ASSEMBLY BUDGET COMMITTEE

Preliminary Review of the Governor's Proposed

2018-2019

STATE BUDGET ACT

PHILIP Y. TING

ASSEMBLY BUDGET COMMITTEE CHAIR

February 12, 2018

Dear Colleagues and Friends:

I am pleased to present to you the Assembly Budget Committee's annual ***Preliminary Review of the Governor's Proposed 2018-19 State Budget***.

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

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

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

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

Sincerely,

PHILIP Y. TING, Chair

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OVERVIEW

Governor Brown has released his final budget as Governor of California, proposing a balanced budget with plentiful reserves as the starting point for the 2018-19 budget process. However, the California State Assembly began its budget discussions weeks earlier. On December 13, 2017, Assemblymember Phil Ting, Chair of the Assembly Budget Committee, released the "Blueprint for a Responsible Budget". The Blueprint serves as an early outline of Assembly priorities that provide a starting place for developing the improvements and investments that will be included in the final budget.

The Blueprint for a Responsible Budget

The Blueprint articulates three major goals for the Assembly in 2018, with various specific proposals organized around these areas:

- **Be Responsible**
  - Fully fund the Rainy Day Fund this year.
  - Use one-time funds to pay down pension obligations at the State and local level.
  - Fund maintenance of state properties.
- **Make Progress**
  - Fully fund the Local Control Funding Formula (LCFF).
  - Expand the Earned Income Tax Credit to help minimum wage workers put more money in their pocket.
  - Increase College Affordability.
  - Reduce Prison Expenditures.
  - Expand early education to cover all four-year olds.
  - Expand health care coverage.
  - Fund career technical and special education.
  - Incorporate a Small Business and Jobs Package.

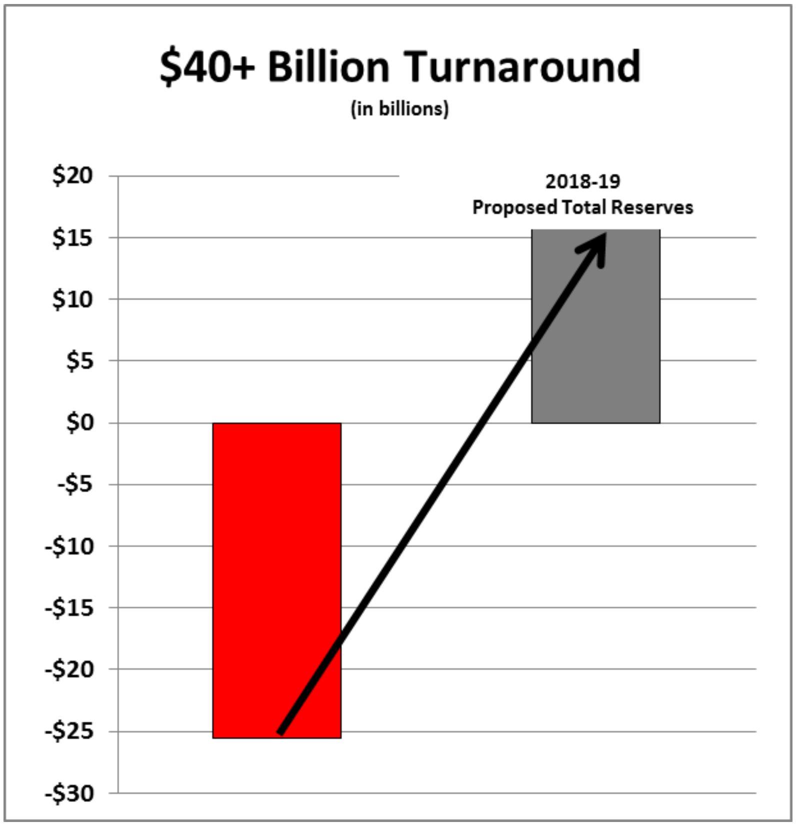
- **Do Our Job**
  - Exercise oversight.
  - Create more LCFF accountability.
  - Address funding problems with wildlife management.
  - Hold Air Resources Board accountable.
  - Stabilize court funding.

The Blueprint was based on the Legislative Analyst's Office "Budget Outlook" publication, which forecasted $7.5 billion of an available funding balance in 2018-19 for priorities.

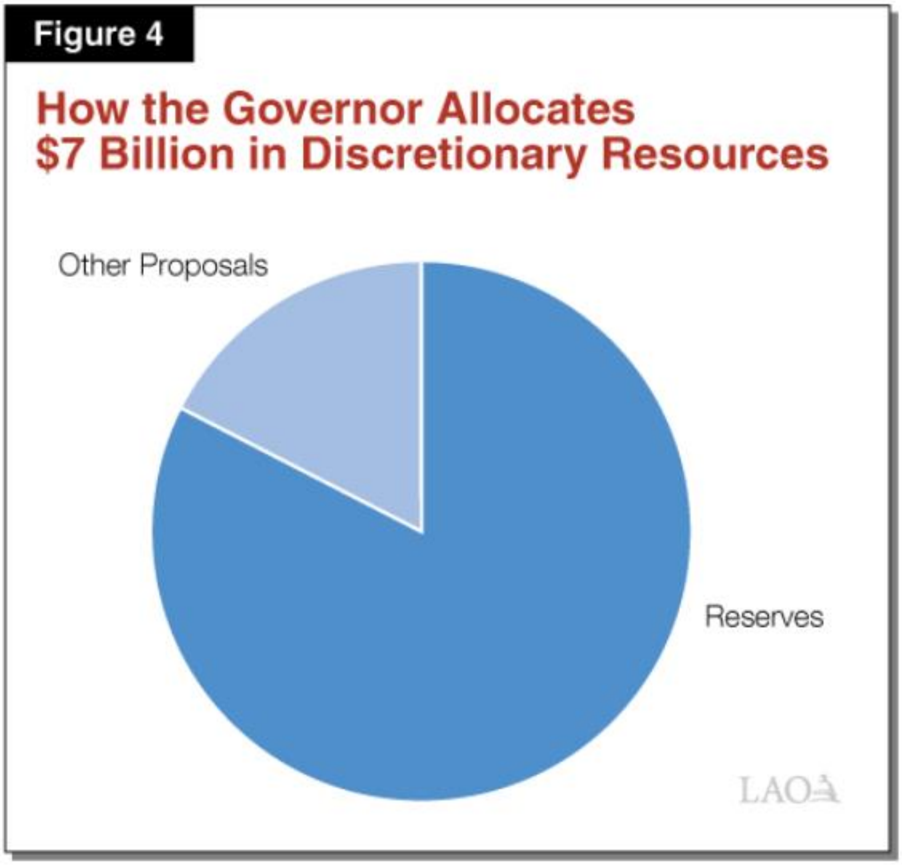
The Blueprint allowed the Assembly a chance to envision the budget and creates a template for discussing priorities to kick off the Legislative budget process. The Blueprint has already provoked discussions, including elements of praise or criticism, and sometimes both. The discussion will be further informed by the input of the public during budget hearings as the Assembly builds toward the final budget plan in June.

The Governor's 2018-19 Budget Proposal

The 2018-19 Governor's budget proposal is the capstone of the Governor's eight-year reign of fiscal prudence. It celebrates the State's journey from perennial budget crisis to predictable budgets with robust reserves. The chart on the next page illustrates the $40 billion turnaround in the State's fortunes during Governor Brown's tenure in office:



The Governor's budget reflects the positive economy, projecting $7 billion in unallocated discretionary funding. The Governor proposes that much of this new funding be used for reserves. The LAO prepared the following chart to illustrate how reserves dominated the use of new funding:

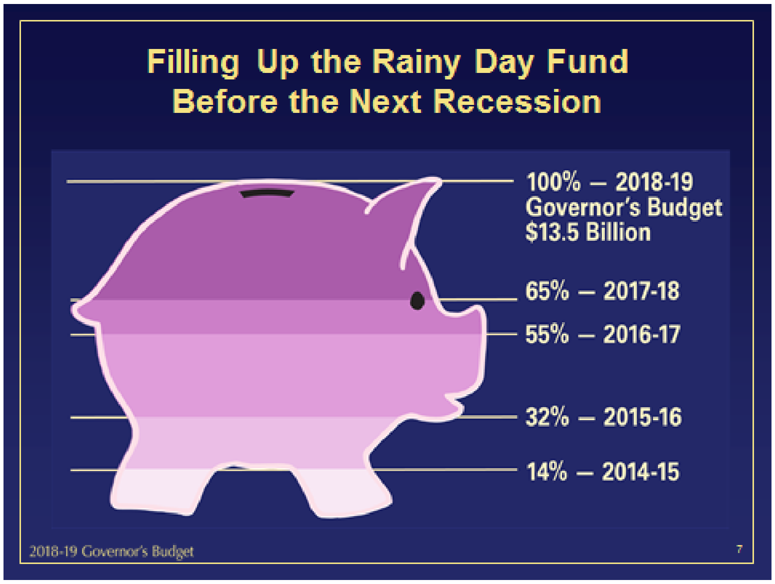


Reserves:

The Budget proposes $5.8 billion of reserves for the 2018-19 budget:

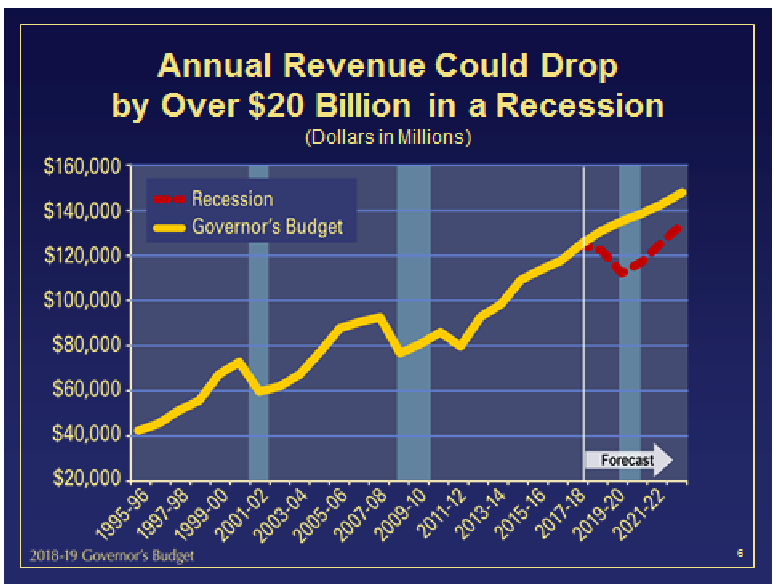
- $3.5 billion additional Rainy Day Fund deposit
- $2.3 billion regular “Special Fund for Economic Uncertainties” reserve.

The State’s reserves served as the most visible reminder of the State’s current fiscal health. In the budget presentation, the Governor used the following chart to illustrate the development of the State’s robust Rainy Day Fund.



Filling the Rainy Day Fund echoes the proposal from the Assembly Budget Blueprint.

While impressive, the Department of Finance provided the following moderate recession forecast, which would require the state to withstand a $20 billion hit to revenue.



Expenditure Proposals

The Governor's budget has several expenditure proposals, totaling $1.2 billion in various programs.

Several of these proposals echo ideas proposed in the Budget Blueprint:

- Fully fills the Rainy Day Fund to $13.5 billion, 10 percent of all General Fund revenue. The budget proposes a $5 billion transfer to this fund, $3.5 billion above the required level to insure the State is prepared for the future. Combined with the normal reserve of $2.3 billion, the State will have $15.8 billion in total reserve funding.

- Fully funds the Local Control Funding Formula with $3 billion in additional funding, increasing per pupil funding by $465 (4.2 percent) to $11,614.

- Provides new funding for Career Technical Education and Special Education.

- Extends the California Competes tax credit and provides tax incentives targeted to small business.

- Increases funding for courts operations by $150 million to improve public access.

- Provides $50 million to stabilize and expand the Department of Fish and Wildlife's activities, including efforts to protect California's native species.

- Funding deferred maintenance and infrastructure projects.

In addition, the Governor's proposal has a few new proposals for the Assembly to consider:

- Proposes a new funding mechanism for California Community Colleges and proposes a new dedicated on-line campus.

- Suggests a new Cap and Trade investment plan.

- Infrastructure investments at schools, courts, and correctional institutions, as well as proposed allocation of bonds pending before voters in 2018.

Early Thoughts on 2018:

May will Likely Bring Good News

The Governor's budget estimates do not reflect the unusually robust revenue the State collected in January, $2.7 billion above projections in the Governor budget. With the recent federal tax changes, some of this revenue is likely the one-time prepayment of 2018 tax obligations.

Income Tax Collections Running $2.7 Billion Above Projections
In Millions, Based on Preliminary Agency Cash Data

	January 2017			Fiscal Year to Date		
	Actual	Projection	Difference	Actual	Projection	Difference
Personal Income Tax						
Withholding	$7,257	$6,446	$811	$37,126	$36,319	$807
Estimated Payments	6,516	4,943	1,573	21,770	20,210	1,560
Refunds	-524	-520	-4	-3,572	-3,572	0
Prop. 63 Allocation	-233	-191	-42	-974	-932	-42
Subtotals	$13,016	$10,677	$2,339	$54,351	$52,025	$2,326
Corporation Tax						
Collections	$584	$439	$145	$5,849	$5,482	$367
Refunds	-61	-99	37	-1,029	-1,051	22
Subtotals	$522	$340	$182	$4,820	$4,432	$389
Total	**$13,538**	**$11,017**	**$2,521**	**$59,171**	**$56,456**	**$2,714**

How much additional revenue will the state have and is that revenue sustainable or will it only be available one time? These questions will frame the size and scope of the 2018 budget plan. The Assembly will have to consider how to shape its budget plan to fit many different possible revenue scenarios. It will be difficult to know before the May Revision, when additional collection data will be available.

In addition to these collections, the State will benefit from the recent extension of the Children's Health Insurance Program, which is projected to save the State $900 million over two years from lower state costs for these programs than projected in the Governor's January budget proposal.

How big should our reserves be and how much should we put in the Rainy Day Fund?

Both the Budget Blueprint and the Governor's budget envision completely filling the Rainy Day Fund to prepare for future downturns. However, the Assembly could consider a few different alternatives towards achieving this goal. For example, the Assembly could make the normal Special Fund for Economic Uncertainties larger as a substitute or complement to the State's Rainy Day Fund. The Assembly could choose to fill the Rainy Day Fund and complement it with a large regular reserve—or—make the regular reserve larger as a mechanism to save outside of the Rainy Day Fund. Alternatively, California could build its financial cushion by prepaying some future expenses, thereby freeing up budgetary resources in the future.

The Governor's Budget Framework Offers Room for Assembly Priorities

2018 offers a unique opportunity for the Assembly. The budget has a robust structural surplus that can be used to expand programs, return funds to taxpayers, or do a combination of both approaches. The Budget Blueprint identified several significant program expansions—providing universal early education for four-year olds, expanding medical coverage to all Californians, providing low-wage workers with tax credits through the state Earned Income Tax Credit program, and reducing college costs for middle class families. It is possible for one or more of these programs, or ongoing programs of a similar size, to be undertaken within the existing budget framework, still leaving significant resources for reserves and to reduce liabilities. However, it is unlikely that all of these major initiatives can be undertaken at once, so the budget discussion will need to prioritize these important goals.

Likely One-Time Funding

The recent changes to federal tax policy have likely provided the State with a one-time tax windfall, as taxpayers rushed to pay tax liabilities in 2017 that would no longer be deductible in 2018. Combined with savings realized from the extension of the Children's Health Insurance Program at the federal level will likely provide California with a substantial one-time savings that can be used for one time purposes like paying debts, infrastructure improvements, pilot programs, and one-time projects. The Assembly should consider one-time projects that may merit consideration for inclusion in the budget.

HEALTH

In the world of health and health care, 2018 offers much to be grateful for…namely, the current score in the war on health care: Nation-1, Trump-0. Last year at this time, a blanket of fear and anxiety covered most of the country in the face of threats to repeal the Affordable Care Act (ACA) and to block-grant the Medicaid program. Now, a year later, we're still standing with the only significant casualty thus far being the individual mandate. Now, after a few years of explosive growth in the Medi-Cal program, the caseload has stabilized at approximately 13.5 million Californians. Covered California continues to see unprecedented enrollment numbers year after year. The uninsured rate in California is at an all-time low of 7 percent. Life is good, and in light of this good news (or perhaps the absence of bad news), 2018 holds much promise and opportunity for California.

Therefore, 2018 can and should be a year of great progress in health, which could include: extending insurance coverage to all Californians; increasing investments in Medi-Cal and Denti-Cal in ways that could truly improve access to care for the over 13 million Californians already enrolled; and making California a national and international leader in public health. Obesity-related health conditions, such as diabetes and heart disease, continue to sicken millions of Californians and drive up health care costs. Infectious diseases also may be on the rise. Finally, public health research has the potential to unearth life-saving gun safety strategies.

With a proposed Department of Health Care Services budget of $104.5 billion (including Medi-Cal at $101.5 billion, $21.6 billion General Fund), health makes up the second-largest portion of the state budget after K-12 education. The second largest department within health is the Department of Public Health with its budget of $3.2 billion ($138 million General Fund). In third place, with $1.9 billion ($1.75 billion General Fund) is the Department of State Hospitals. This area of the budget also includes: the Department of Managed Health Care, Office of Statewide Health Planning and Development, Emergency Medical Services Authority, and the Mental Health Services Oversight and Accountability Commission. All told, health makes up 21.5 percent ($28.3 billion) of the Governor's proposed General Fund budget of $132 billion. While these are big numbers, one should not lose sight of how big California is, and how big the unmet need is, despite these substantial resources.

