



HIGHLIGHTS OF GOVERNOR'S PROPOSED 2017 - 18 MAY REVISION

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OVERVIEW

Today, the Governor released the May Revision of the 2017 budget. The May Revision projects \$2.5 billion in additional revenues and proposes \$1.5 billion in increased 2017-18 General Fund spending above the January budget proposal.

The Governor's May Revision is an improvement to the January proposal, it rescinds some proposals from January to revisit investments agreed to in the 2016 budget, such as the proposed pause to child care increases. However, the May Revision still includes reductions to health care, homeless prevention programs, and financial aid.

There are three other major changes to the January proposal:

1. Proposition 98 funding increases by \$1.1 billion, reflecting the higher projected revenues. The May Revision proposes \$661 million in additional Local Control Funding Formula funding, reaching 97 percent of full implementation for that program.
2. The Coordinate Care Initiative/In Home Support Services share-of-cost proposal is significantly modified to soften the impact on county realignment funding and make these costs a more predictable maintenance of effort.
3. The May Revision proposes to save \$11 billion over the next two decades by leveraging \$6 billion in existing State funds from the Surplus Money Investment Fund to make a supplemental payment for State pensions.

Overall, the May Revision projects \$126.6 million in revenue and \$124 million in General Fund spending, leaving, after adjusting for encumbrances, a reserve of \$1.6 billion.

Overall state reserves grown to \$10.1 billion. The Rainy Day Fund, the Budget Stabilization Account, is projected to increase to \$8.5 billion.

This document is an initial review of the May Revision proposal, further analysis will be available as the budget process moves forward. With the release of the May Revision, the Assembly will quickly turn towards finalizing a version of the budget over the next two weeks.

SUMMARY OF CHARTS

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

| | 2016-17 | 2017-18 |
|--|--------------------|---------------------|
| Prior Year Balance | <u>\$4,515</u> | <u>\$723</u> |
| Revenues and Transfers | \$118,540 | \$125,912 |
| Total Resources Available | <u>\$123,055</u> | <u>\$126,635</u> |
| Non-Proposition 98 Expenditures | \$71,729 | \$71,166 |
| Proposition 98 Expenditures | \$50,603 | \$52,852 |
| Total Expenditures | <u>\$122,332</u> | <u>\$124,018</u> |
| Fund Balance | \$ 723 | \$2,617 |
| Reserve for Liquidation of Encumbrances | \$ 980 | \$980 |
| Special Fund for Economic Uncertainties | \$-257 | \$1,637 |
| Budget Stabilization Account/Rainy Day Fund | \$6,713 | \$ 8,488 |

**2017-18 Revenue Sources
(\$ millions)**

| | General Fund | Special Fund | Total | Change from 2016-17 |
|--|--------------|--------------|-----------|---------------------|
| Personal Income Tax | \$ 88,961 | \$ 1,888 | \$ 90,849 | \$ 5,825 |
| Sales and Use Tax | 24,470 | 11,032 | 35,502 | 816 |
| Corporate Tax | 10,894 | - | 10,894 | 684 |
| Highway Use Taxes | - | 6,864 | 6,864 | 1,959 |
| Insurance Tax | 2,538 | - | 2,583 | 55 |
| Alcoholic Beverage Taxes and Fees | 377 | - | 377 | 2 |
| Cigarette Tax | 65 | 2,026 | 2,091 | 906 |
| Motor Vehicle Fees | 24 | 8,599 | 8,623 | 1,580 |
| Other Regulatory Fees | 1 | 7,140 | 7,141 | (2,155) |
| Other | 357 | 14,234 | 14,591 | 686 |
| Subtotal | \$ 127,687 | \$ 51,783 | \$179,470 | \$ 10,358 |
| Transfer to the Budget Stabilization Account | (1,775) | 1,775 | - | - |
| Total | \$ 125,912 | \$ 53,558 | \$179,470 | \$ 10,358 |

