.
- **Heating, Ventilation and Air Conditioning System Reappropriation.** Proposes \$140,018 to design and construct a new central chiller plant at Ironwood State Prison.
- **New Boiler Facility Reappropriation.** Proposes to design and construct two new central high-pressure steam boiler facilities, \$18,071 for the new system at San Quentin State Prison and \$4,041 for Deuel Vocational Institution.

Other Key Issues

- **Information Security Operations Center.** The Governor's Budget proposes \$2.6 million General Fund and eight positions to establish a new Security Operations Center to proactively address information security threats on a 24/7 basis.
- **Permanent Positions for Non-Violent Second Striker Workload.** The Governor's Budget proposes to provide CDCR with full-time position authority for two expiring limited-term positions in order to adequately manage the ongoing workload associated with processing parole suitability for Non-Violent Second Striker Inmates.
- **Reimbursement Authority.** The Governor's Budget proposes to increase reimbursement authority in order for CDCR to maximize all available reimbursable expenditures and allow for sufficient items to be purchased in the canteen.
- **Technical Adjustment.** The Governor's Budget includes a proposal to permanently realign resources for a number of programs and divisions in order to properly align budget authority with existing expenditures by program.
- **Suicide Watch Certified Nursing Assistants.** The Governor's Budget includes \$3.06 million General Fund and 184.5 positions in order to address the increased Suicide Watch Workload and ensure that other areas are not burdened by the increased need for suicide watch staff.
- **Property Controllers for Health Care Assets.** The Governor's Budget proposes \$2.14 million General Fund and 25.3 positions to ensure that medical, mental health, and dental assets are properly tracked and services throughout their lifestyles.

OFFICE OF EMERGENCY SERVICES

The Governor's budget includes \$1.38 million total funds (\$173,392 General Fund) for the Office of Emergency Services (OES) in 2017-18, a decrease of \$132,789 or 8.7 percent from the current year.

Major Provisions

- **State Penalty Fund.** The Governor's Budget proposes to eliminate the Motorcyclist Safety Program, Local Public Prosecutors and Public Defenders Training Program, Internet Crimes Against Children Task Forces, and the California Gang Reduction, Intervention, and Prevention Programs (CalGRIP) from the State Penalty Fund. Registration revenues are sufficient to continue the Motorcyclist Safety Program, federal funding will continue 35 percent of the funding for the Local Public Prosecutors and Public Defenders Training Program, and local and federal contributions would continue for the Internet Crimes Against Children Task Forces. However, this proposal would eliminate all funding for the grants associated with CalGRIP. The CalGRIP program currently receives about \$9.5 million annually, \$9.2 million goes out in grants locally while the remainder is kept for Board of State and Community Corrections state operations administrative costs.
- **Public Assistance.** The Governor's Budget includes \$3.5 million General Fund ongoing and a reduction of \$3.5 million Federal Trust Fund authority to realign the funding with workload in the Public Assistance Program. This program provides financial assistance to eligible local and non-profit entities to recover from state-only disasters.
- **Victims of Crime Act.** The Governor's Budget requests 23 positions in order to establish permanent positions related to the increase in the Victims of Crime Act federal award.
- **Relocation of Red Mountain Communications Site.** The Governor's Budget proposes a reappropriation of \$3.1 million General Fund to continue work on the drawing phase of the Relocation of Red Mountain Communications Site project in Del Norte County.
- **Headquarters Complex.** The Governor's Budget includes \$5.5 million General Fund for the construction phase of the continuing Public Safety Communications Network Operations Center Project at the OES Headquarters Complex in Rancho Cordova.

Other Key Issues

- **Hazardous Materials Training Support.** The Governor's Budget requests two positions to support the Hazardous Materials Training Program at the California Specialized Training Institute.
- **Domestic Violence Victims Fund.** The Governor's Budget proposes \$250,000 local assistance authority to pass through from the California Domestic Violence Victims Fund.

JUDICIAL BRANCH

The Governor's budget includes \$3.6 billion total funds (\$1.65 billion General Fund) for the Judicial Branch in 2017-18, an increase of \$12.7 million or .35 percent from the current year.