Major Issues in Health

Are Medi-Cal Rates Too Low to Ensure Access to Care? A combination of research and anecdotal information points to California having close to the lowest Medicaid rates of any state. 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. Nevertheless, 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. It is more challenging to assess the appropriateness of provider rates within managed care and to compare them to other states and other health care systems.

Medi-Cal resources increased last year as a result of Proposition 56 which was passed by the voters in 2016 primarily to increase resources for the state's health care safety net and specifically to improve access to care. The 2017 Budget Act includes approximately $1.2 billion in Proposition 56 revenue for Medi-Cal, of which $546 million is dedicated to supplemental payments to providers as follows:

- $465 million in 2017-18 and 2018-19 for Medi-Cal rate increases for physicians ($325 million) and dentists ($140 million).

- $50 million in 2017-18 and on-going for rate increases for women's health services.

- $27 million in 2017-18 and on-going for Intermediate Care Facilities-Developmental Disabilities (ICF-DD).

- $4 million in 2017-18 and on-going to increase the Medi-Cal rates paid under the AIDS Waiver Program.

Likewise, it cannot be denied that significant resources are flowing into Medi-Cal as a result of the ACA; nevertheless, these investments 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, evidence exists showing that Medi-Cal beneficiaries, especially children, 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 at the Department of Public Health;
5. The 2016 Budget Act restored funding to re-establish the Dental Disease Prevention Program that brings preventive care and referrals to children in low-income schools;
6. The Dental Transformation Initiative is a significant component of the state's new 1115 Waiver;

7. The 2017 Budget Act and trailer bill restores the remaining uncovered optional Medi-Cal dental benefits beginning January 1, 2018; and

8. The 2017 Budget Act also includes $140 million in Proposition 56 revenue for supplemental payments to dental providers.

Public Health Remains Undervalued and Underutilized. California invests close to nothing in public health. This year's January budget includes $3.2 billion for the Department of Public Health, of which only $138 million is State General Fund. Federal funds make up the largest single source of funds in the department's budget at $1.6 billion. Not only is the amount of General Fund (and the percentage of the department's overall budget that is General Fund) tiny, but it also shrunk approximately 65 percent during the recessionary years. Prior to the recession, 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 reinvestments 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 included in final Budget Acts 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

2017 Budget Act:

- $3.7 million (General Fund) for three years and trailer bill to fund the Parkinson's Disease Program to collect incidence data on Parkinson's disease

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 reform 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:

- **Suicide Prevention.** Suicide rates are on the rise, especially among veterans, adolescents and rural populations. 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 and 2017 budgets each include $4 million (one-time Prop 63 funds) to backfill the loss of funding from counties for suicide hotlines. In light of rising suicide rates, coupled with this haphazard funding history, the 2017 Budget Act also includes Supplemental Reporting Language asking the Mental Health Services Oversight and Accountability Commission to produce a statewide suicide prevention strategic plan. 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 in 2016 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 the opioid overdose epidemic.

- **Opioid Epidemic.** Overall, the state has done relatively little to respond to the opioid epidemic, with the exception of $5 million one-time General Fund included in the 2016 Budget Act for the Department of Public Health to distribute Naloxone kits to community-based organizations, such as needle exchange programs. The 2017 Budget Act includes $44.7 million per year for 2 years in federal funding in the form of the Federal Cures Act Opioid Targeted Response Grant to provide increased medication-assisted treatment for individuals with substance use disorders. 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 (DSH) 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 budgets of the past several years have included significant new resources to expand bed capacity, including through jails, for the IST population but the hospitals have not been able to keep pace with the rising demand.

100 Percent Health Insurance Coverage Is Within Reach. Many people believe that access to health care is a human right. Fortunately, California is surprisingly close to ensuring access to care for ALL Californians with only an estimated 7 percent remaining uninsured. Health insurance coverage not only protects insured individuals by providing them access to care, it also serves a significant public health function by ensuring a healthier population overall and by reducing overall health care costs. Moreover, a significant portion of California's uninsured population is comprised of immigrants who face an unprecedented level of stress as a result of living in Trump's world. By reaching 100 percent coverage, California could help reduce that stress, improve the health of Californians overall, reduce health care costs, and make a major contribution to the Resistance.

Governor's January Budget Proposals in Health

DEPARTMENT OF HEALTH CARE SERVICES

For 2018-19, the Governor’s Budget proposes $104.5 billion for the support of the Department of Health Care Services (DHCS). Of this amount, approximately $685.3 million is budgeted for State Operations, while the remaining is for Local Assistance. The proposed budget reflects a $1.3 billion ($1.2%) 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 $101.5 billion ($21.6 billion General Fund), a $1.5 billion (7.6%) increase from the current year. The Medi-Cal estimate assumes caseload to be approximately 13.5 million in both 2017-18 and 2018-19.

Medi-Cal Major Provisions

- **Home Health Rate Increase.** DHCS is proposing a 50 percent rate increase for home health services provided through the fee-for-service system and home and community based waivers, effective July 1, 2018. The Governor’s budget assumes $64.5 million total funds ($31.6 million Prop 56 funds) for this increase in 2018-19.

- **Proposition 56.** For 2018-19, the Governor's budget proposes an increase of approximately $232 million in Proposition 56 funding for supplemental payments for dental and physician services, and maintains the supplemental payment or rate increases for all other affected providers (ICF-DD, HIV/AIDS Waiver and Women's Health Services). The total 2018-19 Proposition 56 funding for these providers, including the increase for doctors and dentists, is $649.9 million. DHCS estimates the total funding (both federal and Proposition 56) in 2017-18 for these payments is $1,147 million and in 2018-19 is $2,025 million.

Also noted in the Governor's budget, DHCS plans to analyze the impact of the FY17-18 payment changes and may modify or revise the methodologies for payments for services beginning in the budget year. If these payments are not demonstrating the intent of improving access to services for Medi-Cal beneficiaries, the Administration plans to work with the Legislature to modify the supplemental payments.

Finally, the budget includes $169.4 million (Prop 56) in 2018-19 to support new growth in Medi-Cal expenditures compared to the 2016 Budget Act.

- **Medi-Cal County Administration**. DHCS is proposing to increase the allocation for county administration of the Medi-Cal program to $2.01 billion in 2018-19. This proposal will provide an interim funding methodology for county administration activities for the Medi-Cal program while DHCS works with the counties, the County Welfare Director's Association, and the Department of Finance to develop the best mechanism to fund these activities in the future. The proposed amount combines the current-year base appropriation of $1.3 billion with the $655.3 million appropriated for implementation of the Affordable Care Act at the county level. This proposal also includes a cost-of-doing-business adjustment for counties in 2018-19 of $54.8 million, based on the projected Consumer Pricing Index of 2.8% for 2018-19.

  Also noted in the Governor's budget, DHCS plans to work with the counties to improve county performance in processing timely eligibility determinations and annual renewals, and for county data metrics to be more readily available for state and federal review.

- **340B Drug Billing Requirements Trailer Bill**. DHCS is proposing trailer bill related to the use of, and reimbursement for, drugs purchased under the 340B program in Medi-Cal. DHCS continues to have significant concerns regarding the use of the 340B program within Medi-Cal and the resulting costs and administrative burden it places on the state. The proposed trailer bill seeks to prohibit the use of 340B drugs in the Medi-Cal program, which is expected to enable the state to comply with existing federal law and eliminate the higher costs being paid through Medi-Cal as well as the administrative burden of ensuring 340B entities are appropriately following existing law and regulation. The trailer bill proposes to make this effective no sooner than July 1, 2019. The trailer bill also contains flexibilities for DHCS in the circumstance that CMS does not approve the complete prohibition, but does permit other types of limitations.

Other Key Issues in Medi-Cal

- **Hospital Quality Assurance Fee Administrative Cap Trailer Bill**. DHCS is proposing technical trailer bill changes to increase the funding authorized from the Hospital Quality Assurance Fee Program (HQAF) for DHCS administrative activities related to implementing the new directed payment program. The Final Medicaid Managed Care Rule issued in 2016 imposed significant changes to the way the QAF operates in the Medi-Cal managed care environment, resulting in significantly more complex and workload-intensive processes for implementation. The current statute limits HQAF funding for administrative activities to $250,000 per fiscal quarter. The trailer bill proposes to increase that to $500,000 per fiscal quarter.

- **Public Freestanding Non-Hospital Based Clinics (PFNC) Supplemental Reimbursement Program Trailer Bill**. DHCS is proposing to repeal the PFNC program from statute as they have found there to be insufficient interest for it be administratively feasible for both the department and clinics. The program was authorized under AB 959 (Chapter 162, Statutes of 2006) and was intended to allow public clinics to obtain additional federal funding reimbursement without an impact to State General Fund.

- **Major Medi-Cal Estimate Adjustments**. The Medi-Cal estimate includes the following major adjustments and assumptions:

    - Assumes an 88 percent federal financial match for the Children's Health Insurance Program (CHIP) through December 31, 2017, and a 65 percent match beginning January 1, 2018, consistent with the 2017 Budget Act.

    - Estimates Proposition 56 (2016 tobacco tax) revenue to be $1.9 billion for 2017-18 (including one quarter of 2016-17) and $1.3 billion in 2018-19.

    - Increases the current year Medi-Cal budget by $543.7 million General Fund, compared to the 2017 Budget Act, to cover retroactive payments of drug rebates to the federal government and a higher estimate of Medi-Cal managed care costs.

    - Includes funding to cover the costs of the optional Medicaid expansion under the Affordable Care Act (3.9 million Californians), reflecting the state's portion of the costs rising to 6 percent on January 1, 2018, including $17.7 billion ($1.4 billion General Fund) in 2017-18 and $22.9 billion ($1.6 billion General Fund) in 2018-19.

- **Resources Requested.** DHCS is requesting approximately $15.6 million ($7.7 million General Fund), 23 new permanent positions, the conversion of 18.5 existing limited-term positions to permanent, 32.5 new limited-term positions, and the limited-term extension of 18 existing limited-term positions to support workload associated with the following:

    - Health care reform financial reporting;
    - Orange County office consolidation;
    - Federal managed care regulations implementation;
    - HIPAA Privacy Rule compliance;
    - 1115 Waiver ("Medi-Cal 2020") implementation;
    - Mental Health Services Act oversight and implementation of related legislation;
    - Graduate Medical Education Program oversight and monitoring;
    - Hospital Quality Assurance Fee program workload;
    - Federally Qualified Health Center audits (AB 1863); and
    - Drug Medi-Cal and Specialty Mental Health Services: Federally Qualified and Rural Health Centers (SB 323) implementation.

DEPARTMENT OF PUBLIC HEALTH

The Governor's proposed 2018-19 budget provides the Department of Public Health (DPH) approximately $3.2 billion overall, representing a $2.4 million (0.1%) decrease from the revised current year DPH budget. General Fund dollars of $138 million make up just 4.3 percent of the department's total budget while federal funds make up approximately 50 percent of the total department budget. The remainder of funding comes from special funds and reimbursements.

Major Provisions

- **New Los Angeles County Licensing & Certification Contract**. The Governor's budget announces that DPH is working with Los Angeles County (LA) to develop a new comprehensive contract for the County to conduct 100 percent of the regulatory work within LA, beginning in 2019-20. The new contract will include pay-for-performance metrics.

- **Increased LA County Licensing Fees**. Proposes trailer bill to authorize assessment of a supplemental fee on health care entities located in LA beginning in 2018-19 to cover increased costs of the new contract as compared to the current contract, which only covers a portion of the workload in LA.

Other Key Issues

- **Resources Requested.** DPH is requesting approximately $12.9 million ($3.5 million General Fund), 37 new permanent positions and the conversion of 11 existing limited-term positions to permanent. These resources are being requested to support workload associated with the following:
    - Alzheimer's Disease Program grant awards;
    - Expanded lead testing for children (AB 1316);
    - Public beaches: inspection for contaminants (SB 1395);
    - New genetic disorders (SB 1095) and second tier testing;
    - Infant and Early Childhood Home Visiting Program;
    - Birth certificate processing increase for Real ID Act compliance;
    - Los Angeles County Licensing and Certification contract extension; and
    - AIDS Drug Assistance Program eligibility and enrollment.

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 2018-19 budget proposes $79.2 million, a decrease of $1 million (1.2%) from current year spending for DMHC's overall budget.

Major Provisions

- **Conversion of Limited-Term Federal Mental Health Parity Compliance Review Resources.** DMHC requests conversion of $529,000 (Managed Care Fund) limited-term expenditure authority to ongoing for clinical consultants to conduct the review of plans' classification of benefits, quantitative treatment limits (QTLs) and non-quantitative treatment limits (NQTLs), update the clinical aspect of compliance filing instructions and forms on an ongoing basis, and resolve clinical issues arising in compliance filings associated with the oversight of compliance with the federal Paul Wellstone and Pete Domenici Mental Health Parity and Addiction Equity Act (MHPAEA) and its Final Rules.

- **Prescription Drug Cost Transparency (SB 17).** DMHC requests 1.0 permanent position and expenditure authority in the amount of $307,000 (Managed Care Fund) in Fiscal Year (FY) 2018-19, $281,000 in FY 2019-20 and ongoing to implement Chapter 603, Statutes of 2017 (SB 17), to analyze the data submitted by the plans and perform the functions required by this bill.

OFFICE OF STATEWIDE HEALTH PLANNING AND DEVELOPMENT

For 2018-19, the Governor's Budget proposes $145 million for the Office of Statewide Health Planning and Development (OSHPD), a 14 percent ($23 million) decrease from the current year budget. Of this amount, approximately $106 million is budgeted for State Operations, while the remaining is for Local Assistance.

Major Provisions

- **Prescription Drug Cost Transparency (SB 17).** SB 17 requires OSHPD to implement a new prescription drug-costing reporting program. Therefore, OSHPD requests 3.0 positions and $500,000 expenditure authority in 2018-19, 5.5 positions and $850,000 expenditure authority in 2019-20, and 5.5 positions and $800,000 expenditure authority ongoing from 2020-21.

DEPARTMENT OF STATE HOSPITALS

The Governor's proposed 2018-19 Department of State Hospitals (DSH) budget includes total funds of $1.9 billion dollars, of which $1.75 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 2018-19 budget is a $225.6 million (13.3%) increase from current year funding, primarily reflecting the Governor's proposal to make a substantial increased investment in reducing the waiting list for Incompetent to Stand Trial treatment, as described below.

Major Provisions

- **Expands Incompetent to Stand Trial (IST) Response**. The budget seeks to expand capacity to serve IST referrals from courts by:
  - Including $117.3 million ($114.8 million General Fund) to further develop the state-county partnership to address the growing number of IST commitments referred to DSH. It proposes that $100 million General Fund be available over three years for community alternatives to increase diversion of mentally ill offenders and decrease county IST referrals to state hospitals.

- Including $14.8 million General Fund to support a partnership with Los Angeles County for up to 150 IST patients, supporting three levels of treatment options in community settings.
- Including $16.1 million General Fund to contract for up to 159 additional jail-based competency treatment beds in existing and new programs.

Other Key Issues

- **Secure Beds at Metropolitan**. Proposing $53.1 million General Fund and 346.1 positions to add 236 secured, forensic beds at Metropolitan State Hospital.
- **Mentally Disordered Offender beds at Coalinga**. Proposing $11.5 million General Fund and 81.2 positions for the activation of 80 Mentally Disordered Offender beds at Coalinga State Hospital to offset reductions resulting from the conversion of units for the Enhanced Treatment Program.
- **Unified Hospital Communications Public Address System – Phase 2.** DSH is requesting funding for the Unified Hospital Communications Public Address System (UHCPA) Phase 2 project and funding to support an increase in maintenance costs from what was originally anticipated for UHCPA Phase 1. The second phase of the UHCPA project will provide the installation of a Public Address (PA) system at the Metropolitan, Atascadero, and Napa hospital locations. This General Fund request includes 2.0 full-time permanent positions and $359,000 in 2018-19, $4.6 million in 2019-20 and $7.7 million in 2020-21, and $3.7 million ongoing starting in 2021-22.
- **Ongoing Costs for Personal Duress Alarm System**. DSH requests $2.7 million General Fund and ongoing in support of ongoing maintenance needs of the 2013-14 previously approved Personal Duress Alarm System Project.
- **Information Security Program Expansion.** DSH requests 2.0 full-time permanent positions and $3.1 million General Fund in 2018-19 and $1.7 million ongoing to provide staffing for adequate protection of DSH information assets and to remediate findings identified in recent security assessments as required by Section 5300 of the State Administrative Manual and Health Insurance Portability and Accountability Act.
- **Electronic Health Records Planning**. DSH requests authority for 4.0 permanent, full-time positions and $1,267 million in 2018-19 and $713,000 in 2019-20 to complete Stages 3 and 4 of the Project Approval Lifecycle, including solution development/procurement and project readiness of an Electronic Health Record.

- **Capital Outlay.** The budget requests resources for the following facility improvement construction projects:
  - **Metropolitan: Fire Alarm System Upgrade.** DSH requests $3.4 million in 2018-19 to upgrade the existing fire alarm systems for the Chronic Treatment East building at Metropolitan.
  - **Patton: Fire Alarm System Upgrade.** DSH requests $9.4 million in 2018-19 to remove and replace deficient SimplexGrinnell Fire Alarm Control Panels and associated components in four patient-occupied buildings at the Patton.
  - **Coalinga: Courtyard Expansion Reappropriation**. DSH is requesting $5.7 million General Fund reappropriation 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 $1.5 million General Fund to construct a new building to consolidate the Hospital Police Services, the Office of Special Investigation and the Emergency Dispatch Center. The new building will allow for the consolidation of hospital police services into a single location and include the demolition of seismically deficient buildings.