**2017-18 Total State Spending by Agency
(\$ millions)**

| | General Fund | Special Fund | Bond Funds | Total |
|--|-------------------|------------------|-----------------|-------------------|
| Legislative, Judicial, and Executive | \$ 3,333 | \$ 3,369 | \$ 175 | \$ 6,877 |
| Business, Consumer Services, and Housing | 382 | 856 | 414 | 1,652 |
| Transportation | 241 | 11,639 | 863 | 12,743 |
| Natural Resources | 2,873 | 1,457 | 973 | 5,303 |
| Environmental Protection | 85 | 2,928 | 25 | 3,038 |
| Health and Human Services | 33,669 | 25,441 | - | 59,110 |
| Corrections and Rehabilitation | 11,194 | 2,664 | - | 13,858 |
| K-12 Education | 53,575 | 109 | 658 | 54,342 |
| Higher Education | 14,743 | 177 | 321 | 15,241 |
| Labor and Workforce Development | 127 | 718 | - | 845 |
| Government Operations | 745 | 231 | 6 | 982 |
| General Government | 3,051 | 6,374 | 5 | 9,430 |
| Total | \$ 124,018 | \$ 55,963 | \$ 3,440 | \$ 183,421 |

HEALTH

Department of Health Care Services (Medi-Cal)

- Includes \$620 million General Fund savings associated with an updated estimate of the current year shortfall in the Medi-Cal Estimate.
- Proposes \$495,000 (\$248,000 General Fund) to improve the Medi-Cal Estimate development process to increase accuracy and improve reporting capabilities.
- Reduces the savings estimate for the Coordinated Care Initiative by \$12 million General Fund, reflecting a decrease in participation in the pilot.
- Increases the Proposition 56 revenue estimate allocation to Medi-Cal by \$19.8 million (based on an overall increase in Proposition 56 revenue of \$23.3 million).
- Adds \$48 million General Fund by proposing to eliminate the existing Newly Qualified Immigrant Affordability and Benefit Program.
- Adds \$1.3 million General Fund for the implementation for the Palliative Care Services program no later than January 1, 2018.
- Proposes \$14.9 million (\$5.2 million General Fund) to support 7 new positions, an extension for 21 limited-term positions, and contract resources to support the on-going operations of the existing Legacy CA-MMIS claims processing system and to continue efforts to replace this system.
- Proposes statutory changes to implement the Covered Outpatient Drug Final Rule, and the proposal released by DHCS earlier this year, by codifying a new drug ingredient reimbursement methodology and dispensing fee based on a study of pharmacy provider costs in the Medi-Cal program.
- Proposes statutory changes to end the use of contract pharmacies in the 340B program in Medi-Cal.
- Increases \$6.2 million General Fund for the implementation of functional assessment tools for populations receiving specialty mental health services through county mental health plans for operation of the Performance Outcomes System.

- Includes \$44.7 million federal funds to reflect the award of the federal Opioid State Targeted Response grant which will allow for increased medication-assisted treatment for individuals with substance use disorders.
- Proposes to expand the School-Based Mobile Vision Services Program statewide in 2018-19 depending on the outcome of an evaluation of the pilot program which is due by end of 2017.

Department of State Hospitals

- Proposes \$7.8 million General Fund to support the movement of approximately 150 civilly-committed patients at Metropolitan State Hospital to another building in order to increase space for Incompetent to Stand Trial waitlist commitments.
- Includes \$3.1 million General Fund to establish an additional 24 beds within the jail-based competency treatment programs for individuals on the Incompetent to Stand Trial waitlist.

HUMAN SERVICES

Department of Social Services

In-Home Supportive Services

- Revises the Administration's approach on the effects on the In-Home Supportive Services (IHSS) program from the termination of the Coordinated Care Initiative (CCI). In short, the May Revision proposes continuing, versus terminating, the counties' Maintenance of Effort (MOE) obligation, creating a new base to include services and administrative costs, with a sliding scale inflation factor aligned with future Realignment revenue performance. The Governor proposes providing General Fund assistance of \$400 million General Fund in 2017-18, scaling this down in the out-years, to assist counties with this new, increased obligation, and providing an opportunity for a low-interest loan for counties experiencing financial hardship. The estimated net amounts of county costs not covered under this proposed arrangement are \$141 million in 2017-18, \$129 million in 2018-19, \$230 million in 2019-20, and \$251 million in 2020-21.
- Maintains the decision under the CCI to move collective bargaining back to the counties given the dissolution of the Statewide Public Authority. The May Revision proposes statutory changes to change the arrangement on the state coverage of wage and benefit costs, proposing that the state participation cap should float to always be \$1.10 above the hourly minimum wage set in law under Senate Bill 3 (Chapter 4, Statutes of 2016).
- Proposes that, beginning July 1, 2017, if a county does not conclude bargaining with its IHSS workers within nine months, the union may appeal to the Public Employment Relations Board.
- Includes a net decrease of \$22.5 million General Fund in 2016-17 and \$80.8 million General Fund in 2017-18 due primarily to a projected decrease in costs associated with IHSS provider travel time and medical accompaniment wait time, partially offset by increases in caseload growth, average hours per case, average cost per case, and other miscellaneous adjustments.