Major Provisions

- **Transfer of Judgeships.** The Governor's Budget proposes to reallocate four vacant superior court judgeships. This would remove two Superior Court judge slots from both Alameda and Santa Clara County (for a total of four) in order to move those vacancies to Riverside and San Bernardino Counties.
- **Driver's License Suspension.** The Governor's Budget proposes to eliminate the statutory provisions related to suspending driver's licenses for failure to pay fines and fees.
- **Trial Courts Case Management System Replacement.** The Governor's Budget includes \$4.1 million General Fund in 2017-18 to replace the Sustain Justice Edition Case Management System in the Superior Courts of California – Humboldt, Lake, Madera, Modoc, Plumas, Sierra, San Benito, Trinity, and Tuolumne Courts.
- **Trial Court Employee Costs.** The Governor's Budget includes \$7.1 million General Fund for trial court employee health and retirement benefit costs.
- **Trial Court Trust Fund Revenues.** The Governor's Budget proposes \$55 million General Fund to backfill a continued decline of fines and penalty revenues expected in 2017-18.
- **Appellate Court Appointed Counsel Projects.** The Governor's Budget requests \$1.04 million General Fund to fund increased costs for services provided by the Appellate Project, and will ensure that obligations are met to ensure justice for indigent defendants in capital appeals.
- **Santa Clara Capital Outlay Project.** The Governor's Budget proposes a transfer of \$5.2 million from the Court Facilities Trust Fund to the Immediate and Critical Needs Account to support the financial plan for the construction of the Santa Clara County – New Santa Clara Family Justice Center.
- **Various Reappropriations.** The Governor's Budget requests a reappropriation of \$7.9 billion from the Public Buildings Construction Fund to extend the liquidation period of the construction phase for new courthouses in Riverside County, San Bernardino County, Tulare County, and Calaveras County.

Other Key Issues

- **Language Access Plan Implementation and Support for Court Interpreters.** The Governor's Budget includes \$842,000 and two positions to support the Video Remote Interpreting Spoken Language Pilot. This request also provides a one-time augmentation to help fulfill various Court Interpreter Program mandates.
- **Judicial Officer Salaries.** The Governor's Budget proposes amending statute so that Judicial Officers receive the proportional equivalent of the salary increases that have been provided retroactively to July 1 to state workers.

DEPARTMENT OF JUSTICE

The Governor's budget includes \$857.8 million total funds (\$215.3 million General Fund) for the Department of Justice in 2017-18, an increase of \$32.9 million or 3.9 percent from the current year.

Major Provisions

- **Identifying Information on Firearms.** The Governor's Budget requests an increase of \$1.37 million of Dealers' Record of Sale Special Fund spending authority in 2017-18 to support eight positions in order to implement and maintain the new requirements of AB 857 (Cooper, Chapter 60, Statutes of 2016).
- **Implementation of Bills Related to Assault Weapons.** The Governor's Budget requests \$2.58 million in Dealers' Record of Sale Special Fund spending authority and 27 positions in order to implement the provisions of Senate Bill 880 (Hall) and AB 1135 (Levine) of the 2016 Legislative session.

BOARD OF STATE AND COMMUNITY CORRECTIONS

The Governor's budget includes \$122 million total funds (\$29.4 million General Fund) for the Board of State and Community Relations in 2017-18, a decrease of \$100.9 million or 45 percent from the current year.

Major Provisions

- **Post Release Community Supervision.** The Governor's Budget includes \$11 million General Fund for county probation departments to supervise the temporary increase in the average daily population of offenders on Post Release Community Supervision as a result of the implementation of court-ordered measures and Proposition 57.

COMMISSION ON PEACE OFFICER STANDARDS AND TRAINING

The Governor's budget includes \$50.3 million total funds (includes Special Funds from the State Penalty Fund, Motor Vehicle Account, and various reimbursements) for the Commission on Peace Officer Standards and Training in 2017-18, a decrease of \$12.5 million or 20 percent from the current year.

Major Provisions

- **State Penalty Fund.** Due to the decline of revenues to the State Penalty Fund, the Governor's Budget proposes various solutions to address the insolvency of the Fund, including direct appropriations from the Fund for certain departments. Specifically, the Budget includes a direct appropriation of \$46.5 million from the State Penalty Fund for the Commission on Peace Officer Standards and Training to maintain critical local law enforcement training services.
- **Law Enforcement Driving Simulators Replacement Project.** The Governor's Budget requests \$1.83 million Motor Vehicle Account funds to replace sixteen driving simulators (eight annually) and continue to maintain the remaining simulators that are out of warranty.

CALIFORNIA MILITARY DEPARTMENT

The Governor's budget includes \$164.6 million total funds (\$49.6 million General Fund) for the California Military Department in 2017-18, a decrease of \$40.1 million or 19.6 percent from the current year.

Major Provisions

- **Environmental Programs Increase to Meet Federal Requirements.** The Budget requests \$144,000 in Federal Trust Fund authority and one position within the Army Guard Headquarters, Environmental Programs Directorate, in order to provide critical functions for executing federally funded Military Construction projects. This position will be established at no cost to the State, as the position will be fully funded by the National Guard Bureau.
- **Consolidated Headquarters Complex.** The Governor's Budget includes \$146.5 million Lease Revenue Bond funds for the design-build phase of the continuing Consolidated Headquarters Complex project in Sacramento.
- **San Diego Readiness Center Renovation.** The Governor's Budget proposes \$3.76 million (\$1.9 million General Fund) for the second phase of construction on the San Diego Readiness Center Renovation project.

Other Key Issues

- **Advance Plans and Studies.** The Governor's Budget includes \$300,000 (\$150,000 General Fund, \$150,000 Federal matching funds) in order to allow the Department to develop design charrettes to define the scope of future projects and to validate cost estimates for future capital outlay projects.