MENTAL HEALTH SERVICES

OVERSIGHT & ACCOUNTABILITY COMMISSION

The Mental Health Services Oversight & Accountability Commission (MHSOAC) proposed 2018-19 budget is $69.9 million, an $8.9 million (11.3%) decrease from current year funding. Nearly all of MHSOAC's funding is Proposition 63 (Mental Health Services Act) state administration funding.

Major Provisions

- **County Innovation Plans Oversight and Incompetent to Stand Trial (IST) Efforts**. The budget proposes $2.5 million per year (Mental Health Services Act state administration funding) for the MHSOAC to provide two years of consulting services to assist counties in developing Innovation Plans that incorporate ways to leverage and coordinate diversion programs to address IST populations.

EMERGENCY MEDICAL SERVICES AUTHORITY

For 2018-19, the Governor's Budget proposes $37.4 million for the support of the Emergency Medical Services Authority (EMSA). Of this amount, approximately $16.5 million is budgeted for State Operations, while the remaining is for Local Assistance. The proposed budget reflects a 0.5 percent increase from the current year budget.

Major Provisions

- **Increased Information Technology Security Resources**. EMSA is requesting resources to provide adequate staffing levels to strengthen the department's Information Technology (IT) infrastructure and compliance with State policy and procedural requirements. Specifically, EMSA proposes 1.0 permanent position and a $356,000 General Fund augmentation in 2018-19, which includes one-time funding of $196,000 for IT infrastructure improvements, and on-going funding of $189,000 in 2019-20.

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. It reflects California's healthy economy and stable budget. Nevertheless, the Governor chose not to address several critical health issues that continue to diminish the quality of life for many Californians. The following are some areas in which more discussion and resources may be warranted:

- **Medi-Cal Rates Improve Yet Lack a Long-Term Solution.** The Governor's proposed budget increases the amount of Proposition 56 revenue, by $232.8 million, for funding two significant rate increases: 1) $163 million for physician supplemental payments and $70 million for dental payments; and 2) $64.5 million ($31.6 million Proposition 56 funds) for a 50 percent rate increase, and resulting increased utilization, for home health providers. These new proposals, coupled with the Proposition 56-funded rate increases and supplemental payments approved in 2017, represent a significant step forward on this issue. Nevertheless, it remains challenging to measure how big of a step this really is, and how much further the state needs to go. Arguably, the state continues to have a long way to go, particularly in light of the fact that "supplemental payments" are just that – supplemental payments, not rate increases. These payments are not established in statute and are not assumed to be on-going. It is difficult to imagine how supplemental payments, that are potentially short-term, could attract the increased provider participation that is necessary to significantly improve access to care, the very intent of Proposition 56.

Therefore, the Medi-Cal program would benefit from the Legislature doing the following: 1) providing improved oversight over DHCS's process for monitoring access to care; 2) gaining a clearer understanding of California's provider rates and a way to assess their impact on access to care; and 3) a determination of the effectiveness of supplemental payments in improving access to care.

- **Denti-Cal's Future Remains Uncertain**. The Governor's budget proposes an increase of $70 million for Proposition 56-funded supplemental payments, as described above. Given the extensive reforms and investments made to Denti-Cal over the past several years, the Legislature's focus should be on oversight of implementation of the many changes and new payments that are underway in the program. As discussed above related to Medi-Cal generally, the Legislature needs better information about how DHCS monitors access and how to effectively measure the adequacy of California's dental provider rates.

- **California Could Lead the World Through Public Health**. The Governor's budget makes no new significant investments in public health, thereby bypassing a significant opportunity for California to lead the nation into a healthier, safer era. By making a significant investment, 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. By addressing the most common childhood ailments such as asthma and oral health problems, California could set a national example of reducing school absences, thereby minimizing the achievement gap and reducing poverty.

    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 is especially so under Trump who undermines science, research, and health care.

- **Budget Could Do More for Mental Health and Substance Use Disorders.** The Governor's budget includes only one major new investment in this area, which seeks to address the IST waiting list within the Department of State Hospitals. Specifically, the Governor is proposing $100 million for the development of community alternatives to increase diversion of mentally ill offenders. This proposal includes $14.8 million specifically for Los Angeles County to support three levels of treatment options in community settings for 150 IST patients. The budget also includes modest resources needed in State Operations at DHCS to strengthen program monitoring and oversight of the Mental Health Services Act (Prop 63); assist with the design and implementation of policies to administer various state and federal mental health programs; and, meet the requirements and specified functions of:

    - AB 501 (Ridley-Thomas, Chapter 704, Statutes of 2017) – Allows a Short-Term Residential Therapeutic Program to operate as a Children's Crisis Residential Program.

    - SB 1291 (Beall, Chapter 844, Statutes of 2016) – Requires each county mental health plan to be monitored and reviewed annually by an External Quality Review Organization beginning July 1, 2018, and for the review to include data for Medi-Cal eligible minor and non-minor dependents in foster care.

    - SB 323 (Mitchell, Chapter 540, Statutes of 2017) – Allows federally qualified health centers (FQHCs) and rural health clinics (RHCs) to be reimbursed directly from a county or the DHCS for providing Specialty Mental Health Services (SMHS) and Drug Medi-Cal (DMC) services to Medi-Cal beneficiaries. This legislation is expected to result in the expansion of these services by allowing them to be provided through FQHCs and RHCs.

  Beyond the IST backlog and implementation resources for the legislation mentioned above, the Governor's proposed budget remains largely silent on addressing California's vast unmet mental health and substance abuse needs. The budget fails to reflect, or even acknowledge, the massive impact mental illness and substance abuse have on many aspects of life in California….our criminal justice system, homelessness, poverty, and health care costs (to name but a few). The Legislature may wish to fill this leadership void by developing a roadmap or strategic plan on addressing these often-ignored illnesses that affect so many Californians directly, and all of us indirectly.

Getting to 100 Percent Coverage. The Governor's proposed budget does not directly expand opportunities for uninsured Californians to obtain health insurance coverage. Given California's immense progress in this area over the past few years, it only makes sense to take the last few strides to reach universal coverage. Many proposals to extend coverage to the remaining seven percent of Californians warrant serious consideration and the possibility of a substantial investment of resources to finally push us past the goal line.

HUMAN SERVICES

The Human Services field is comprised of programs that provide services and supports to vulnerable, underserved people and families, toward better life, social, and economic outcomes in the community.

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.

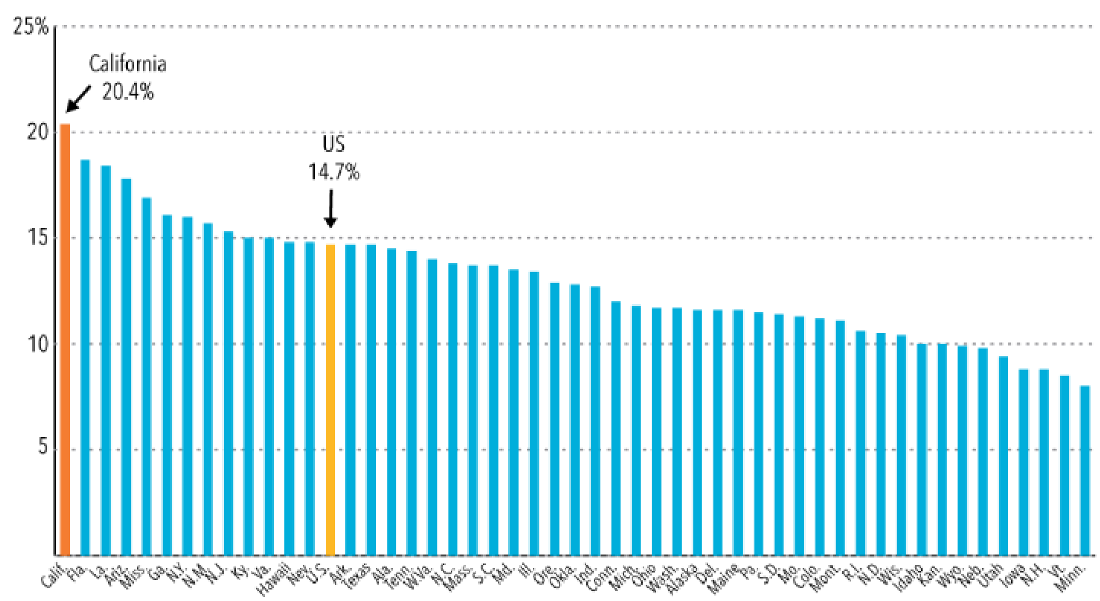
Developmental Services, which includes the administration of the Developmental Centers and Regional Centers in the state, through which care, treatment, and habilitation services are provided to residents and consumers who have one or more developmental disabilities.

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.

Poverty in California. 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 September 2017, around 8 million Californians — roughly 1 in 5 state residents (20.4 percent) — cannot adequately support themselves and their families, based on the Supplemental Poverty Measure (SPM). 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.

California Has the Highest Poverty Rate of the 50 States Under the Supplemental Poverty Measure (SPM)

State Poverty Rate Under the SPM, 2014-2016



Source: US Census Bureau

California Budget & Policy Center
Independent Analysis. Shared Prosperity.

Hunger in California. California faces a hunger crisis affecting 1 in 8 people statewide, including 1 in 4 children. Two of America's hungriest cities are Bakersfield (#1) and Fresno (#5).

How the Human Services Budget Has Responded. The Human Services budget in California has responded to these needs by making additional targeted, meaningful investments in the years of the economic recovery and expansion. 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.

In recent years, accomplishments in this area of the budget for major programs are described briefly below:

- In the CalWORKs program, serving families with children living in poverty, the state repealed the Maximum Family Grant policy, allowing 130,000 children to receive a benefit, expanded the Early Engagement programs, created the Housing Support Program (currently at $47 million), and eliminated the ineffective Statewide Fingerprint Imaging System.

- In the IHSS program, serving the aged and disabled, the state restored a seven percent service hours reduction ($266 million), implemented the Fair Labor Standards Act requirements and codified related protections important to consumers, and provided $400 million in support to counties as they adjust to a new state-county cost sharing arrangement.

- For the SSI/SSP program, provided a $45 million one-time investment to create a Housing Disability Advocacy Program to promote the transition for homeless aged, blind, and disability individuals into additional income support.

- The state created the Immigration Services Program with $45 million annual funding to contract with qualified nonprofit organizations to provide legal services, technical assistance, legal education, community education, and outreach to immigrants present in California about federal immigration remedies. This includes naturalization, affirmative immigration relief, removal defense, and Deferred Action for Childhood Arrivals (DACA).

- The state commenced implementation of the Continuum of Care Reform, providing additional supports to counties, foster families, and congregate care providers to transition children from group homes to family-based care, with the needed behavioral health services supports to address trauma. The proposed Governor's Budget includes $238.2 million ($179.7 million General Fund) for this effort.

- Invested significantly ($293 million in 2016) in the Developmental Services community services programs and continued the movement to close the remaining Developmental Centers, providing supports for consumers with complex and specialized needs in the community.

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 and expansion of the State Earned Income Tax Credit (EITC) and 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. Continued efforts to reduce poverty, particularly for children and seniors, remain central to the overall human services conversation.

Grant Levels for Those Most in Need. 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. Raising grants remains a core advocacy request among anti-poverty partners. Cost of living adjustments (COLAs) for both CalWORKs and SSI/SSP remain absent since their statutory removal during the Great Recession.

CalWORKs. CalWORKs has undergone vast changes over the past several years, some of which contracted the program's limits (i.e. restricting the number of months a case can receive supportive services to address employment barriers) and others that attempted to address those same stability issues for families, such as the creation of the Family Stabilization, Housing Support, and expanded Subsidized Employment components. Last year, in the 2017 Budget, the state adopted the CalWORKs Oversight and Accountability Review effort, which is proceeding to promote best practices in service delivery. The Governor's Budget introduces a long-sought effort to create a Home Visiting program for certain CalWORKs parents. Continued attention on how to improve the long-term outcomes for CalWORKs recipients and their children – with the goal of advancing the chances of a child being able to break the cycle of poverty that they might have been born into – is assured in the 2018 budget cycle.

In Home Care. IHSS serves over 545,000 disabled, frail, and aged recipients across California and is a fast-growing program. The needs of the aging population and the goal to keep people in their homes in the community are driving the program's expansion. A new federal requirement to electronically verify visits in IHSS, the implementation of electronic timesheets statewide in the current year, and the continued oversight over how the Fair Labor Standards Act is being implemented are all timely topics for IHSS in the current budget cycle. In addition, the new cost sharing arrangement and restructured Maintenance of Effort (MOE) requirement between the state and the counties is being implemented, and the commitment was made to reopen to discussion in the 2019 budget cycle.

Aged, Blind, and Disabled Californians. There are many near and long-term issues of need for aging, blind, and disabled Californians for the state to grapple with and consider how to address. Long-term care planning is critical given the demographic changes we can expect as a certainty over the next several decades. More immediately, the state of SSI/SSP grants continues to be a focus of advocates' attention. Consideration of the possibility of reversing the "SSI CalFresh Cash-Out" policy with a hold harmless approach has been urged and is examined. Whether this or a different strategy to raise the level of benefits for SSI/SSP clients is of great interest, along with efforts to provide more to senior nutrition programs, ombudsman services, and the concept of a state-led strategic plan for the aging population.

Implementation of the Continuum of Care Reform (CCR) in Child Welfare. Work to implement the complex, multi-faceted CCR effort is underway, with the state investing and directing work across the counties to implement new assessment and placement practices, improve and advance recruitment and retention of foster families, and convert group homes into short-term, residential treatment programs. Counties and child welfare advocates are raising issues for legislative consideration, including some concerns about the pace and demands of implementation. Delays in foster care payments to some newly-recruited families and ensuring that children with special needs are receiving the adequate level of support are some of the issues to grapple with as implementation continues.

CalFresh and Hunger. CalFresh, the state's primary nutrition program, serves 5.8 million per year and delivers food benefits of $7.6 billion. CalFresh rose to its peak caseload in 2016-17 and is expected to decline slightly in the current and budget years. Emergent issues include the expiration of the statewide waiver, expected in September 2018, allowing for Able Bodied Adults Without Dependents (ABAWDs) to continue to receive benefits if they're unable to meet a specified work requirement. A 55-county waiver application is still pending with the federal government. In addition, food and hunger advocates will ask for increased investment in emergency food to further augment an investment of $8 million that was approved as part of the 2017 Budget.

Developmental Centers and Regional Center Services. The three Developmental Centers (Sonoma, Fairview, and the General Treatment Area at Porterville) are undergoing efforts to transition their remaining consumers to community placements, with Sonoma set to complete this for its last consumers by the end of calendar year 2018. Recent state budgets have adopted investments to create community crisis and safety net facilities to assist with consumers who have complex, specialized needs. Regional center caseloads continue to increase and families and advocates are concerned about the long-term viability of providers in the community. 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. These are among the many topics for discussion and thoughtful consideration in the DD area.

Community Care Licensing (CCL). The CCL Division at DSS is refocusing its efforts on three priority areas: prevention, enforcement, and compliance. As part of this, CCL is developing a new model for inspections that fills in gaps in the current process and that providers much-needed Comprehensive Tools, Standard Tools, and targeted Specialty Tools to more efficiently guide licensing personnel to address areas of identified concerns. CCL has begun the work on the conceptual framework of the Inspection Tools for Adult and Senior Care and will next begin work on Children's Residential and Child Care.

Federal Risks and Uncertainties. At the time of this writing, it is uncertain what effects, if any, the federal budget or policy departures from the Obama Administration will have on Human Services programs in California. Staff will continue to monitor this and work with the various collaborative partners in formulating the 2018 Budget in such a way as to maximize the work that the state can do to address the most pressing concerns for California's most valuable asset, its people of all ages from all walks of California life.

Governor's January Budget Proposal in Human Services

DEPARTMENT OF SOCIAL SERVICES

The Department of Social Services (DSS) Local Assistance budget provides funding for a wide variety of social services and income assistance programs. The programs administered by DSS are managed and funded through a broad-based partnership of federal, state, and county governments. For 2018-19, DSS will be involved in the delivery of over $29.0 billion total funds ($8.4 billion General Fund [GF]) in program services and benefits for over 6.8 million of California's neediest and most vulnerable populations.

The display below identifies the estimated 2018-19 budget for DSS' major programs:

Program	Total	Federal	State	County	Reimb.
IHSS	$11.2	$0.0	$3.6	$0.0	$7.6
SSI/SSP*	2.8	0.0	2.8	0.0	0.0
CalWORKs	4.8	2.9	1.8	0.1	0.0
CalFresh*	1.8	0.9	0.6	0.3	0.0
Child Welfare	3.5	1.7	0.3	1.3	0.2
Foster Care	2.9	1.2	0.2	1.5	0.0

In Billions

*Excluding federally administered benefits.

The 2018-19 proposed Governor's Budget for DSS represents a decrease of $381.2 million total funds ($461.6 million GF increase) from the 2017 enacted Budget. The budget includes funding increases needed for Foster Care and Kinship Guardianship Assistance Program (Kin-GAP) payments as well as Child Welfare Services (CWS) related to the Continuum of Care Reform (CCR), offset by savings in In-Home Supportive Services (IHSS) due to updated Fair Labor Standards Act (FLSA) assumptions, and lower caseloads in California Work Opportunity and Responsibility to Kids (CalWORKs), CalFresh, and Supplementary Security Income/State Supplementary Payment (SSI/SSP).