CalWORKs

- Proposes a further decrease to the CalWORKs Single Allocation, that provides resources to counties for administration, employment services, and child care in the program, of \$19.1 million General Fund in 2016-17 and \$35.5 million General Fund in 2017-18. This is in addition to a proposed cut for 2017-18 of \$198 million. The Single Allocation methodology currently corresponds to changes in caseload, so this proposed change reflects a decrease in updated caseload estimates and average cost per case projections.

Immigration Services

- Includes a one-time increase of \$15 million General Fund, over an on-going base of \$15 million, for the "One California" Immigration Services program, to further expand the availability of legal services for people seeking naturalization services, deportation defense, or assistance in securing other legal immigration status.

Other Changes

- Includes an increase of \$11.2 million General Fund within the Continuum of Care Reform (CCR) effort to implement a higher hourly rate for county social worker and probation staff for certain administrative components, and to provide foster youth placed with relative caregivers the same infant supplement grant and dual agency rate as federally eligible foster youth.
- Includes a decrease in the Supplemental Security Income/State Supplementary Payment (SSI/SSP) program of \$34.1 million General Fund in 2016-17 and \$37.3 million General Fund in 2017-18 to reflect updated caseload and average cost per case projections.
- Continues the proposed reduction to the Housing Disability Advocacy Program that has been rejected by the Assembly.

Department of Developmental Services

- Proposes \$7.5 million General Fund in 2017-18 to establish acute crisis services in the community given the closure of the developmental centers and the state-run crisis units at the Fairview and Sonoma Developmental Centers. These new services are part of the Department's overall Safety Net Plan to provide access to crisis services after the closure of the centers. DDS states that these additional resources will be used to develop Stabilization, Training, Assistance and Reintegration (STAR) acute crisis facilities in the community similar to those provided at the Northern and Southern STAR homes, as well as establish two, 24-hour mobile acute crisis teams to provide in-home treatment and associated stabilization services and supports to help maintain individuals in their existing residences. Additional services for consumers transitioning from the Secure Treatment Program at Porterville Developmental Center are also proposed.

K-12 EDUCATION

Overall Proposition 98:

- Provides a total Proposition 98 funding level of \$74.6 billion in 2017-18, an increase of \$1.1 billion from the Governor's January Budget.
- Makes changes to the Proposition 98 funding level in the prior years, including an increase of \$433 million in 2015-16 and \$22 million in 2016-17.
- Proposes suspending the Proposition 98 supplemental appropriation in 2016-17, which would be added to the maintenance factor obligation and restored to schools in the long term.
- Provides a maintenance factor payment of \$614 million in 2017-18, bringing the outstanding maintenance factor balance to \$823 million.

K-12 Education:

- Eliminates the \$859 million payment deferral proposed in January, due to the additional resources available in 2015-16 and 2016-17.
- Provides a total of \$1.4 billion to further implement the Local Control Funding Formula for school districts and charter schools, an increase of \$661 million from January.
- Provides a total of \$1 billion in one-time Proposition 98 discretionary funding for schools, an increase of \$750 million from January.
- Includes no proposal related to special education reform, and instead commits to spending additional time in the coming months examining the issue.
- Proposes to direct federal funds to enhance the state's efforts to address teacher retention and recruitment issues.
- Decreases the amount of Proposition 39 energy efficiency funds available to schools in 2017-18 by \$46.7 million, providing a total of \$376.2 million, due to reduced revenue estimates.
- Includes local property tax adjustments and adjustments due to a slight increase in attendance in 2016-17 and 2017-18. Also includes adjustments due to the change in the cost-of-living adjustment from 1.48 percent in January to 1.56

percent at the May Revision.