COMMISSION ON JUDICIAL PERFORMANCE

The Governor's budget includes \$5 million total funds (\$4.9 million General Fund) for the Commission on Judicial Performance in 2017-18, an increase of \$59,000 or 1.4 percent from the current year. There are no major or key proposals for the Board in the Governor's Budget.

OFFICE OF THE INSPECTOR GENERAL

The Governor's budget includes \$22.5 million General Fund for the Office of the Inspector General in 2017-18, an increase of \$70,000 or 0.26 percent from the current year. There are no major or key proposals for the Office in the Governor's Budget.

STATE PUBLIC DEFENDER

The Governor's budget includes \$13.1 million General Fund for the State Public Defender in 2017-18, an increase of \$91,000 or 0.7 percent from the current year. There are no major or key proposals for the Public Defender in the Governor's Budget.

CALIFORNIA VICTIM COMPENSATION BOARD

The Governor's budget includes \$124.7 million total funds (\$121 million General Fund) for the California Victim compensation Board in 2017-18, an increase of \$385,000 or 0.3 percent from the current year. There are no major or key proposals for the Board in the Governor's Budget.

Staff Comment and Analysis of Governor's Budget Proposal

The Governor's Proposed Budget includes resources to implement policies and practices that align with the Assembly's goal to reduce the population in our state prisons while providing resources that will facilitate the successful reentry of former offenders into communities. Overall, the Governor's proposed budget takes important steps to move California in a positive direction in the criminal justice arena.

- **Monitoring Proposition 57.** Although the regulations for Proposition 57 have not yet been released, the guidance that has been provided to the Legislature at this time seems to align with the original intent of the Proposition. The Assembly may wish to delve further into the regulations when they are released this Spring to ensure that Prop 57 decreases prison overcrowding and incentivizes more prisoners to participate in rehabilitation programs. Moreover, the Assembly may wish to pay particular attention to the implementation of the provisions regarding the Juvenile Justice Division to ensure that the anticipated reduction in juvenile offenders being tried in adult court is realized.
- **Are Standardized Staffing Levels at CDCR Adequate?** Standardized staffing recognizes the need for a specific staff complement based on the housing unit design and achieves savings while maintaining a safe prison environment. However, since this methodology was instated, there have been several requests from the Department to increase funding and position authority under the pretense that the need for these positions was not included in the standardized staffing methodology. The Assembly may wish to take a closer look at standardized staffing and assess whether or not it is an effective means of dictating staffing levels.
- **Are California's Criminal Justice Practices Just?** The mission of our criminal justice system is to ensure justice, safety, and liberty for all. The goals of many recently passed laws and initiatives have been to reduce the prison population, increase accessibility to rehabilitation programs, and reduce recidivism. All of these goals lead to increased public safety, and the Assembly should further consider whether the implementations of policies do all that they can to ensure public safety to truly safeguard Californians.
- **Compliance with New Laws.** In November 2016, several ballot initiatives passed that will have impacts on the Judicial Branch. The Assembly may wish to delve deeper into cost assumptions for the implementation of these new laws as cost impacts become clearer. As these initiatives did not pass until November, the January Budget before the Legislature does not include adjustments and additional resources necessary to implement these measures. The Assembly should vet the costs and savings for these initiatives once further information is available. At the time of this writing, the Judicial Branch was able to provide the following assumptions regarding fiscal impacts to the Branch:
 - Proposition 57 allows a juvenile to be tried in adult court only after a hearing in which the juvenile court judge orders the transfer of the youth to adult court. It is estimated that Proposition 57 will result in costs of \$1.5 million annually. This estimate applies projected savings to trial courts for cases that would have been direct filings to adult court.

- Proposition 63 ensures that individuals who have been convicted of offenses that prohibit their owning firearms do not continue to have them. It is estimated that this proposition will require funding of approximately \$11.4 million annually, which assumes that 20 percent of convicted felons own firearms and would require a hearing ranging from three to fifteen minute hearing to determine disposition of firearms and/or probable cause. This assumption also adds ten percent to total cost to address potential court costs associated with new penalty for failure to report loss of firearm (after two violations) and increased penalty for theft of a firearm.
- Proposition 64 legalizes the usage of recreational marijuana, reduces the penalty for selling nonmedical marijuana, requires the destruction of criminal records for individuals arrested or convicted for certain marijuana related offenses. The initiative also makes individuals eligible for resentencing if they are serving sentences for activities that are made legal or are subject to lesser penalties as a result of this measure, and allows for individuals who have completed sentences for marijuana related crimes to apply to the courts to have their criminal records changed. At this time, the Judicial Branch expects costs to be around \$19.5 million, spread over four fiscal years.
- Proposition 66 changes procedures and processes pertaining to death sentences. Estimated costs in the current year are upwards of \$34 million and approximately \$70 million for the 2017-18 budget year. This includes increased costs to the Supreme Court, Courts of Appeal, Habeas Corpus Resource Center, and the Trial Courts.