The 2018-19 Governor's Budget also includes updates to 2017-18 expenditures, resulting in a decrease of $190.4 million total funds ($146.2 million GF decrease) from the 2017 enacted Budget. This includes the same funding increases needed for CCR, offset by the decreases in IHSS, CalWORKs, CalFresh, and SSI/SSP mentioned above.

Major Provisions for CalWORKs

- **Caseload Changes.** The 2017-18 Revised Budget includes $5.0 billion in total funding for the core CalWORKs programs in 2017-18, a net decrease of $157.5 million ($152.8 million in Temporary Assistance for Needy Families [TANF] and GF) from the 2017 enacted Budget. The expenditure decrease is primarily due to a continued decline in the CalWORKs caseload projections. In 2017-18, the CalWORKs caseload is projected to decline by 5.9 percent from the previous year to 425,855 average monthly cases. This represents a 5.6 percent decrease from the caseload projections in the 2017 enacted Budget.

  The 2018-19 Governor's Budget includes $4.8 billion in total funding for the core CalWORKs programs, a net decrease of $183.4 million ($179.3 million decrease in TANF and GF) from the revised budget for 2017-18. The CalWORKs caseload is projected to decline by another 5.9 percent to 400,777 average monthly cases in 2018-19. The continuing CalWORKs caseload decline drives the year-over-year decrease in expenditures. Arguably, the types of cases that remain on the caseload face the most difficult barriers to employment.

- **Single Allocation Reduction.** The CalWORKs Single Allocation -- also referred to as the CalWORKs program administration block grant to counties -- reflects the cost to provide eligibility administration, employment services, Stage One Child Care to individuals in the CalWORKs Welfare to Work (WTW) program, and Cal-Learn Intensive Case Management. The Single Allocation total reflects a net $31.8 million decrease for 2018-19. This decrease reflects the projected caseload declines combined with increases for newly enacted legislation, including Diaper Assistance, Domestic Abuse Homeless Assistance, and Child Support. Absent the increases for legislation, the Single Allocation would have decreased by $54.5 million.

This was the subject of considerable legislative attention last year and the 2017 Budget required the Department to work with representatives of county human services agencies, the County Welfare Directors Association (CWDA), and other stakeholders to develop recommendations for initial changes to the budgeting methodology for the CalWORKs Single Allocation. The results of that effort will be discussed as the spring hearing process.

- **Home Visiting Initiative.** The Governor's Budget proposes a new Home Visiting Initiative for CalWORKs families to begin January 2019. DSS states that this is an evidence-based, voluntary program model that pairs new, first-time parents, under the age of 25 who are pregnant or parenting a child under two years of age, with a nurse or trained professional who makes regular visits in the participant’s home to provide guidance, coaching, and access to prenatal and postnatal care and other health and social services. The goals of the CalWORKs Home Visiting Initiative are to: (1) help young families reach self-sufficiency by improving family engagement practices; (2) support healthy development of young children living in poverty; and (3) prepare parents for employment.

  In a full year of implementation, this initiative assumes that a monthly average of 6,522 families will be served and the families entering the program will engage for up to 24 months. The monthly cost for home visitation services is assumed to be $500 per participating case. The first-year cost in 2018-19 includes $19.6 million for conducting home visitations, $4.5 million for child care, $2.2 million for employment services, and $0.4 million for county administration. The total implementation costs for the initial year are estimated at $26.7 million and will be $52.5 million annually after the initial ramp up year.

  The 2018-19 Governor’s Budget also establishes a TANF reserve of $131.8 million to be used toward funding the Home Visiting Initiative through calendar year 2021. The cumulative cost of the Home Visiting Initiative is approximately $158.5 million through 2020-21. DSS will work with counties to establish outcome measures and evaluate the initiative to determine if it should be continued beyond December 31, 2021.

- **TANF Transfers.** The DSS budget continues to transfer $1.0 billion in TANF to the California Student Aid Commission (CSAC) for Cal Grants and $136.3 million to California Department of Education (CDE) through Title XX in 2017-18. In 2018-19, the DSS budget transfers $1.1 billion to CSAC and $80.6 million to CDE through Title XX, in addition to a $42.2 million TANF transfer to CDE for Early Education Expansion.

- **Work Participation Rate (WPR) Update.** The improvements in California's WPR have eliminated several years of penalties through the federal corrective compliance process and lowered projected penalties from $1.8 billion to a projected $40.2 million. While California continues to exceed the all-families WPR requirement of 50 percent, the state continues to fail the two-parent WPR requirement of 90 percent. Recently, the Administration for Children and Families (ACF) notified CDSS that California is subject to a reduced penalty of $8.8 million for Federal Fiscal Year 2016 for failing the two-parent WPR. Subsequent letters from ACF will detail the results of the corrective compliance plans for FFY 2012 and 2013, for which FFY 2016 was the compliance year.

Key Provisions for Social Services Automation

- **Statewide Automated Welfare System (SAWS).** The 2017-18 revised budget for SAWS Automation maintenance, operations, and updates includes $314.0 million ($114.0 million in GF), which reflects an increase of $1.1 million ($0.5 million in GF) from the 2017 enacted Budget. The increase includes funding necessary to make programming changes related to newly enacted legislation. 2018-19 includes funding of $307.0 million ($112.7 million in GF), a decrease of $5.9 million ($0.8 million in GF) from the 2017 enacted Budget.

- **California Automated Consortium Eligibility System (CalACES).** In compliance with the federal requirement for a single SAWS system across the entire state, CalACES will begin merging the Los Angeles Eligibility, Automated Determination, Evaluation, and Reporting Replacement System (LRS), and Consortium IV (C-IV) in 2018-19. The budget includes costs for the maintenance and operations of each system, as well as the procurement planning for a system migration vendor. The 2018-19 Governor's Budget proposes $179.1 million ($59.8 million GF) for ongoing costs of the CalACES systems.

- **Consolidated Portal.** The SAWS Consortia (C-IV, along with the CalWORKs Information Network [CalWIN] and LRS) jointly propose a competitive procurement for the design, development, implementation, and maintenance and operations of a single 58-county client-facing portal. The Consolidated Portal will provide a consistent view and self-service access for clients across all counties. The LRS/C-IV migration will require a portal merger, so funding in 2018-19 is essential to the timely development and implementation of the portal. A single statewide client portal will eliminate the need for clients to create new profiles when they move to a county with a different consortium system, provide a consistent user experience throughout the state, and simplify future maintenance and automation upgrades. Furthermore, the consolidated portal aligns with the federal requirement that California create a single SAWS.

- **SAWS Foster Care Eligibility Determination (FCED).** The FCED is intended to provide a single statewide capability that leverages the existing SAWS for interoperability, meets the federal acceptable level of automation, and is compliant with federal regulations. The 2018-19 Governor's Budget provides $16.7 million total funds ($10.4 million General Fund), reflecting a shift in funding from 2017-18 due to a change in the project timeline. 2018-19 includes a full year of development and implementation costs.

- **Child Welfare Services – California Automated Response and Engagement System (CWS-CARES).** The Office of Systems Integration, in conjunction with CDSS, County Welfare Directors Association, and counties, have been working on the development of a new system, CWS-CARES, to replace the Child Welfare Services/Case Management System. The project anticipates annual budget requests based on lessons learned and progressive elaboration. The additional funding in 2017-18 reflects a revised budget letter adjustment of $570,000 total funds ($285,000 GF). The 2018-19 funding amount is reduced by $73.9 million ($36.9 million GF) from the 2017 enacted Budget to align with existing project documents and changes in the project schedule.

Major Provisions for SSI/SSP

- **Caseload Changes.** For 2018-19, the SSI/SSP program expenditures represent $10.1 billion in total expenditures ($7.3 billion federally administered and $2.8 billion GF). The SSI/SSP net decrease in GF for 2017-18 and 2018-19 is due to a lower average SSI/SSP grant and lower caseload than previously projected. The average monthly caseload is projected to be 1,264,920 cases in FY 2017-18, which reflects a 0.8 percent decline from the previous projection. Reasons for this decline include higher income for seniors in California, medical improvements, and healthier behavior. The total average grant is projected to be $628.50 after COLAs are applied. In FY 2018-19, the average monthly caseload is projected to be 1,264,275 cases and the total average grant is projected to be $640.40 after COLAs are applied.

- **Federal Cost of Living Adjustment (COLA).** The 2018-19 Governor's Budget reflects an increase in federally administered funds due to the impacts of the 2018 and 2019 federal COLAs. The 2017-18 revised budget includes the one-time 2.76 percent January 2017 SSP COLA and the 0.3 percent 2017 Federal COLA. The 2017-18 revised budget reflects $75.4 million in federally administered funds for the half-year cost impact of the 2.0 percent 2018 federal COLA. The 2018-19 reflects $150.5 million in federally administered funds for the full-year impact of the 2.0 percent 2018 Federal COLA and $105.0 million in federally administered funds for the half year impact of the 2.6 percent 2019 Federal COLA.

Major Provisions in CalFresh and Other Food Assistance

- **Caseload Changes.** The total CalFresh program is projected to serve an average of 1.93 million total households (public assistance and non-assistance households combined) in 2017-18 and 1.87 million in 2018-19. The non-assistance CalFresh caseload represents 88.0 percent of the total caseload and is projected to decrease 3.3 percent in 2017-18, a steeper decline than previously projected. In 2018-19, the caseload is projected to decline by another 3.7 percent.

- **Able-Bodied Adult Without Dependents (ABAWDs).** The statewide federal time limit waiver for Able-Bodied Adult Without Dependents (ABAWD) expires on August 31, 2018 for California. With the expiration of the waiver, CDSS anticipates that a significant number of non-assistance CalFresh recipients will be required to fulfill federally mandated ABAWD work requirements as a condition of CalFresh eligibility. DSS recently requested another federal waiver for 55 counties. Since a federal response is pending, these estimates will be updated during the May Revision. The 2018-19 Governor's Budget assumes that 60 percent of the State will lose the ABAWD waiver and therefore will be subject to work requirements. The 2018-19 budget includes $11.9 million total funds ($5.9 million GF) for administrative activity and costs associated with increasing engagement in work opportunities.

- **CalFood, Emergency Food at Food Banks and Pantries.** The 2018-19 Governor's Budget continues $8.0 million GF in funding for 2017-18 and 2018-19 for the CalFood program, which provides emergency food and funding to food banks that help support hungry people in California. These funds may be used to purchase, store, or transport food that is grown or produced in California and will be disbursed only to food banks that are Eligible Recipient Agencies with a current Memorandum of Understanding with DSS.

- **CalFresh Employment and Training (E&T) Program.** In September 2017, the United States Department of Agriculture Food and Nutrition Service awarded the CalFresh Employment and Training (E&T) Program a $1.0 million data and technical assistance grant. The grant will be used towards the development of an E&T statewide workforce online resource center that will offer E&T service providers a centralized, web-based location for data collection, enrollment verification, and other key program functions. The development of this project is expected to begin in late 2017-18.

Major Provisions for In-Home Supportive Services (IHSS)

Caseload and Cost Changes. For 2018-19 the IHSS Services and Administrative expenditures represent $11.2 billion in total expenditures ($3.6 billion GF and $7.6 billion federal/county reimbursement). The net decrease of $157.2 million GF in 2017-18 is driven primarily by a decrease in costs associated with the Fair Labor Standards Act (FLSA). This decrease reflects the lower projected number of providers who claim overtime and travel time than projected in the 2017 enacted Budget as well as FLSA wait time being captured in the trend. The net decrease also takes into account higher cost factors for overall IHSS, which include higher caseload, cost per hour, and paid hours per case, and a slight increase in administrative cost due to a higher caseload than previously projected.

- The net increase from 2017-18 to 2018-19 is due to the increase in minimum wage from $11.00 per hour to $12.00 effective January 1, 2019, and an increase in projected caseload. The average monthly paid caseload for IHSS Basic in 2017-18 is projected to be 518,511 cases, a 0.3 percent increase compared to the 517,115 cases projected in the 2017 enacted Budget. The average monthly paid caseload for IHSS Basic in 2018-19 is projected to be 545,180 cases, a 5.1 percent increase over 2017-18. The average monthly hours per case are projected to be 106.8 in 2017-18 and 107.6 in 2018-19 compared to 106.1 in the 2017 enacted Budget. The average cost per hour is projected to be $13.62 in 2017-18, compared to $13.59 in the 2017 enacted Budget. The average cost per hour is projected to be $14.08 in 2018-19.

- **IHSS Administration.** The IHSS Administration reflects the cost of administering the IHSS program through the Personal Care Services Program, IHSS Plus Option, Residual, and Community First Care Option programs. In the summer of 2017, a workgroup comprised of CDSS, CWDA, and counties was convened to review IHSS program administrative mandates and resources necessary for compliance. As a result of this effort, a GF adjustment was added to the administration costs in FY 2018-19 as described below to fund a change in the methodology used to budget county administration.

  The net increase of $2.1 million GF in FY 2017-18 primarily reflects a higher projected caseload. There is a net increase of $2.5 million GF in 2018-19 from the 2017 enacted Budget that reflects replacing the $64.0 million TF (total funds) ($32.0 million GF) one-time IHSS Administration Increase provided in 2017-18 with $42.3 million TF ($21.3 million GF) for the county IHSS administrative costs using the new hourly social worker rate. It also includes a $20.1 million TF ($11.2 million GF) increase for projected caseload growth.

DSS states that the revised methodology rebases the IHSS administrative costs by considering the existing activities associated with the base IHSS administration and all of the new activities associated with recently enacted changes. The rebased administrative costs replace the one-time administration adjustment provided in FY 2017-18 for the actual costs of performing mandated administrative activities. CDSS worked in consultation with CWDA, county representatives, and the Department of Finance, to identify the statutorily-required activities and the average number of cases a social worker can manage for those activities. County administration costs were identified using mid-level salary costs for the appropriate classifications in six regions across the state that were weighted by each region's caseload share of the total IHSS caseload in 2016-17. County overhead costs were included using a 47-percent overhead ratio based on 2016-17 actual county expenditure data for management, support staff, and fixed costs.

The average monthly paid caseload for IHSS Basic in 2017-18 is projected to be 518,511 cases, a 0.3 percent increase compared to the 517,115 cases projected in the 2017 enacted Budget. The average monthly paid caseload for IHSS Basic in 2018-19 is projected to be 545,180 cases, a 5.1 percent increase over 2017-18. The IHSS County Administration Adjustment line in 2018-19 reflects actual social worker cost per hour and hours per case for performing mandated administrative activities.

- **Paid Sick Leave Implementation (SB 3).** Senate Bill (SB) 3 (Chapter 4, Statutes of 2016) entitles a provider of IHSS to paid sick days if the provider worked for 30 or more calendar days within a year from the commencement of employment. Beginning July 1, 2018, the maximum amount of annual sick leave is eight hours, and increases incrementally over the next few years to a maximum of 24 hours following the SB 3 minimum wage increases. This premise requests $57.4 million TF ($28.4 million GF) and it is assumed that approximately 513,022 providers will accrue and use eight hours of sick leave in 2018-19. The estimated cost for paying sick leave is calculated on a county specific basis by multiplying the counties' average monthly provider count by the eight hours of sick leave and by the provider cost per hour. This estimate takes into account the minimum wage increase to $12 from $11 on January 1, 2019 as well as the state participation cap which determines the appropriate amount of county responsibility for non-federal costs.

- **Paid Sick Leave Processing and Administration.** The Paid Sick Leave Administration costs ($1.4 million total, $700,000 GF) reflect county social worker and staff activities to assist providers with submission of sick leave claim forms.

- **Budget Change Proposal (BCP) for In-Depth Monitoring of the In-Home Supportive Services Program (IHSS).** The Governor's Budget proposes 6.0 positions and $780,000 to implement in-depth monitoring and technical assistance to help improve county administration of the IHSS program, and to identify and address IHSS program cost trends.

Major Provisions for Child Welfare Services/Foster Care

- **Continuum of Care Reform (CCR).** The Governor's Budget provides funds to implement reform of the state's current rate structure, service delivery, and programs for children and families in the continuum of the foster care system. The 2017 enacted Budget reflects the costs of implementing the CCR and the application of savings for cases that would move from group homes to lower level family-based settings in foster family agencies, foster family homes, and relative homes. The CCR budget also assumes savings from counties, adjusting the specialized care increment rate system in conjunction with the new foster care rate structure. The savings must be reinvested into the overall child welfare services program to improve outcomes for children, youth, and families.

  The transition of group home placements to lower levels of care is progressing slower than originally projected. The 2017 enacted Budget assumed funds available for reinvestment due to group home placement movement beginning January 1, 2017 with implementation of the initial level of care rate. The SAWS programming of the additional level of care rates, Phase II, was completed in December 2017. Implementation of Phase II will occur in February 2018, and the Budget includes retroactive costs back to December 2017.

  After the implementation of Phase I of the level of care rate structure, the anticipated level of reinvestment funds did not materialize for a number of reasons, including that there has been no change in the counties' specialized care increment (SCI) rate system. Therefore, the 2017-18 Revised Budget provides additional GF until April 1, 2018 to give counties time to reevaluate their SCI programs and costs in consideration of the incremental increase provided by the higher level of care rates. Any changes to the SCI and cost offsets are assumed to be reinvested into the CCR programs to achieve the expected offset of up-front CCR startup funds.

  The implementation updates for the group home placement movement, the implementation of Phase II in December 1, 2017, and the delay of the SCI offset until April 1, 2018, results in an increase of $76.4 million total funds ($63.3 million GF) in 2017-18 and $27.3 million total funds ($22.7 million GF) in 2018-19. The CCR estimate assumes California's congregate care caseload will decrease from 5,527 cases in 2017-18 to 2,519 cases in 2020-21.