Early Childhood Education:

- Restores funding for child care and preschool programs agreed to in the 2016 Budget Act, including:
 - \$67.6 million (\$43.7 million Proposition 98 and \$23.9 million non-Proposition 98 General Fund) to provide the full 10 percent increase to the reimbursement rate for State Preschool and center-based child care providers and an additional \$92.7 million (\$60.7 million Proposition 98 and \$32 million non-Proposition 98 General Fund) to provide an additional six percent increase beginning July 1, 2017.
 - \$42.2 million General Fund to increase the reimbursement rate for voucher-based child care providers to the 75th percentile of the 2016 survey beginning January 1, 2018.
 - \$7.9 million in Proposition 98 funding for an additional 2,959 full-day State Preschool slots.
- Makes caseload adjustments due to a decrease in the CalWORKs Stage 2 and Stage 3 caseload.

HIGHER EDUCATION

University of California

- Sets aside \$50 million General Fund from UC funding which will only be released to UC if it implements activity-based costing studies and enrolls at least one transfer student for every two freshmen at all nine undergraduate campuses. These issues were agreed to by UC two years ago in negotiations with the Governor, but the Administration states that UC has not made sufficient progress.
- Redirects \$4 million General Fund from the UC appropriation to the California Student Aid Commission to partially cover costs related to maintaining the Cal Grant award amount for students attending private colleges and universities.
- Increases State Transportation Fund spending by \$5 million to allow for more transportation research, pursuant to SB 1.

California State University

- Redirects \$4 million General Fund from the CSU appropriation to the California Student Aid Commission to partially cover costs related to maintaining the Cal Grant award amount for students attending private colleges and universities.
- Increases State Transportation Fund spending by \$2 million to allow for more transportation research, pursuant to SB 1.

California Community Colleges

- Revises a Governor's Budget proposal to increase positions at the Chancellor's Office. Provides \$618,000 General Fund and \$454,000 in reimbursement authority to allow for 6 new positions at the Chancellor's Office and a second deputy chancellor. The Administration expects these resources to facilitate shifting the Chancellor's Office role from regulatory oversight to assisting colleges in improving student outcomes.
- Provides \$160 million Proposition 98 General Fund for an unallocated base increase, in addition to the \$24 million Proposition 98 General Fund proposed in the January budget proposal.
- Increases apportionment spending by \$34.1 million Proposition 98 General Fund to reflect numerous adjustments, including:

- An increase of \$28.5 million to reflect enrollment growth funding earned back by community colleges that had previously reported enrollment declines.
 - An increase of \$23.6 million to reflect unused prior-year enrollment growth funding.
 - An increase of \$3.5 million to reflect a change in the cost-of-living adjustment (COLA) from 1.48% to 1.56%.
 - A decrease of \$21.5 million to adjust enrollment growth for 2017-18 from 1.34% to 1%.
- Provides \$92.1 million Proposition 98 General Fund and settle-up to support deferred maintenance, instructional equipment and water conservation projects.
 - Increases the Full-Time Student Success Grant by \$1.9 million Proposition 98 General Fund to reflect updated participation estimates.
 - Increases support for the Equal Employment Opportunity Fund by \$1.8 million Proposition 98 General Fund.
 - Increases support for four categorical programs – the Disabled Student Programs and Services, the Extended Opportunities Programs and Services, the Special Services for CalWORKS recipients, and the Child Care Tax Bailout – by \$229,000 Proposition 98 General Fund to reflect the increased COLA.
 - Decreases support for Proposition 39 energy efficiency projects by \$5.8 million, providing \$46.5 million for projects in 2017-18.
 - Increases Proposition 98 General Fund by \$68.2 million to offset decreased property tax revenues.
 - Decreases Proposition 98 General Fund by \$24.8 million to offset increased student enrollment fee revenues.