- **Emergency Child Care Bridge.** In an effort to expand resources to the child welfare agencies to recruit, retain, and support resource families, SB 89 (Chapter 24, Statutes of 2017) established the Emergency Child Care Bridge Program. The Program intends to stabilize foster children placed with resource families by providing a six-month payment or voucher for child care following the child's placement. The payment or voucher for child care may be extended for an additional six months if the family has been unable to access long-term subsidized child care. Each child that receives a payment or voucher will be paired with a child care navigator through the local Resource and Referral program to assist the family in accessing long-term subsidized child care. Trauma-informed training and coaching will also be provided by the local Resource and Referral program to child care providers serving foster care children.

  There is no change in the GF budgeted amount for 2017-18. The local assistance decrease reflects a holdback for the Resource and Referral Network contract to administer the training portion of the program. The 2018-19 increase reflects a full year implementation of the program.

- **BCP for Child Welfare Services Case Reviews Oversight Assistance.** The Governor's Budget proposes 9.0 positions and $1,131,000 to increase safety, permanency, and well-being outcomes for children and families with the probation, foster care, and child welfare system. The requested resources will enable CDSS to increase coordination with and provide technical assistance to counties to develop or improve county mental and physical health services for vulnerable children ages 0-5 and their families; and to conduct required qualitative case reviews for rural child welfare and probation agencies who have been unable to conduct their own reviews.

- **BCP for Psychotropic Medication Oversight in Foster Care.** The Governor's budget proposes two years of funding, $702,000 per year, to support the equivalent of 6 positions. The requested funding is necessary in order to meet the mandate of SB 484 (Chapter 540, Statutes of 2015) and ensure the increased oversight of psychotropic medication continues.

Key Provisions for Immigration Services

Unaccompanied, Undocumented Minors (UUM). Legal Services for UUM are funded at $3.0 million per fiscal year, with $2.9 million available for local assistance and $100,000 for state operation costs.

- **Immigration Service Funding (ISF).** This program is funded at $45.0 million, with $43.7 million available for local assistance and $1.3 million for state operations. In addition to the ongoing Immigration Services funding, Assembly Bill (AB) 130 (Chapter

251, Statutes of 2017) appropriated a one-time increase of $20 million GF in 2017-18 to assist with renewals in anticipation of the DACA program termination. Due to the 2017 Wildfires, an additional $5 million was provided in 2017-18 for Disaster Response to aid individuals ineligible to receive assistance through other sources due to their immigration status.

Other BCP Requests

- **BCP for Resources for Disaster Preparedness.** The Governor's Budget proposes 3.0 positions and $428,000 to support catastrophic planning and strengthen California's mass care and shelter capabilities.

- **BCP for Private Alternative Boarding Schools and Outdoor Program Oversight and Policy Development.** The Governor's Budget proposes 12.5 positions authority and $1,041,000 to permanently support licensing of private alternative boarding schools and private alternative outdoor programs.

- **BCP for Appeals Case Management System Implementation.** The Governor's Budget proposes 4.0 positions and $493,000 to be a critical and essential part of the State's development and support team for the Appeals Case Management System.

- **BCP for Federal Medicaid Managed Care Final Rule Hearings and Increased Appeals Workload.** The Governor's Budget proposes 16.0 positions and $3,228,000 to process the increased workload associated with: 1) the implementation of the Medicaid Managed Care Centers for Medicare and Medicaid Services (CMS) Final Rule that changes the CDSS State Hearings Division hearing process for managed care service denials, and 2) significant increase in existing workload due primarily to the ongoing impact of the implementation of the Affordable Care Act (ACA). The requested resources will allow the Department to provide timely due process for the affected population across all programs and mitigate penalties for late decisions.

DEPARTMENT OF DEVELOPMENTAL SERVICES

The Governor's Budget includes $7.3 billion total funds ($4.4 billion GF) for the Department of Developmental Services (DDS) in 2018-19; a net increase of $368 million ($248.3 million GF) from the updated 2017-18 budget, or a 5.3 percent total fund increase. DDS is responsible under the Lanterman Developmental Disabilities Services Act (Lanterman Act) for ensuring that approximately 330,000 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 coordinated by 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 317,837 in the current year, to 333,024 in 2018-19. The number of individuals living in state-operated residential facilities is estimated to be 537 on June 30, 2018, and 361 on June 30, 2019.

Major Provisions for Community Services (or Regional Centers) Program

- **Caseload and Utilization.** For 2017-18, the Community Services Program is expected to provide services and support to 317,837 individuals in the community, the Governor's Budget updates the 2017 enacted budget to $6.4 billion ($3.8 billion GF). This reflects a net decrease of $24.5 million ($34.7 million GF decrease) as compared to the enacted budget for regional center Operations (OPS) and Purchase of Services (POS). This decrease is comprised of $39.4 million net decrease ($38.5 million GF decrease) in regional center OPS and POS as follows: OPS increase of $54,000 ($9.5 million GF decrease) and POS decrease of $39.4 million ($29 million GF decrease). The increase in OPS is due to a slight increase in Intermediate Care Facility-Developmental Disabled (ICF-DD) Administration Fees paid to regional centers. The significant GF decrease as compared to the minor OPS expenditure increase reflects an estimated increase in reimbursements from Targeted Case Management (TCM), which offsets the GF. The decrease in POS reflects updated, actual expenditures from the Senate Bill (SB) 3 Minimum Wage Increase, effective January 1, 2017, coming in lower than originally estimated, resulting in a lower base on which expenditures are projected.

  For 2018-19, the Governor's Budget proposes total funding of $6.9 billion ($4.1 billion GF) for services and supports for regional center consumers living in the community. This reflects a $482.8 million increase ($319.6 million GF increase) over the revised current year budget. The projected community caseload is 333,024 consumers, which is an increase of 15,187 consumers over 2017-18. The Community Services budget adjustments, as compared to the revised current year, include: $361.3 million increase ($275.4 million GF increase) in regional center OPS and POS as compared to the updated current year budget -- OPS increase of $31.4 million ($34.2 million GF increase) and POS increase of $329.9 million ($241.2 million GF increase). The OPS increase is for additional staffing resulting from increased caseload, as well as minor increases for federal compliance and projects. Additional GF in 2018-19 provides backfill for the loss of funds from the Money Follows the Person grant, which expires in

2017-18. The POS increase reflects changes in all POS budget categories based on updated caseload and expenditure projections.

- **Transition of Behavioral Health Treatment (BHT) Services to the Department of Health Care Services (DHCS).** Includes is a $1.5 million increase ($1.5 million GF increase) in POS due to a delay in implementing the transition of consumers without an Autism Spectrum Disorder (ASD) Diagnosis who receive Behavioral Health Treatment (BHT) services, to the Department of Health Care Services. Originally planned for January 1, 2018, the Department will now transition children who receive BHT services on a fee-for-service basis on March 1, 2018. These children will continue to receive services through the regional centers, and DHCS will reimburse the Department for the related expenditures. Children who receive these services through Medi-Cal Managed Care will transition to DHCS on July 1, 2018. For 2018-19, there is a $47 million decrease ($47 million GF decrease) in POS to implement the transition of consumers without an ASD Diagnosis who receive BHT services. This includes full year cost savings for those who receive BHT services on a fee-for-service basis who will transition to DHCS on March 1, 2018, as well as those children who receive these services through Medi-Cal Managed Care that will transition to DHCS on July 1, 2018.

- **SB 3, Chapter 4, Statutes of 2016, Minimum Wage Increase.** Included is a $13.4 million increase ($6.3 million GF increase) to reflect updated expenditures resulting from the $10.50 to $11.00 minimum wage increase effective January 1, 2018. For 2018-19, there is a $178.5 million increase ($97.6 million GF increase) in POS to reflect full-year costs of the state-mandated hourly minimum wage increase from $10.50 to $11.00 that was effective January 1, 2018, as well as the increase from $11.00 to $12.00 that is effective January 1, 2019.

- **Community Placement Plan (CPP) - DC Closure.** There is a $0 total fund increase ($3.9 million GF decrease) reflecting a fund shift from GF to reimbursements for placement expenditures for DC movers. The fund shift results from more expenditures estimated to be eligible for federal fund reimbursements. 2018-19: $2.8 million increase ($3.7 million GF increase) in DC Closure-specific CPP funding to fund placement expenditures for additional DC movers.

- **Uniform Holiday.** Included is a $5.6 million decrease ($2.9 million GF decrease) to re-implement the 14-day uniform holiday schedule.

- **Best Buddies.** There is a $1.6 million decrease ($1.6 million GF decrease) due to the removal of 2017-18 one-time funding.

- **Safety Net Resources.** There is a $5.6 million decrease ($5.6 million GF decrease) due to the removal of one-time funding provided in 2017-18 for the Community Services Program to develop safety net resources.

Major Provisions for Developmental Centers

- **Current Year Adjustments.** The actual DC population on July 1, 2017, was 795 residents. DDS projects an ending population of 537 residents on June 30, 2018. The Governor's Budget updates the 2017 enacted budget to $494.8 million ($366.6 million GF); a net increase of $28.8 million ($18.4 million GF increase). The net increase is a combination of the following adjustments:
    - Operations Expenditures. Net increase of $4.5 million ($2.6 million GF increase), which reflects an increase of $7.3 million in Personal Services and OE&E expenditures to care for an additional 42 residents as compared to the enacted budget, offset by a $2.8 million reduction in lease revenue bond payments.
    - Employee Compensation and Retirement. Increase of $17.2 million ($11.1 million GF increase) for compensation and retirement adjustments approved through the collective bargaining process and included in Item 9800 - Employee Compensation Adjustments.
    - Sonoma and Fairview Lump Sum Payouts. Increase of $7.1 million ($4.7 million GF increase) to fund lump sum leave balance payouts for separating employees.
- **Adjustments for 2018-19.** The Governor's Budget proposes a total of $375.6 million ($292 million GF) for the State Operated Residential and Community Facilities Program; a net decrease of $119.2 million ($74.7 million GF decrease) from the revised current year budget. The net decrease reflects the following adjustments:
    - Operations Expenditures. Decrease of $120.5 million ($74.8 million GF decrease) as compared to the revised current year budget for decreases in Personal Services and OE&E due to resident placements, offset by an increase in lease revenue bond payments. Within this adjustment is an increase of $5.6 million GF and 53.2 positions to operate two additional STAR homes as part of the Department's safety net plan.
    - Employee Compensation and Retirement. Increase of $0.6 million ($0.4 million GF increase) for compensation and retirement adjustments approved through the collective bargaining process as compared to the revised current year budget. In total, the Governor's Budget includes $17.8 million ($11.5 million GF) for employee compensation and retirement adjustments in 2018-19.
    - Centralized Functions at Headquarters. Decrease of $2.1 million ($1.6 million GF decrease) to transfer 15.5 positions from the State Operated and Community Facilities Program to Headquarters for statewide oversight positions and activities that will continue beyond closure of the developmental centers as detailed in a related BCP.

- Sonoma and Fairview Lump Sum Payouts. Increase of $2.2 million ($0.8 million GF increase) above the revised current year budget to fund lump sum leave balance payouts for separating employees. In total, the Governor's Budget proposes $9.3 million ($5.7 million GF) in 2018-19 to fund lump sum leave payouts.

- Sonoma and Fairview Security Costs. Increase of $0.6 million ($0.5 million GF increase) to provide physical security measures during warm shut down.

- **Nitrate Removal System at Porterville.** The 2017 enacted budget includes $3.7 million GF to install a nitrate removal system at Porterville. The system will remove excess nitrates from well water to meet state-mandated safe drinking water requirements, thereby providing a safe, reliable, and efficient potable water delivery system. There are no changes proposed to this project, however the project has experienced a delay. Staff is asking for further details on this.

Other Key Provisions

- **Headquarters.** For 2017-18, the Governor's Budget reflects an increase of $2.2 million ($1.3 million GF increase) over the enacted budget for employee compensation and retirement adjustments. The total updated 2017-18 Headquarters budget is $63.2 million ($36.2 million GF). For 2018-19, the Governor's Budget proposes total Headquarters operations funding in 2018-19 of $67.6 million ($39.6 million GF). This is a net increase of $4.4 million ($3.4 million GF increase) over the updated 2017-18 budget, reflecting a $0.2 million increase ($0.2 million GF increase) due to changes in employee compensation and retirement adjustments. The increase also reflects expenditures and positions from the following three Budget Change Proposals (BCPs):

- **BCP for Clinical Staff for Community Homes Oversight.** DDS requests $2 million ($1.4 million GF) to fund 9.0 positions to increase clinical staff and expertise within Headquarters to support development and ongoing monitoring of Adult Residential Facilities for Persons with Special Health Care Needs, Enhanced Behavioral Supports Homes, and Community Crisis Homes.

- **BCP to Centralize Statewide Activities for Developmental Services.** DDS requests approval to shift $2.1 million ($1.6 million GF) and 15.5 positions from the State Operated Residential and Community Services Program to Headquarters for statewide oversight positions and activities that will continue beyond closure of the developmental centers. Assigning the positions and funding within Headquarters is consistent with the current functions of the positions and provides continuity of services and expertise within the Department for ongoing, statewide responsibilities and programs.

- **BCP to Establish Internal Audit Unit.** DDS requests $295,000 ($178,000 GF) and 2.0 positions to establish an internal audit unit. In addition to initial planning activities, the requested resources will complete general internal audit assignments such as delegated contract audits from the Department of General Services and the State Leadership Accountability Act review from the Department of Finance. Further, the resources will serve as liaisons during audits conducted by outside entities such as the California State Auditor, the Department of Finance, and the State Controller's Office.

DEPARTMENT OF REHABILITATION

The Governor's budget proposes total spending for the Department of Rehabilitation (DOR) of $460 million ($64.6 million General Fund) for 2018-19, representing a slight increase from the current year. 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.

There are no major changes proposed at the time of this writing for DOR in the Governor's Budget.

DEPARTMENT OF AGING

The Governor's Budget includes $201.4 million all funds ($33.9 million General Fund) for the California Department of Aging (CDA) in 2018-19, representing virtually no change 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 $150.9 million in 2018-19, lower than the current year.

There are no major changes proposed at the time of this writing for CDA in the Governor's Budget. The Assembly will follow up on Supplemental Report Language affecting the Multipurpose Senior Services Program (MSSP) adopted as part of the 2017 Budget that involves CDA and the Department of Health Care Services.

CALIFORNIA SENIOR LEGISLATURE

The Governor's Budget discontinues General Fund for the California Senior Legislature (CSL) in 2018-19. The CSL was established in 1980 for the purpose of providing model legislation for older citizens and advocating for the needs of seniors. The Assembly will follow up on Supplemental Report Language regarding the California Senior Legislature that was adopted as part of the 2017 Budget as part of the spring hearing process.

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 $268.9 million (no General Fund) for CSD for 2018-19, representing a decline in funding mostly due to a decrease in Greenhouse Gas Reduction Funds (GGRF).

Key Provisions

- **BCP for Low-Income Weatherization Program Reappropriation.** CSD requests reappropriation of any unexpended balances of 2015-16 appropriations received from the GGRF to be available for encumbrance until the end of 2018-19 and available for liquidation until the end of 2019-20. This proposal would add budget bill language as follows: (1) Item 4700-101-3228; and (2) Item 4700- 001-3228, Budget Act of 2015 (Ch. 10, as amended by Chapter 321 , Stats. 2015), would be extended until June 30, 2020. The reappropriated funds will be used as originally intended to administer and support the Low-Income Weatherization Program (LIWP) activities, promoting greenhouse gas (GHG) emission reductions in disadvantaged communities.

  As part of the 2017 Budget, trailer bill was adopted requiring that any future procurement processes for single-family energy efficiency and renewable energy services in the LIWP prioritize existing ties to local communities and give preference to organizations with demonstrated performance outcomes, and that the Legislature is included in the development of future procurement processes. The Assembly will inquire into how CSD has complied with the statute as part of the spring hearing process.

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 ($315.6 million General Fund) for the Department of Child Support Services for 2018-19, representing a slight increase from the current year.

- **Revenue Stabilization Funding.** 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, 2018, 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 $14.6 million and non-assistance collections by $123.3 million, or a total loss of $137.9 million ($6.9 million General Fund) for 2016-17. 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 $458.4 million for the Health and Human Services Agency in 2018-19, representing a slight decrease in funding 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

- **BCP for HIPAA Compliance and Technical Assistance.** The California Office of Health Information Integrity (CalOHII) requests $128,000 in reimbursement authority to permanently establish a limited-term Staff Services Manager I (SSM I) position, which currently expires on June 30, 2018. CalOHII restructured in 2016/2017 reducing staffing to its current level of three permanent positions and one limited-term position. Program activities were streamlined and an efficient and effective policy and compliance review program was re-tooled. At that time, minimum staffing levels were established.

- **BCP for Medi-Cal Eligibility Data System Modernization Project Multi-Departmental Team.** This proposal requests $7.9 million total funds ($0.8 M General Fund) for 7 positions, four at the Office of Systems Integration and the remaining three at the Department of Social Services, and other resources needed to continue advancement of the agency-wide effort to modernize the outdated Medi-Cal Eligibility Data System. These staffing and other resources are needed during fiscal year 2018-19 to support the completion of activities required by the state's Project Approval Lifecycle stages 3 and 4 requirements and to support the initial development effort related to modernization of the MEDS Health Insurance Services data files.