California Student Aid Commission

- Adjusts support for the Cal Grant program by an increase of \$33.3 million in total funds for 2016-17 and a decrease of \$71.2 million 2017-18, including:
 - Increases Temporary Assistance for Needy Families support for the program. TANF support would offset General Fund costs by \$1.1 billion.
 - Increases in total spending to reflect updated participation, including \$33 million in 2016-17 and \$71.6 million in 2017-18.
 - Increases spending by \$28 million in 2017-18 to reflect costs associated with a tuition increase at California State University.

- Increases spending by \$20.9 million in 2017-18 to reflect costs associated with a tuition increase at University of California.
 - Increases spending by \$8 million to preserve the maximum Cal Grant award for students at private colleges and universities at the 2016-17 level of \$9,084.
 - Decreases spending on the Cal Grant B program by \$5.6 million to reflect updated estimates of the College Access Tax Credit Fund. The fund will provide an additional \$24 for each student who receives the Cal Grant B Access Award.
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- Decreases spending on the Middle Class Scholarship program by \$10 million General Fund to reflect revised cost estimates associated with phasing out the program.

NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION

Drought Response

- Proposes \$62.9 million, a decrease of \$115.8 million, to address continuing drought legacy issues, such as tree mortality and groundwater shortages in the Central Valley.
- Includes \$38.7 million General Fund and \$3 million State Responsibility Area Fund for CalFire to support the continuation of firefighter surge capacity, CA Conservation Corps fire crews, and exclusive use of one large air tanker.
- Includes \$8.5 million for the Department of Water Resources:
 - \$5 million General Fund to provide emergency drinking water supplies for small communities in the Central Valley with dry private domestic wells.
 - \$2.6 million General Fund and \$900,000 Harbors and Watercraft Fund to implement the state's Delta Smelt Resiliency Strategy.
- Includes \$2.6 million General Fund to sustain resilient systems for protection of fish and wildlife affected by future drought and climate change.
- Includes \$8.5 million General Fund for the Office of Emergency Services:
 - \$2 million General Fund for local agencies to remove dead or dying trees.
 - \$6.5 million to continue providing through the next year water tanks for nine counties.
- Includes \$600,000 General Fund for the State Water Resources Control Board to conclude water curtailment compliance and enforcement actions.

Water Conservation

- Proposes an additional five positions to be funded with existing resources to implement the Administration's proposed Trailer Bill on making water conservation a way of life.
- Proposes \$1 million General Fund to support the Save Our Water campaign.

Water Supply Reliability and Watershed Health

- Proposes an increase of \$1.1 million General Fund and five positions for the Department of Fish and Wildlife to integrate water restoration projects with updated river flow regimes to help fisheries thrive.
- Proposes an increase of \$50 million Proposition 1 to support Central Valley multi-benefit flood management projects.

- Proposes \$21 million Proposition 13 water bond funds for the Department of Water Resources over the next five years to support salmon habitat restoration actions on the San Joaquin River and its tributaries.

Climate Adaption Extended Fire Season

- Proposes \$42 million General Fund and \$309,000 various special funds for CalFire to expand the state's firefighting capabilities for the extended fire season.

Enhancing Dam Safety and Flood Control

- Proposes legislation to: (1) require dams to have an emergency action plan that is updated every ten years, or more frequently as needed, (2) require all dams and critical appurtenant structures to have updated inundation maps and to update the maps every ten years, and (3) provide regulatory tools for the Department of Water Resources to support these requirements.
- Proposes an increase of \$3.5 million Dam Safety Fund for the Department of Water Resources and \$1.8 million General Fund for the Office of Emergency Services to review and approve required inundation maps.
- Proposes an increase of \$3 million Dam Safety Fund for the Department of Water Resources to conduct more extensive evaluations of appurtenant structures than the current visual inspection.

Acceleration of Flood Control Investments

- Proposes an increase of \$387.1 million Proposition 1 for the Department to accelerate a balanced portfolio of flood control projects over the next two years.

Natural Resources and Parks Preservation Fund

- Proposes a "pay as you go" special fund to support natural resources programs previously funded by bond measures. This Fund will be established with an initial transfer of \$65 million General Fund from previous appropriations for deferred maintenance at state parks.

Department of Parks and Recreation

- Proposes an increase of \$31.5 million to repair and maintain the aging infrastructure of state park system.
- Proposes an increase of \$1.5 million to establish a pilot project to provide transportation to Parks from urban areas and schools.
- Proposes an increase of \$1 million for increased law enforcement, environmental monitoring, and maintenance grants to support federal off-highway vehicle recreation.

- Proposes an increase of \$1 million for the Abandoned Watercraft Abatement grant program to remove abandoned watercraft from California's waterways.
- Proposes an increase of \$1 million to establish a recruitment and training program for hard-to-fill classifications (lifeguards, park rangers, administrators, etc).
- Proposes an increase of \$18 million for the Jurupa Area Recreation and Park District.

TRANSPORTATION

Implementing the Road Repair and Accountability Act of 2017

- Includes \$2.8 billion in new appropriations, and distributes these partial-year revenues evenly between state and local transportation priorities. These allocations are described below.
- Provides \$1.4 billion for local streets and roads (\$445.4 million for local road maintenance distributed by the State Controller), transit and intercity capital rail (\$330 million), state transit assistance (\$305.1 million), local partnership program (\$200 million), active transportation (\$100 million), and local planning grants (\$25 million).
- Provides \$1.4 billion for the state's highway maintenance program (\$445.4 million), bridges and culverts (\$400 million), congested corridors (\$250 million), trade corridor enhancement (\$199.8 million), the Department of Parks and Recreation (\$54.3 million), Freeway Service Patrol (\$25 million), Department of Food and Agriculture (\$17.3 million), CSU and UC research (\$7 million), and to the Workforce Development Board (\$5 million).
- Provides \$4.1 million for administration to the State Controller's Office (\$100,000), the California Transportation Commission (\$200,000), and the Department of Motor Vehicles (\$3.8 million).

State Transit Assistance Program

- Provides \$305.1 million Public Transportation Account to local transit agencies for operations and capital costs.

California Transportation Agency

- Includes \$25 million from the Public Transportation Account for the Intercity and Commuter Rail Program.

California Transportation Commission

- Provides \$1.1 million from the Public Transportation Account and the State Highway Account for 4.0 positions to oversee the management of the State Highway Operation and Protection Program and Local Streets and Roads Program Funding.

California Department of Transportation

- Provides \$445 million for highway repair and maintenance from the Road Maintenance and Repair Account (RMRA) and the redirection of 48 positions to accelerate repaving efforts and pavement repair projects.
- Provides \$400 million for increased bridge and culvert repairs from RMRA.
- Provides \$250 million for solutions for the Congested Corridor Program from RMRA.
- Provides \$200 million for the Trade Corridor Enhancement Program.
- Provides \$25 million for expanded freeway services patrols.
- Includes \$330 million for the expanded transit and intercity rail capital program from the Public Transportation Account, including \$85 million in General Fund loan repayments.
- Provides \$200 million in matching funds for the Local Partnership Program in jurisdictions which contribute new locally-generated revenues.
- Provides \$100 million for the Active Transportation Program
- Includes \$25 million in local planning grants to update regional transportation plans consistent with SB 375.
- Provides \$40 million RMRA to redirect 195 positions to initiate the most urgent pavement repair projects. Future staffing needs will be determined.
- Includes \$9.5 million from the State Highway Account to establish the new Office of the Inspector General. The office will have 58 positions. 10 of these are new positions and the remaining 48 are redirected from Caltrans' Division of Audits.

Department of Motor Vehicles

- Includes \$3.8 million from RMRA for higher credit card transaction costs associated with collecting the additional Transportation Improvement Fee revenues.
- Provides \$1.8 million General Fund and \$5.2 million Motor Vehicle Account to implement a single-step opt-out voter registration process pursuant to AB 1461

(Gonzalez, Chapter 729, Statutes of 2015).

- Provides \$23 million Motor Vehicles Account and 166 positions to address workload requirements associated with conforming to federal requirements for driver licenses and identification cards.