- **BCP for Rightsizing the Office of Law Enforcement Support (OLES).** OLES requests an augmentation to meet the requirements of Welfare & Institutions Code Sections 4023.6-8 and 4427.5 which require CLES to investigate, provide contemporaneous monitoring and oversight of certain investigations conducted by the Department of State Hospitals (DSH) and the Department of Developmental Services (DDS), and issue reports to the Governor, Policy and Budget Committees, and the Joint Legislative Budget Committee no less than twice annually. Based on experience over last two years, CLES has identified the following staffing resource needs: position authority and funding for 1.0 (Attorney IV) and funding for 9.0 reclassifications (7 Investigators to Special Agents, 2.0 Supervising Special Investigator II to Senior Special Agents).

Staff Comment and Analysis of Governor's Budget Proposal

The proposed 2018-19 budgets in the Human Services area are largely workload-based, with adjustments for caseload and some modifications made to administrative costs. The handful of BCPs and other premise changes will be examined in the Assembly's process, along with the context of how programs are generally faring, what issues for oversight are ripe for scrutiny, and what the advocates and other stakeholders are bringing forward in terms of requests for investment and other budget improvements.

Below is a representation of some of the issues that have been raised in the various areas, but is not meant to be exhaustive nor complete as many of the issues are still being developed and brought forward to the Assembly for review in the pending process.

CalWORKs

Grants and COLAs. Grant levels, in spite of the modest increases in recent years and the repeal of the Maximum Family Grant (MFG) 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 by definition 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 effectively 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.

In addition, Assembly Bill 1520 (Chapter 415, Statutes of 2016) directed DSS to convene The Lifting Children and Families Out of Poverty Task Force, the purpose of which is to develop recommendations to reduce child poverty rates, especially for children living in deep poverty. The Task Force will issue its final report by November 1, 2018 and is intended to be a high-level policy document to inform the next Administration and the Legislature.

Single Allocation and CalWORKs Outcomes and Accountability Review (Cal-OAR). The 2017 Budget required DSS to work with representatives of county human services agencies, the County Welfare Directors Association (CWDA), and other stakeholders to develop recommendations for initial changes to the budgeting methodology for the CalWORKs Single Allocation, and it included $108.9 million as a partial restoration for the Single Allocation in 2017-18 to mitigate the cut that would have taken place if the funding had been strictly correlated to the decline in caseload. For 2018-19, the Governor's Budget proposes that the funding be reduced by $55 million. County and advocates are asking for the funding to be held level pending the completion of the work to restructure how the Single Allocation is formulated, and pending the related work of the Cal-OAR effort, which will further inform the needs and areas of strength in the program.

Home Visiting. The adoption of a Home Visiting Initiative in the Governor's proposal is being hailed as a welcome program facet that is evidence-based and trauma-informed. The outcomes for similar programs have shown to have long-term, positive effects for young children and their parents. The Assembly may wish to consider how to expand on the Governor's approach, which could mean allowing more families to participate (e.g. those with multiple children, not limiting the benefit to the first-born child), providing additional supports for what a home visitor might see as an immediate need for the family (e.g. such as the purchase of a crib, car seat, or modest microwave), and making the program a permanent part of the CalWORKs program.

CalFresh and Food Programs

Able-Bodied Adults Without Dependents (ABAWD). A waiver that California has relied upon to provide benefits to ABAWDS is scheduled to now end in August 2018, however California has applied for an extension of the waiver for 55 counties. The waiver is to a federal rule that places a three-month time limit on CalFresh benefits in any 36-month period, unless the adult is working 20 hours per week or meeting the criteria for an exemption. Without the waiver, the challenge will be for counties to be able to identify individuals who meet the criteria for an exemption and for the program to develop the employment and training components that will help more of these adults meet the more stern requirements in order to avoid catastrophic hunger consequences for this already destitute population. The statewide ABAWD caseload is projected to be approximately 419,000 in 2018-19.

Emergency Food. Advocates are requesting an augmentation for CalFood (formally called the Emergency Food Assistance Program) of $12.6 million, to be added to the current $8 million appropriated in the 2018-19 proposed Governor's Budget as a result of their advocacy in past years. This would bring the total CalFood investment to $20.6 million, which is the amount that was appropriated in the 2016 Budget as a result of the Drought Food Assistance Program (DFAP). DFAP has been phased out, however advocates state that California's continuing hunger crisis calls for the investment to remain at least at the level it was previously. They state that the extraordinary cost of housing is forcing families to choose between food and rent and that the recent disasters have disrupted families' abilities to find housing and work. Comparing us to other states, California's number of food insecure persons (4,855,020) is the highest number and our annual expenditure per person in emergency food is the lowest at $1.64. They comment that even among CalFresh recipients, nearly one-third visit food banks due to inadequate benefits.

Immigration Services

Immigration Services Program. California has responded to the needs of the immigrant community with recent investments attempting to ensure that more people are linked to the immigration-related remedies and services that can aid them in their pursuit of a better life for themselves and their children. Californians are in a waiting game with what the Congress and President will develop in the course of the next few weeks and months, and there are 197,900 active Deferred Action for Childhood Arrivals (DACA) recipients in California, representing more than 1 in 4 active DACA beneficiaries nationally. DACA recipients and other "Dreamers" (undocumented immigrants brought to the U.S. as children) have grown up in the United States, many have deep roots in local communities, and they are currently integrated into the American labor force.

As California awaits news of federal action on immigration, the Assembly may wish to assess the adequacy of funding that recent budgets have appropriated for immigration services and if these funds need to be further buttressed to facilitate California's response.

Child Welfare Services and Foster Care

Continuum of Care Reform (CCR). This is the second 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.

Child welfare advocates and county partners have raised important questions and concerns that warrant careful attention in the pending cycle as part of the Legislature's oversight. Delays in the Resource Family Approval process, adequacy and readiness of the Level of Care tool and rates, consistency in the application of the Specialized Care Increment, and the effective implementation of Child and Family Teaming are all areas for additional dialogue and problem-solving as the date for group home residential placement ceasing draws nearer, set at January 1, 2019 as part of the statutory framework that created the CCR.

In-Home Supportive Services

Electronic Visit Verification (EVV). Recently enacted federal law, the 21st Century Cures Act, requires that funding available to a state under the federal Medicaid program be reduced incrementally at set percentages if the state does not impose an EVV system for home health and personal care services. In California, home health and personal care services are provided, in part, through the state's In-Home Supportive Services (IHSS) program, which provides eligible aged, blind, and disabled persons with designated supportive services in order to permit them to remain safely in their homes. Under an EVV system, providers would need to electronically verify the type of service performed, the individual providing and receiving the service, and the date, location, beginning and end time of each service.

Advocates and other stakeholders have expressed deep concerns with this new requirement. The personal care services programs affected by this new federal requirement span several programs, including some within the Department of Health Care Services and the Department of Developmental Services, and the requirement for these would take effect January 1, 2019. Discussions on this subject continue as the state awaits additional federal guidance.

Program Costs. The 2017 Budget agreement ultimately included a new cost-sharing arrangement between the state and counties for IHSS. The state provided $400 million General Fund to help support the program while the counties transition to a higher share of the growing costs, some of which are driven by recently adopted state policies such as minimum wage increases, payment for overtime, and the pending pay for sick leave. Extensive trailer bill language was also adopted pursuant to the new arrangement, including "reopener" language, facilitating a review of the implementation of the new structure before June 30, 2019.

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. Supplemental Report Language adopted as part of the 2017 Budget asked the Legislative Analyst's Office to produce a report examining how a hold harmless approach could function. This remains under consideration as advocates continue to strategy forward on how to address deep hunger and housing needs for the vulnerable and diverse SSI/SSP consumer community. Federal context considerations would need to be carefully reviewed if this change were pursued.

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 Regional Center caseload is continuing to increase, and the sustainability of services remains a central question for the developmental disability services arena. Provider rates, though they received an infusion in the 2016 investments as part of a Special Session, are said to remain inadequate to cover the labor and service costs throughout the state. Advocates and provider organizations are asking for near-term relief pending a rates study that is due to the Legislature in March 2019. They state that the Health and Safety waiver process is currently the only avenue for emergency support for the provider community should be revamped to provide additional support, even as an interim solution before the rates study can materialize into a thoughtful approach that is more lasting.

Last year's budget restored respite services in the community, and this year advocates are requesting restoration of social recreation and camp activities. Both sets of services were cut in the Great Recession. The new proposal to impose a Uniform Holiday Schedule will undergo scrutiny, as it was initially introduced as a cost-saving measure when the state was facing enormous structural deficits. New light given the current budget framework will need to be shed on this proposal in the pending process.

Developmental Centers (DCs). DDS meets with legislative staff on a quarterly basis to discuss the progress toward transitioning consumers from the three remaining DCs into the community. Sonoma DC will close by December 31, 2018 and Fairview DC and the General Treatment Area of Porterville DC will both close by December 31, 2021. This ongoing oversight effort will continue and has begun to incorporate updates on the implementation of the Safety Net services and supports that were approved as part of the 2017 Budget.

Supplemental Reporting Language was also adopted as part of the 2017 Budget that asked the Legislative Analyst's Office to review a proposal that spoke to the use of possible savings associated with the closures or the properties of the DCs for the Community Services side of DD services. The Assembly will review the report as part of this discussion in the upcoming hearing process.

K-12 EDUCATION

AND EARLY CHILDHOOD EDUCATION

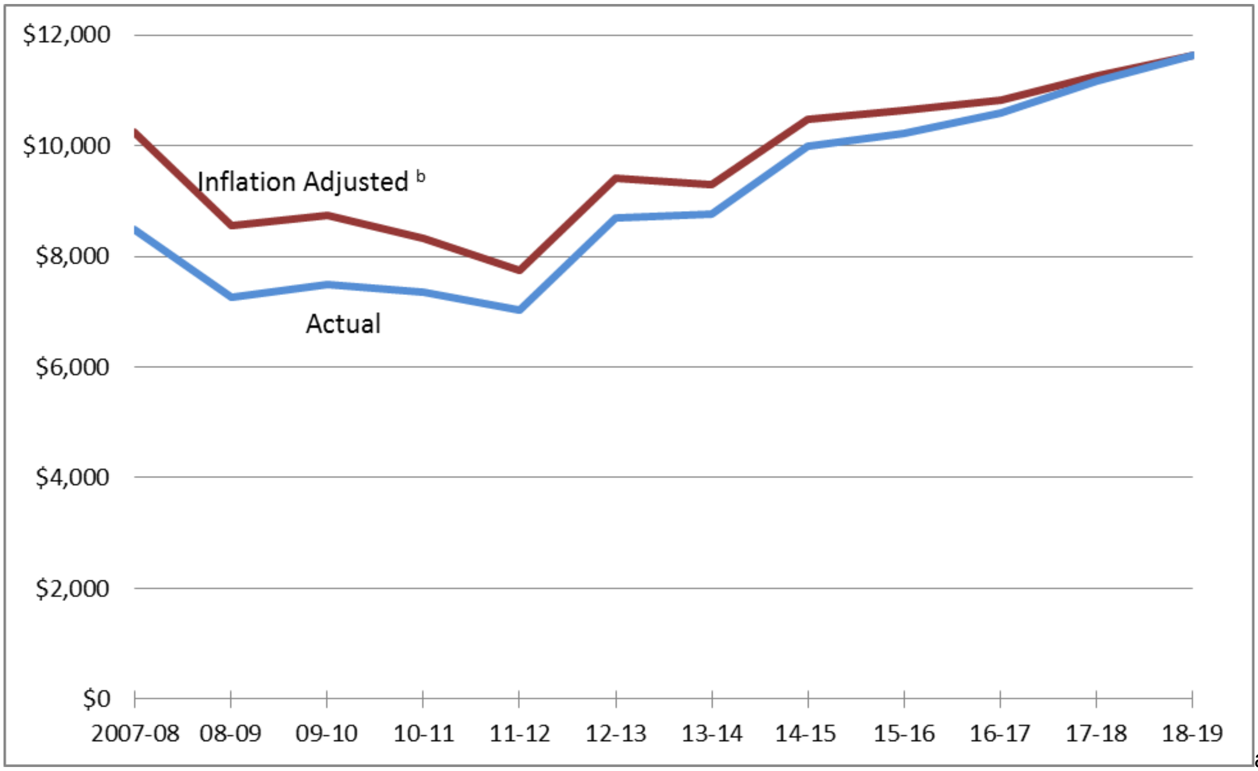
California's public education system is the largest in the nation, consisting of approximately 6.2 million students in over 10,000 schools within 1,000 districts and 58 County Offices of Education. California also employs approximately 295,000 public school teachers.

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.

The 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.

Despite 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 $78.3 billion in 2018-19, a slight increase from the level enacted in the 2017-18 Budget. As shown in the chart below, per-pupil spending under the Governor’s plan is expected to be $11,628 in 2018-19, a significant increase from 2011-12.

K-12 Proposition 98 Funding Per Student



a. Reflects all Proposition 98 funding except the amount going to the California Community Colleges.
b. In 2018-189 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 that would be funded over the next several years. Currently, the LCFF is funded at 96 percent of the target. In the 217-18 budget 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 learner, 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 2018-19 budget.

Major Issues in K-12 Education

LCFF Accountability. The state enacted the LCFF in 2013, however, the LCFF accountability system is still evolving. This system includes the Local Control Accountability Plan (LCAP), Annual Update, evaluation rubrics, and the involvement of the California Collaborative for Educational Excellence (CCEE). Each local educational agency is required to adopt an LCAP and Annual Update, explaining how they plan to use their LCFF funding, including their supplemental and concentration funds. Additionally, the State Board recently adopted the evaluation rubrics, or “California School Dashboard,” in September 2016, which will be fully operational for the 2017-18 school year. The Dashboard essentially tells us how districts and schools are doing through multiple measures (test scores, graduation rates, expulsion rates etc.). And finally, the CCEE is intended to be the entity that intervenes when a district is underperforming and not making the necessary progress. However, the role of the CCEE has not yet been fully developed.

Special Education Reform. 2018 continues a discussion on Special Education reform that evolved in budget hearings last year. The 2017 Governor's January budget summary talked about the need to reform the state's special education funding system. The 2017 Governor's budget did not include a specific proposal, but committed to holding a number of stakeholder meetings throughout the spring budget process to discuss the recommendations in a recent PPIC report. These recommendations included consolidating special education funding into the LCFF and providing the funding directly to school districts instead of Special Education Local Plan Areas (SELPAs). The Department of Finance held a number of stakeholder meetings throughout the state and heard from special education stakeholders concerned with the PPIC's recommendations. This process framed the proposal included in the 2018 budget.

Career Technical Education. In response to concerns around the need for funding for CTE outside the LCFF, the Legislature and Governor established the CTE Incentive Grant program in 2015-16. The 2015 Budget Act dedicated $900 million in one-time Proposition 98 funding over three years ($400 million in 2015-16, $300 million in 2016-17 and $200 million in 2017-18) for this competitive grant program. The purpose of this program is to encourage and maintain CTE programs while the LCFF is still being implemented. With this funding expiring this year, a discussion was underway on how to continue CTE programs in the future. Prior to the budget, some members of the Legislature developed a proposal to provide ongoing funding for the CTE Incentive Grant program (competitive grant) while others advocated that a CTE categorical or add-on for all students is a more equitable approach. The Governor's budget proposal in this area provides a third option that will prompt discussion within the Assembly this year.

Pension Costs. In 2014, the state enacted reforms to the CalSTRS pension system in order to address the system's large unfunded liability. The plan included increased contributions by the state (General Fund), employers (school districts) and employees (teachers). The plan included increased employer contributions from 8.5 percent to 19.1 percent of salary over seven years. For school districts, pension costs are expected to increase from about $3.4 billion per year in 2013-14 to about $10.4 billion per year in 2020-21. This increase equates to about 30 to 40 percent of the growth in school funding over the period. This is a significant increased cost for districts, and the impact varies by district. As LCFF achieves full funding, districts are unable to reliably project revenue growth in future years to address these rising pension costs, which has led to a great deal of concern regarding pension cost growth at the district level.

Rebuilding Early Education Capacity. In the last two budgets, the State has invested in rate increases and eligibility changes that improved the State's early education system. However, California's subsidized capacity still lags behind its high water mark before the Great Recession. With an improved budget condition, the State is in a position to expand capacity.

Access for Infants and Toddlers. Recent budgets have provided significant new resources for increasing rates and updating eligibility for child care and preschool programs, in addition to some new slots for State Preschool. However, additional slots for infants and toddlers have not been provided and the State's capacity in this area has shrunk in recent years. Additional slots, higher infant-toddler rates, and facilities funding are needed to reverse this lost.

Health and Safety Requirements for School-Based State Preschool Programs. The 2017-18 budget included trailer bill language allowing for State Preschool programs located on K-12 school campuses to be exempt from the Title 22 health and safety requirements beginning July 1, 2019. The budget also required the LAO to convene a stakeholder process to make recommendations on any health and safety requirements that are not currently required by the various K-12 requirements that should be included. The meetings were held in the fall of 2017 and were productive. The LAO's report is due March 15, 2018, which will allow for discussion during the spring budget hearing cycle.

Expanding Access to High Quality Pre-K for 4 year-olds. The American Institute of Research (AIR) recently released a report that found students participating in Transitional Kindergarten (TK) outperformed students of the same age not participating in TK in almost all areas. The benefits were especially significant for English learners. A question for the Legislature is how should the state expand TK or Pre-K programs to serve all 4 year-olds fairly.

Full Day Kindergarten. UCLA recently completed their report to CDE on full-day Kindergarten implementation, as required by statute. The 2017-18 budget also required the LAO to report to the Legislature by March 1, 2018 on options for incentivizing full-day kindergarten program, including differential rates for full-day and part-day programs. These reports will be discussed as part of the spring hearing process.