ENERGY

Public Utilities Commission

- Transfers select transportation functions effective July 1, 2018 as follows:
 - Private carriers of passengers - Transfers to the Department of Motor Vehicles.
 - Household goods carriers - Transfers to the Department of Consumer Affairs' Bureau of Electronic and Appliance Repair, Home Furnishings and Thermal Insulation.
 - For-hire Vessels - Transfers to the Department of Parks and Recreation's Division of Boating and Waterways.
 - Commercial air operators - Transfer to local jurisdictions.

GENERAL GOVERNMENT

State Retirement Contributions

- Proposes a one-time \$6 billion (loan from the Surplus Money Investment Fund) supplemental payment to the California Public Employees Retirement System (CalPERS) in 2017-18. This action doubles the state's annual payment and will mitigate the impact of the increasing pension contributions and the CalPERS Board's recent action to lower its assumed investment rate of return from 7.5 percent to 7 percent.

Employee Compensation and Collective Bargaining

- Reflects a \$20 million General Fund increase and a \$3 million other funds decrease for adjustments related to employee compensation resulting from increased enrollment in health and dental plans for active state employees as well as retiree health care prefunding for active employees. These costs include salary and benefit increases as a result of recent contract negotiations with the Union of American Physicians and Dentists.

Public Employment Relations Board

- Proposes \$750,000 General Fund to address the Board's budgetary pressures and provide appropriate level of funding to support existing permanent positions.

Board of Equalization

- States that on April 13, the Governor said that he would convene legislative leaders to identify and enact changes by June 2017 to address the troubling problems at the BOE. Conversations between the Administration and the Legislature are ongoing.

Cannabis Regulation

- Proposes an additional \$43.2 million for cannabis related activities for a total of \$94.6 million in 2017-18.
 - Department of Fish and Wildlife - \$17.2 million from multiple fund sources and 63 positions to support the development and implementation of the regulatory programs by the CDFA and State Water Resources Control Board. The Department will consult on fish and wildlife considerations related to the development of regulations and guidelines by CDFA and the Water Board, provide law enforcement to support regulatory compliance efforts, and issue Lake and Streambed Alteration Permits or notifications that a permit is not

needed for each proposed cannabis cultivation site.

- Water Board - \$9.8 million from multiple fund sources and 65 positions to develop a statewide water quality permit and expanded water rights registration process for cannabis cultivation.
- Department of Pesticide Regulation - \$1.3 million Cannabis Control Fund to develop and update guidelines for pesticide use on cannabis, prepare training programs and outreach materials to inform cultivators and protect workers during cultivation and harvesting processes, and evaluate requests for Special Local Needs pesticide registrations.
- Cannabis Control Appeals Panel - \$1 million Cannabis Control Fund and 8 positions to provide the necessary resources for the operations of the Appeals Panel.
- Bureau of Cannabis Control - \$664,000 Cannabis Control Fund and 5 positions for environmental impact review activities required under CEQA.
- Department of Public Health - \$9.3 million Cannabis Control Fund to implement cannabis manufacturer regulations, licensing, enforcement, training, and information technology activities by January 1, 2018 statutory deadline.
- Department of Food and Agriculture - \$3.9 million Cannabis Control Fund and 10 positions for required environmental impact review activities. The funding also will support information technology projects and cooperative agreements with County Agricultural Commissioners for cannabis cultivation licensing, inspection and enforcement.

Precision Medicine

- Provides \$10 million for Precision Medicine through grants provided by the Office of Policy and Research.

Governor's Office of Economic Development

- Proposes \$2 million for the Go-Biz to draw down federal funds made available to the California Small Business Development Center network efforts to expand small businesses in California.

Community Based Transitional Housing Program

- May Revision broadens the purpose for which cities and counties may use their funds based including:

- Allow cities and counties to provide a portion of their program funds to the facility operator, if the facility operator agrees to use those funds for facility operations and services to residents. There is no limit on the amount the city and county may provide to the facility operator.
- Allow cities and counties to use program funds for other purposes that their governing boards determine are in furtherance of the program's goals as long as the proposed uses are specific in the application.

2016 Budget Act Funding

- Moves ahead with \$11 million in General Fund spending for low carbon fuel research at the Lawrence Berkeley National Lab, atmospheric rivers research at UC San Diego, and allocation for the Armenian Museum, Pasadena Playhouse, Excelsior Auditorium, Lark Music Society and Micke Grove Zoo.

TAXATION AND REVENUE

Revenues

- Provides that from 2015-16 through 2017-18, the May Revision revenue forecast has increased by \$2.5 billion. The following factors contribute to the increase:
 - Personal income tax receipts are up \$2.9 billion due to the recent strong stock market performance, which is forecast to increase capital gains significantly in 2017.
 - Sales tax revenues were revised down by \$1.2 million, reflecting weak cash receipts.
 - An increase of \$400 million in corporation tax revenues due to largely lower refunds and higher payments to prior years.
- Provides that after accounting for transfers such as the Rainy Day Fund, General Fund revenues under the May Revision forecast are lower than the Governor's Budget by \$225 million in 2016-17 and higher by \$1.9 billion in 2017-18.

Earned Income Tax Credit

- States that over 300,000 households have claimed the EITC so far this year. Credit usage is estimated to at \$200 million in tax year 2016 and also in tax years 2017 and 2018 as the job market remains strong.

PUBLIC SAFETY

Department of Corrections and Rehabilitation

- Includes total funding of \$11.4 billion (\$11.1 billion General Fund and \$308 million other funds) for the operation of the Department of Corrections and Rehabilitation in 2017-18.
- Projects the average daily adult population to be 129,275 in the current year and 127,693 in the budget year, an increase of 260 in 2016-17 and a decrease of 466 inmates in 2017-18.
- Projects the average daily parolee population to be 44,445 in the current year and 47,274 in the budget year, an increase of 759 in 2016-17 and 2,513 parolees in 2017-18.
- Decreases the population cost estimate by \$29.4 million General Fund in 2016-17 and \$21.3 million General Fund in 2017-18.
- Decreases the juvenile population by 22 wards in the current year and 43 wards in the budget year, resulting in a decrease of \$813,000 General Fund in 2016-17 and \$3.3 million General Fund in 2017-18.
- Revises the average daily population projections for wards to 683 in the current year and 736 in the budget year.
- Estimates that Proposition 57 will result in net savings of \$38.8 million in 2017-18, growing to net savings of approximately \$186 million in 2020-21. These estimates will be updated in the 2018-19 Governor's Budget based on the final regulations.
- Requests an additional \$1 million (for a total of \$6.7 million) General Fund to implement Proposition 57. 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.
- Reflects the accelerated implementation dates proposed in the emergency regulations of Proposition 57, which results in a revised estimated population impact of 2,675 inmates in 2017-18, growing to an inmate reduction of approximately 11,500 in 2020-21. Although these numbers are preliminary, the Administration expects this reduction of inmates to allow the Department to

remove all inmates from one of two remaining out-of-state facilities in 2017-18, and begin removing inmates from the second facility as early as January 2018.

- Requests \$6.7 million in 2017-18 and \$5.9 million ongoing to provide each institution with two canine teams to conduct routine searches of housing units, classrooms, offices, buildings and primary entrance points for contraband, including incoming mail and packages, as well as the institution perimeter, parking lots, and vehicles. The Department currently has 28 permanent teams and is seeking an additional 42 canine teams.
- Requests an additional \$34.9 million to replace roofs at institutions that were heavily impacted by severe storms over the last year – Salinas Valley State Prison, Pleasant Valley State Prison, and the California Correctional Institute.
- Updates the Proposition 47 net savings estimate to \$45.6 million when comparing 2016-17 and 2013-14, an increase of \$3.5 million over the estimated savings in 2015-16 and an increase of \$2.6 million over the January estimate for 2016-17. Savings are currently estimated to increase to approximately \$75 million by 2019-2020.
- Proposes an increase of \$4.4 million (for a total of \$15.4 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.

Department of Justice

- Requests \$6.5 million General Fund and 31 positions for the Department of Justice to address new legal workload related to various actions taken at the federal level that impact public safety, healthcare, the environment, consumer affairs, and general constitutional issues. The Department anticipates a continued level of legal workload to address concerns regarding further actions taken at the federal level.

Office of Emergency Services

- Proposes \$500,000 from the Antiterrorism Fund for the California Nonprofit Security Grant Program, which provides support for target hardening and other physical security enhancements to nonprofit organizations that are at high risk of terrorist attack.