Governor's January Budget Proposal in K-12 Education

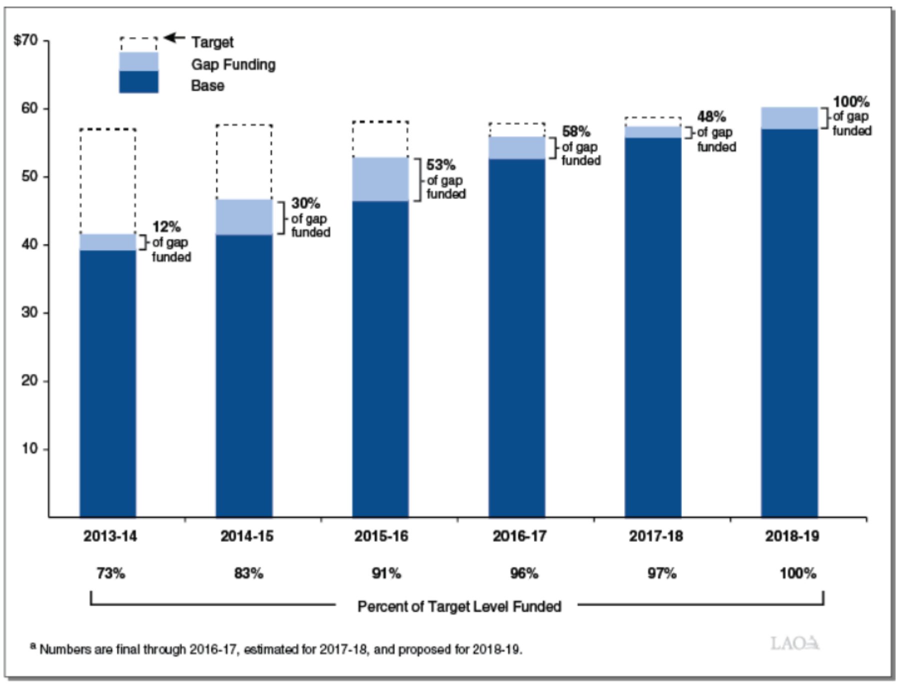
Major Provisions

- **Proposition 98 Minimum Guarantee.** The Governor's January budget provides a total Proposition 98 funding level of $78.3 billion in 2017-18, $3.1 billion above the revised 2017-18 level. Additionally, 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 2017-18 minimum guarantee upward by $687 million to reflect update revenue. The Administration now projects "Test 3" to be operative in 2015-16 through 2017-18.

- **Fully Funds Local Control Funding Formula.** The budget proposes to fully fund the LCFF in 2018-19 with $3 billion additional in Proposition 98 funding in 2018-19 for school districts and charter schools. This includes applying the cost of applying the statutory 2.51 percent cost-of-living adjustment (COLA) to the LCFF. Overall, the Local Control Funding Formula is estimated to be funded at $58.8 billion in 2018-19, an increase of 5.4 percent over the 2017-18 level.

Tracking Implementation of the Local Control Funding Formula

Formula for School Districts and Charter Schools (Dollars in Billions)



- **Funds New System of Support for Low-Performing School Districts.** The Governor proposes a $76 million package of initiatives to support low-performing districts. Of this amount, the majority ($55 million) would fund county offices of education (COEs) to support districts flagged for improvement under the state's new accountability system. The package also includes $10 million for special education agencies to support districts flagged for improvement due to special education performance issues, $7 million for the California Collaborative on Educational Excellence to provide statewide assistance to COEs and special education agencies tasked with helping districts, and $4 million for selected COEs to serve as regional support leads.

- **Allocates $1.8 Billion for One-Time Discretionary Grants.** The Governor's budget includes $1.8 billion for K-12 discretionary grants. Similar to previous years, funds would be allocated to school districts, COEs, and charter schools on a per-student basis. We estimate that the $1.8 billion allocation would equate to about $300 per student. From each school district's discretionary grant amount, the Governor proposes to deduct any outstanding obligation from a recent agreement with the federal government over Medi-Cal billing practices. Each district's deduction would be based on its individual obligation. The administration estimates that the associated statewide obligation is about $220 million. The remainder of each district's discretionary grant amount would be attributed to any outstanding mandate claims. About one-third of districts have such claims.

- **Funds Two One-Time Initiatives Focused on Special Education Staffing Challenges.** The budget funds two initiatives ($50 million each) to improve the recruitment and retention of special education teachers. The first initiative would fund teacher residency programs that pair new special education teachers with experienced mentor teachers. The second initiative would provide grants for locally developed efforts to address special education staffing challenges. The Commission on Teacher Credentialing would administer both initiatives as competitive grants.

- **Funds New High School Career Technical Education (CTE) Program Through CCC Budget.** The Governor proposes a new $212 million high school career technical education program funded through the existing Strong Workforce program administered by the community colleges. Of this amount, $200 million is for existing Strong Workforce consortia consisting of colleges, school districts, and industry partners. The consortia, in turn, would decide how to allocate the new funds to school districts. The remaining $12 million would fund local industry experts who would provide technical assistance to school districts with career technical education programs.

- **Estimated Maintenance Factor Shrinks in 2018-19.** The Governor's budget estimates that $83 million in Proposition 98 Maintenance Factor will be created in 2018-19, which will result in a total maintenance factor of $320 million. If the final 2018-19 budget contains additional revenue above the January budget, less of that funding will need to dedicated to pay off the maintenance factor, which means more of these funds are available for unrestricted General Fund, but also that Proposition 98 levels will not grow as robustly as they did in years when the State had a large maintenance factor obligation.

EARLY CHILDHOOD EDUCATION

The Governor's January budget includes a slight increase (two percent) for overall child care and preschool funding in 2018-19, as shown in the chart below:

Child Care and Preschool Budget

(Dollars in Millions)

	2016-17 Revised	2017-18 Revised[a]	2018-19 Proposed	Change from 2017-18 Amount	Change from 2017-18 Percent
Expenditures					
CalWORKs Child Care					
Stage 1	$418	$320	$330	$10	3.2%
Stage 2[b]	445	519	518	-1	-0.3%[d]
Stage 3	284	315	335	21	6.6%
Subtotals	**($1,147)**	**($1,154)**	**($1,183)**	**($30)**	**(2.6%)**
Non-CalWORKs Child Care					
General Child Care[c]	$308	$360	$378	$17	4.9%
Alternative Payment Program	283	292	308	15	5.2%
Migrant Child Care	31	35	36	2	5.1%
Bridge program for foster children	–	20	40	20[d]	100%
Care for Children With Severe Disabilities	2	2	2	–[e]	5.1%
Subtotals	**($623)**	**($709)**	**($764)**	**($55)**	**(7.7%)**
Preschool Programs[f]					
State Preschool–part day[g]	$447	$503	$537	$34	6.8%
State Preschool–full day	627	738	802	65	8.8%
Transitional Kindergarten[h]	718	738	779	41	5.5%
Preschool QRIS Grant	$50	$50	$50	–	–
Subtotals	**($1,842)**	**($2,028)**	**($2,168)**	**($140)**	**(6.9%)**
Support Programs					
Existing support programs	$89	$93	$101	$8	8.1%
Inclusive Early Education Expansion (one time)	–	–	167	167	N/A
Subtotals	**($89)**	**($93)**	**($268)**	**($175)**	**(188%)**
Totals	**$3,702**	**$3,984**	**$4,383**	**$399**	**10%**
Funding					
Proposition 98 General Fund	$1,693	$1,860	$2,117	$257	14%
Non-Proposition 98 General Fund	984	1,094	1,240	146	13
Federal CCDF	639	635	636	1	0.2
Federal TANF	385	390	379	-10	-2.6
Federal Title IV-E	–	5	9	5[d]	100

[a] Reflects Department of Social Services' revised Stage 1 estimates. 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.

Major Provisions

- **Increases Child Care and Preschool Programs by $399 Million**. The Governor's budget includes nearly $4.4 billion for child care and preschool programs (including Transitional Kindergarten). This is an increase of 9 percent from 2017-18.

- **Permanently Extends Hold Harmless for RMR.** The budget includes $17 million to permanently extend the RMR hold harmless provision so that no provider receives less than it received in 2015-16. Under current law this provision was set to expire

December 31, 2018. (Please note that the $17 million consists of $2.6 million for CalWORKs Stage 1 and $14 million for all other programs. The Stage 1 number is a preliminary LAO estimate.)

- **Provides One-time Funding for Early Education Expansion Grant**. The budget includes $167 million in one-time funding ($125 million Proposition 98 General Fund and $42 million TANF) for a competitive grant to increase the availability of inclusive early education care to children ages 0 to 5. The grant, open to both LEA and non-LEA providers, will can be used for a variety of activities, including facility renovations, training, and equipment.

- **Annualizes Funding and Adds New Slots For Full-Day State Preschool**. The budget includes $19 million to annualize the 2,959 full-day State Preschool slots for local educational agencies set to be initiated April 1, 2018 and an additional $8 million to add an additional 2,959 full-day State Preschool slots at local education agencies starting April 1, 2019.

- **Provides One-time Increase for Quality Services**. The budget includes $9 million in one-time federal carryover funds for quality improvement activities.

- **Annualizes Funding For Regional Market Rate (RMR) Increases Initiated in 2017-18.** The Governor's budget provides $21 million to annualize funding for the January 1, 2018 increase of the RMR. (The 2017-18 budget increased the RMR from the 75th percentile of the 2014 survey to the 75th percentile of the 2016 survey.)

- **Annualizes Funding for Emergency Child Care Bridge Program.** The budget includes $20 million to annualize the emergency child care bridge program initiated January 1, 2018, for total program funding of $40 million.

- **Applies COLA and Statutory Growth Adjustment for Non-CalWORKs Child Care Programs.** The budget includes $50 million for a 2.51 percent COLA for non-CalWORKs child care and State Preschool programs. The budget also decreases non-CalWORKs child care and preschool slots by $9 million to account for a 0.48 percent decrease in the birth-to-four population in California.

- **Makes Adjustments for Changes in CalWORKs Child Care Caseload and Average Cost of Care.** The budget includes a net increase of $396,000 to reflect changes in CalWORKs caseload and cost of care. This includes a $4 million increase in Stage 1, a $16 million decrease in Stage 2, and a $12 million increase in Stage 3. Pause Early Education Increases.

Staff Comment and Analysis of Governor's Budget Proposal

The Governor’s 2018-19 proposed budget for K-12 and early education aligns with many of the goals articulated by the Assembly in the Budget Blueprint. 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 2018-19 budget.

Uncertain Future After LCFF Full Funding. The proposed full funding of the Local Control Funding Formula represents the achievement of a long established milestone in educational finance that signals the recovery of education funding from the Great Recession. However, districts face uncertainty regarding their revenue picture after this goal is achieved, because current law does not articulate how revenue in future years will be earned beyond a growth and COLA adjustment. This uncertainty makes the forthcoming pension cost increases seem more daunting than the overall budget projections would suggest. A quick survey of various school district budgets shows districts anticipating revenue growth of about 2 percent a year, while the LAO Proposition 98 forecast estimates a growth rate of about 4 percent. This disconnect accounts for the dire and pessimistic tones of local district budget conversations, which contrast sharply with the optimistic view at the state level.

Local Control Funding Formula Oversight Continues. While the budget offers a more tangible LCFF proposal for low performing school districts through County Offices of Education, it will likely not go far enough to address the concerns raised about how LCFF funds were used by districts. After four years of implementation, many Legislators and civil rights groups have become impatient with the lack of accountability with the LCFF. The Governor's intent with the LCFF was to allow for more decisions to be made at the local level and shift much of the accountability to local school boards. However, this has not been transparent in many areas of the state and Legislators want to know if the LCFF is working, given the significant amount of state funds invested through this mechanism for public education.

2018 Revenue Likely to Increase. As mentioned elsewhere in the budget document, recent tax collections suggest additional revenue that is not accounted for in the 2018-19 budget proposal. Unlike in previous years, with most of the maintenance factor repaid, this additional revenue will not provide the Proposition 98 windfall in May Revision, but it will provide some additional funds for education purposes.

Career Technical Education Proposal Offers A Good Starting Point for Discussion. The Governor’s budget includes a proposal for $200 million ongoing Career Technical Education funding, satisfying a goal outlined in the Assembly Budget Blueprint. However, now the Assembly must work with the Administration on the details of the proposal to fully meet the expectation of stakeholders on this important part of the State’s workforce development system. For example, the Governor's proposal envisions the Community Colleges playing a central role in distributing these funds, which has raised some initial questions. Budget hearings this year will provide a good opportunity to shape a proposal on which all sides can agree.

Special Education Proposal Shows Promise. The Governor's budget includes an interesting proposal on Special Education that is derived from a thorough process by the Department of Finance. As mentioned in the Blueprint, these important programs have been underfunded and need further attention. The Governor's proposal offers some good ideas to explore and improve upon in the Assembly's budget discussion.

Governor's honors early education budget deal. The Governor proposes to annualize the early education increases agreed upon in the 2016-17 budget. The 2018 proposed budget is the friendliest to early care and education of any during this Governor's tenure, and it includes providing COLA adjustments to these programs. 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 even further progress in this area.

Increasing Access for Infants and Toddlers. Recent budgets have provided significant new resources for increasing rates and updating eligibility for child care and preschool programs, in addition to adding some new slots for State Preschool. However, additional slots for infants and toddlers have not been provided and the State's capacity in this area has contracted as a result. Investment here is a timely discussion toward the building of the 2018 Budget.

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 2017-18 is 272,267 full-time equivalent students, with 204,197 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 2017-18 is 403,116 full-time equivalent students, with 358,317 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. A select number of colleges offer bachelor's degrees as part of a pilot program. 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 1,185,007 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

California Faces a Significant Degree Gap. Using recent employment trends and forecasts, as well as projecting demographic trends, the Public Policy Institute of California (PPIC) has reported that California will have a shortage of 1.1 million bachelor's degrees by 2030 to meet state workforce 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. The state must develop a plan to meet these state workforce needs. Assembly budget and policy hearings this spring will focus on how UC, CSU, community colleges and private California colleges can increase access, improve completion and develop bold, new ideas (online education, three-year degrees, outreach to adults with no college or little college) to meet this need.

The Rising Costs of College are Overwhelming Students; How Can the State Help? After remaining flat for at least five years, tuition at UC and CSU increased in 2017, and both the UC Board of Regents and CSU Board of Trustees are again considering tuition increases for 2018. If approved this Spring, tuition at UC (including a systemwide student fee) would be $12,918 annually and tuition at CSU would be $5,970 beginning in Fall 2018.

Tuition, however, is hardly the only cost associated with college. Housing, food, books and travel costs often dwarf tuition. Total cost of attendance averages more than $30,000 annually at UC campuses and ranges between $20,100 and $27,500 at CSU campuses. These high costs threaten access and success for low-income and middle-income students. Both UC and CSU have recently conducted student surveys indicating significant food insecurity among students: 21% of CSU students surveyed reported difficulty obtaining three meals a day; the number was 19% of students at UC.

While the state is spending more than $2.2 billion in 2017-18 on financial aid, most of the aid is focused on tuition. As part of the 2017 Budget Act, the Assembly asked the California Student Aid Commission to explore ways to improve financial aid programs to better help students cover their college costs. That report will be released in February and should allow the Assembly to hold extensive discussions this Spring about reforming programs to meet today's student needs.

Completion Rates Must Be Improved. A key to meeting the state's future workforce needs and to ensuring that California students have a pathway to the middle class is to ensure students can complete a degree or program in a timely manner. All three segments could do better. UC reports that 64% of undergraduate students graduate within four years, and 85% graduate within six years. At CSU, only 21% of freshmen graduate within four years, while 59% graduate within six years. Community colleges report a 48% completion rate within 6 years, with career technical education completion rates at 54% within six years.

Most disturbingly, all three segments have achievement gaps related to low-income or underrepresented minority students. UC reports a 6% gap between low-income and non-low-income four-year graduation rates; CSU reports similar four- and six-year graduation rate gaps for low-income students; and the community colleges report a 17% completion rate difference between African American students and white students, and a 12% difference between Hispanic and white students.

Both CSU – through the Graduation Initiative 2025 – and the community colleges – through the Vision for Success – have plans underway to improve these numbers. The Legislature must continue to work with the segments to ensure both budget and policy directions are aligned with improved student completion.

Still Not Enough Seats. Due largely to leadership from the state Assembly, Californians' ability to access public higher education has improved significantly during the past few years. Between 2012 and 2017, UC has added more than 13,000 California undergraduates at UC, CSU has added more than 42,000 undergraduates, and the community colleges nearly 85,000 more students. 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 32,000 students who met Master Plan admissions standards were denied admission to CSU in Fall 2017. 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 2017, growing from 9% of the undergraduate student body to 17.2%. 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 2017 Budget Act required the CSU Board of Trustees to develop two new policies that may aid more qualified students in accessing CSU. The Trustees are required to create a policy that will redirect qualified students who are seeking admittance to overcrowded campuses toward campuses with more availability. Additionally, the Trustees are required to develop a policy that will give local students priority in admissions to overcrowded programs. The Assembly will discuss these policies this Spring as the Trustees work to develop them. The Assembly also must continue to work with UC to ensure California enrollment remains a priority.

UC Office of the President Requires Reform. A state audit released in April 2017 found numerous issues with the UC Office of the President, including that the office had failed to disclose $175 million in reserves, did not properly track or oversee systemwide initiatives that were part of its budget, and it inappropriately interfered with the auditor's efforts to survey campuses about the office's effectiveness. In response to this audit, the 2017 Budget Act created a separate budget item for the Office of the President to allow for more legislative oversight. In addition, the budget withheld $50 million General Fund from UC, which will be released this Spring if UC implements the auditor's recommendations.

As part of the Spring hearing process, the Assembly will conduct a thorough review of the Office of the President, and hopes to discuss a report due in April regarding administrative redundancies between the office and campus administrative office. General Fund support for the office is $348.8 million, although the total budget for the office, including other funds, is $797.5 million. The budget is currently split into two main divisions: Statewide Academic and Public Services Programs, and Central and Administrative Services. As the Assembly considers appropriate funding levels for UC that allow for enrollment growth and encourage improved completion rates, it must also consider significant reforms to the Office of the President. Can the office be reduced to ensure that more UC funding is available for campuses?

Governor's January Budget Proposal in Higher Education

The Governor's Budget proposes total funding of $33.7 billion ($18.5 billion General Fund and local property taxes) for higher education. The *Governor's Budget Summary* notes that since the passage of Proposition 30 in 2012, funding has grown for UC by $1.2 billion, for CSU by $1.6 billion, and for core community college programs by $2.4 billion. Cal Grant spending also has grown significantly, rising by 41%, or $623 million.

Below are descriptions of new proposals for the 2018-19 budget for the three segments and other higher education issue areas.

UNIVERSITY OF CALIFORNIA

The Governor's Budget includes $35.7 billion all funds for the University of California (UC) in 2018-19, an increase of $837 million, or 2 percent, from the current year. Of this funding, $3.5 billion is direct General Fund support, or about 10 percent of UC's overall budget.

Major Provisions

- **Continues Small Increase in General Fund Support for Campuses.** Direct General Fund support to UC increases by $92.1 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 to reduce its cost structure.

- **Assumes Incentive Funding.** The 2017 Budget Act withheld $50 million General Fund from within UC's budget, to be released May 1 if the UC completes the auditor's recommendations as described earlier; completes activities-based pilot programs at three campuses; attempts to attain a 2:1 freshmen-to-transfer enrollment ratio at each undergraduate campus except UC Merced; adopts a policy that forbids supplemental retirement payments to new administrators; and provides a report on all systemwide initiatives. The Governor's Budget assumes that UC will adhere to these requirements and will receive the funding.

- **Continues Separate Budget Item for the Office of the President.** The Governor's Budget maintains the Office of the President as a separate line item, and provides $348.8 million General Fund, the same amount as the 2017 Budget Act.

Other Key Issues for UC

- **Proposition 56 Swap.** Similar to the 2017 Budget Act, the Governor's Budget provides UC with $40 million for graduate medical education provided by Proposition 56 (the Cigarette and Tobacco Products Surtax Fund, adopted by voters in 2016) but reduces overall General Fund support by $40 million.

CALIFORNIA STATE UNIVERSITY

The Governor's Budget includes $10 billion all funds for California State University in 2018-19, an increase of $49.4 million, or 0.5 percent from the current year. Of this funding, $3.5 billion is direct General Fund, or about 35 percent of CSU's overall budget.

Major Provision

- **Continues Small Increase in General Fund Support.** Direct General Fund support to CSU increases by $92.1 million ongoing over the current year, continuing the Administration's recent practice of small, unallocated increases for CSU (and UC.) The Administration suggests the funding should be used to support the Graduation Initiative 2025 in the Governor’s Budget Summary, but provides no requirement to CSU on how to spend the funding in the budget bill.

CALIFORNIA COMMUNITY COLLEGES

The Governor's Budget includes $10 billion all funds for the California Community Colleges in 2018-19, an increase of $509.1 million, or about 5 percent from the current year. Of this funding, $6.1 billion million is Proposition 98 General Fund, or about 61 percent of the Colleges' overall budget.

Major Provisions

- **New Funding Formula.** The Budget proposes a new apportionment funding formula. While the current formula distributes most funding based on enrollment, the Administration proposes a significant change: 50% based on enrollment, 25% based on the number of low-income students served, and 25% based on the number of degrees or certificates granted. The new formula would go into effect in 2018-19, and the proposal includes an additional $175 million Proposition 98 General Fund for apportionment funding to ensure that no college receives less revenue under the new formula then they would have received under the current formula.

- **Online College**. The Budget proposes $20 million ongoing Proposition 98 General Fund and $100 million one-time Proposition 98 General Fund to launch a new, entirely online community college. The Administration states that the new college would target the 2.5 million Californians between the ages of 25 and 34 who have only a high school diploma or some college experience but no degree. The college's initial focus would be on collecting and developing content for career advancement and credentialing in careers such as child development, advanced manufacturing, and healthcare. The Board of Governors would be charged with running the college at first, with an eventual successor board taking over.

- **California College Promise**. The Budget provides $46 million Proposition 98 General Fund to implement the California College Promise, pursuant to AB 19 (Chapter 735, Statutes of 2017.) The new law provides free tuition to all first-time, full-time freshmen at colleges that undertake specific student success activities.

- **Student Success Completion Grant.** The Budget proposes to consolidate two financial aid programs, the Full Time Student Success Grant and the Completion Grant, into one program offering aid to students who qualify for Cal Grant B and take 12 units or more per semester. The new program would provide differing amounts of aid depending on whether the student took 12, 13, 14 or 15 or more units. The proposal also increases spending on this program by $32.9 million Proposition 98 General Fund, for a total of $66.2 million Proposition 98 General Fund.

- **Deferred Maintenance and Instructional Equipment**. The Budget provides $275.2 million one-time Proposition 98 General Fund to support campus costs related to deferred maintenance, instructional equipment, and water conservation projects.

- **Community College Facilities**. The Budget provides $44.9 million in general obligation bond funding for 5 new and 15 continuing capital outlay projects. This allocation represents the second installment of the $2 billion available for community colleges via Proposition 51.

- **Innovation Awards**. The Budget provides $20 million one-time Proposition 98 General Fund to support another round of innovation awards. The Chancellor's Office would distribute funding to grant recipients who proposed innovative ways to enhance student equity.

CALIFORNIA STUDENT AID COMMISSION

The Governor's Budget includes $2.3 billion all funds for the California Student Aid Commission (CSAC) in 2018-19, an increase of $74.5 million, or about 3 percent, from the current year. Of this funding, $1.2 billion is General Fund, or about 52 percent of CSAC's total budget.

Major Provisions

- **Supports Higher Cal Grant Amounts for Private Colleges if Colleges Accept More Transfer Students.** The Budget proposes to retain the Cal Grant award for a student attending a private, nonprofit institution at $9,084, instead of lowering the amount to about $8,000 as was planned. The higher award amount would be allowed going forward if the sector admits a specified amount of community college transfer students who have earned associate's degrees for transfer: 2,500 in 2019-20 and 3,000 in 2020-21. This proposal would add $7.9 million General Fund in Cal Grant costs in 2018-19.

- **Grant Delivery System Project.** The Budget proposes $7.4 million General Fund to support the first year of implementation of the Grant Delivery System, a project to modernize the Commission's outdated information technology system. The Commission estimates total project costs of $29.4 million through 2020-21, with most of the work being done by 2019-20.

UC HASTINGS COLLEGE OF LAW

The Governor's Budget includes $85.6 million all funds for Hastings in 2018-19, an increase of $4.4 million, or 5 percent from the current year. Of this funding, $13.8 million is General Fund, or about 16 percent of Hastings' overall budget.

Major Provision

- **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.

CALIFORNIA STATE LIBRARY

The Governor's Budget includes $56.9 million all funds for the State Library in 2018-19, an increase of $3.4 million, or about 6 percent from the current year. Of this funding, $35.9 million is General Fund, or about 63 percent of the Library's overall budget.

Major Provisions

- **Literacy Program.** The Budget provides the Library with $2.5 million General Fund expand the California Library Literacy Services program. The increase brings total support for the program to $7.3 million General Fund.

- **Broadband Grants.** The Budget provides the Library with $5 million one-time General Fund for broadband equipment grants. Of this funding, $2 million would support grants to local libraries seeking to access the Library’s statewide broadband network, and $3 million would expand capacity for libraries already connected.

- **Online Service System.** The Budget provides the Library with $1.5 million one-time General Fund to improve local libraries’ abilities to share online materials.

OFFICE OF PLANNING AND RESEARCH

The Governor's budget includes $570.4 million all funds for the Office of Planning and Research (OPR) in 2018-19, a decrease of $331.6 million, or 36.8 percent from the current year. Of this funding, $84.1 million is General Fund, or about 15% of OPR's overall budget. Most of OPR's functions revolve around general state administration, but the Governor's budget includes a specific higher education proposal.

Major Higher Education Provision

- **California Education Learning Lab.** The Budget includes $10 million General Fund for a grant to be made to a consortium of public colleges and universities to operate a lab focused on improving the quality of online higher education. Literacy Program.

Staff Comment and Analysis of Governor's Budget Proposal

This budget proposal contains dramatic new proposals for the community colleges: a revamping of the funding formula and a call for a new online community college. These are proposals that address real issues and merit serious consideration, although there are many significant issues to review that might be better addressed via the policy process.

The Administration continues its practice of 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.

Some Efforts to Address Access, but More Focus is Needed. The Governor's Budget includes a few proposals aimed at increasing higher education access in California, a key Assembly priority. The proposal to encourage access to private colleges for community college transfer students by linking Cal Grant amounts to this access could be an important step toward enrollment growth in this sector. The rationale is sound: the state should collaborate with this sector to provide sufficient financial aid to allow students to choose to attend private colleges if they wish to; in turn the sector must admit more Californians.

Additionally, the Administration is right to focus attention on the 2.5 million California adults 25 to 34 with no college degree. These are largely working people who could boost income and job security through attaining a certificate or degree. However, the Administration's proposal to serve this population through a new online community college is problematic. Significant research indicates that higher education students who are not prepared for college work – surely a large portion of this adult population – do not fare well in online college settings: a study published in the American Economic Review in 2017 found particularly poor results for online students with prior low college grades. Could the proposed amount of funding be better spent to serve these adults in a different way?

Finally, the Administration continues to resist specific enrollment funding at UC and CSU. This is despite both segments' interest in increasing California enrollment. The Assembly will continue to push for enrollment targets at both UC and CSU to meet growing student demand and state workforce needs.

Serious Discussion on Better Supporting Student Costs is Needed. The Governor's Budget does little to address college affordability. Despite spending more than $2 billion on financial aid, the state appears to be falling short in its effort to ensure that low-income students can gain access to higher education and complete a degree or program. For example, a study conducted by The Institute for College Access and Success found that among CSU degree recipients in 2015-16, nearly eight out of every ten had family incomes less than $54,000. And as noted earlier, hundreds of thousands of California college students are struggling to keep up with the state's high housing and food costs, even if tuition is largely covered.

The Administration's proposal to consolidate community college financial aid programs and increase funding is welcome. The challenge for this aid is to ensure that it is an adequate amount to allow a part-time student to work – and earn – less and become a full-time student.

In addition, the 2017 Budget Act required the Student Aid Commission to report this Spring on options to consolidate existing financial aid programs that serve similar student populations in order to lower students' total cost of college attendance, including: tuition and fees, books and supplies, transportation, and room and board. Options include reforming the Cal Grant and Middle Class Scholarship programs to better serve students, particularly in conjunction with federal financial aid and institutional aid programs. The Assembly must focus on ways to ensure that low-income students have a route to a debt-free college education.

State Needs a Plan! Now that the state is several years removed from the Great Recession and funding levels have largely recovered for all three segments, the time is right for a long-term plan. Recent higher education budget discussions have focused on access, student success and affordability, but these conversations - and actions – are not tied to any specific rationale. Given statewide discussion on future workforce needs and the impending degree gap projected by the PPIC, it seems appropriate to focus attention on enrollment and completion rates that seek to meet these needs. The Assembly Higher Education Committee and Assembly Subcommittee No. 2 on Education Finance will work this year to develop a plan aimed at increasing the number of degrees awarded to address the degree gap. PPIC has concluded that to meet the degree gap, UC will need to produce about 250,000 more bachelor's degrees by 2030 than it is currently on track to produce, and CSU would need to increase degrees by about 480,000. The Assembly could develop a plan regarding annual freshmen and transfer enrollment targets, as well as targets for improved graduation rates, at each segment to address this gap.

ENVIRONMENTAL PROTECTION, NATURAL RESOURCES, AND ENERGY

This section discusses several significant budget issues in the natural resources, environmental protection, and energy areas.

Major Issues in Environmental Protection, Natural Resources, and Energy

Recovery Efforts as a Result of Wildfires in 2017 Still Underway. Record breaking wildfires in 2017 has burned over a million acres, destroyed thousands of infrastructures, evacuated hundreds from their homes and left muddy, flood-prone landscapes in their wake. Recovery efforts are still underway in 2018. The Governor declared a state of emergency for the October fires that devastated Napa, Sonoma, and Lake counties and was successful in securing federal aid for residents and workers in those areas. A similar request for federal aid has also been made for the deadly December fires that erupted in Los Angeles, Santa Barbara, San Diego and Ventura Counties, which is still pending. The negative impacts of these wildfires are widespread, from watershed health, air quality, soil, to the economy. The estimated costs of recovery efforts are in the billions. As of December 20, 2017, the Department of Finance accessed $43.4 million in resources available in the State Fund for Economic Uncertainties for various departments related to unexpected equipment, personnel, and other disaster assistance costs incurred in response to the wildfires. The majority of these resources were used for hazardous waste and debris removal, purchase and distribution of food to individuals affected by the fires, and rental/mortgage vouchers and utility assistance for those affected but ineligible for federal assistance.

Aging Flood Control Infrastructure in Need. As the climate changes, our flood control systems will continue to be pushed to the limit with extreme drought conditions and extreme rainstorms. After five years of drought, California experienced more precipitation in 2017 than in any year recorded. The heavy rainfall caused flooding, levee breaks, and sinkholes in multiple regions in California. The Governor declared a state of emergency in 52 of the state’s 58 counties due to damage from the winter storms and floods. These events, most notably the Oroville spillway breach in February 2017, have generated concerns over California's aging flood protection infrastructure. According to a report by the Legislative Analyst’s Office, estimates suggest 7.3 million people (one-in-five Californians), structures valued at $575 billion, and crops valued at $7.5 billion are located in areas that have at least a 1 in 500 probability of flooding in any given year. Despite these significant expenditures, several studies have estimated that reducing flood risk across the state will cost tens of billions of dollars above current expenditure levels over the next couple of decades.

California Beverage Container Recycling Fund (BCRF) is Flush But the Program Still Needs Reform. Due to cost pressures in the BCRF since 2008, many have raised a variety of concerns for the Bottle Bill program. These concerns include fraud, the effectiveness of some supplemental programs supported by the program, whether some offsets support the goals of the program, and the program's ability to adapt to changes. Urgency to reform the program culminated in 2016-16, when approximately one-third of the total in-state convenience zone recycling infrastructure shuttered operations.

Due to the reduced recycling infrastructure and other factors, the fund conditions within the BCRF currently reflect a healthy balance. However, many of the issues that drove the need for comprehensive reform remain. Consumers in many areas continue to have limited or no access to redemption opportunities. Grocers must continue with the inconvenience of taking back the containers or paying the $100/day fee. According to an annual report published by CalRecycle in 2017, the state's empty beverage container recycling rate fell below 80 percent for the first time since 2008, with peak recycling rate at 85 percent in 2013.

Looming Budget Shortfall at the Department of Toxics and Substance Control. California generates an average of 1.7 million tons of hazardous waste each year, ranging from industrial pollution to discarded household products. The Department of Toxic Substances Control (DTSC) is tasked with protecting California's people and environment by making sure these substances are handled safely. In recent years the department has faced criticism over fiscal mismanagement, inconsistent record keeping, insufficient administrative processes and lack of transparency. In August 2014, the state auditor issued a report citing DTSC's failure to collect an estimated $194 million in cleanup costs from polluters since 1987, failed to send out nearly $142 million in bills, and for the $52 million in assessments the DTSC did mail, it never collected.

Responding to the critiques, DTSC is in the process of improving transparency, enforcement actions, and administrative processes and procedures. However, the legacy of these systemic issues, from uncollected cleanup costs to a growing backlog of applications to renew hazardous waste permits, will result in a structural budget deficit at DTSC in the very near future.

Zero-Emission Vehicles (ZEV) and Related Charging Infrastructure. Increasing the number of ZEVs on the road will help to reduce greenhouse gas emissions from transportation fuels and better enables the state meet its greenhouse gas reduction goals. However, some people are reluctant to purchase ZEVs because they have concerns about how far a vehicle can go on a single charge and the ability to recharge quickly. Therefore, having a sufficient hydrogen and electric charging infrastructure throughout California is critical to ensuring that the state meets it greenhouse gas reduction target goals. Numerous state departments are involved in overseeing or actively participating in the installation of charging infrastructure. These departments include the Air Resources Board, California Energy Commission, California Independent Systems Operator, Caltrans, Parks Department, and the California Public Utilities Commission. It is unclear to what extent their efforts are being coordinated to ensure the most efficient use of the funding available for this infrastructure.

Utilities and Wildfires. Pacific Gas and Electric, San Diego Gas and Electric, and Southern California Edison comprise approximately three quarters of electricity supply in California. As a result of the recent fires and the great probability of future large fires, the investor-owned utilities (IOUs) face challenges in obtaining insurance to protect their assets at a reasonable cost and potentially significant liability costs. Both of these issues will likely result in significant financial impacts to the utilities and create financial uncertainty for them which could cause market failure and/or significant cost increases to consumers. The magnitude of this problem will likely result in the Legislature needing to participate in the development of a new paradigm going forward.

Governor's January Budget Proposals

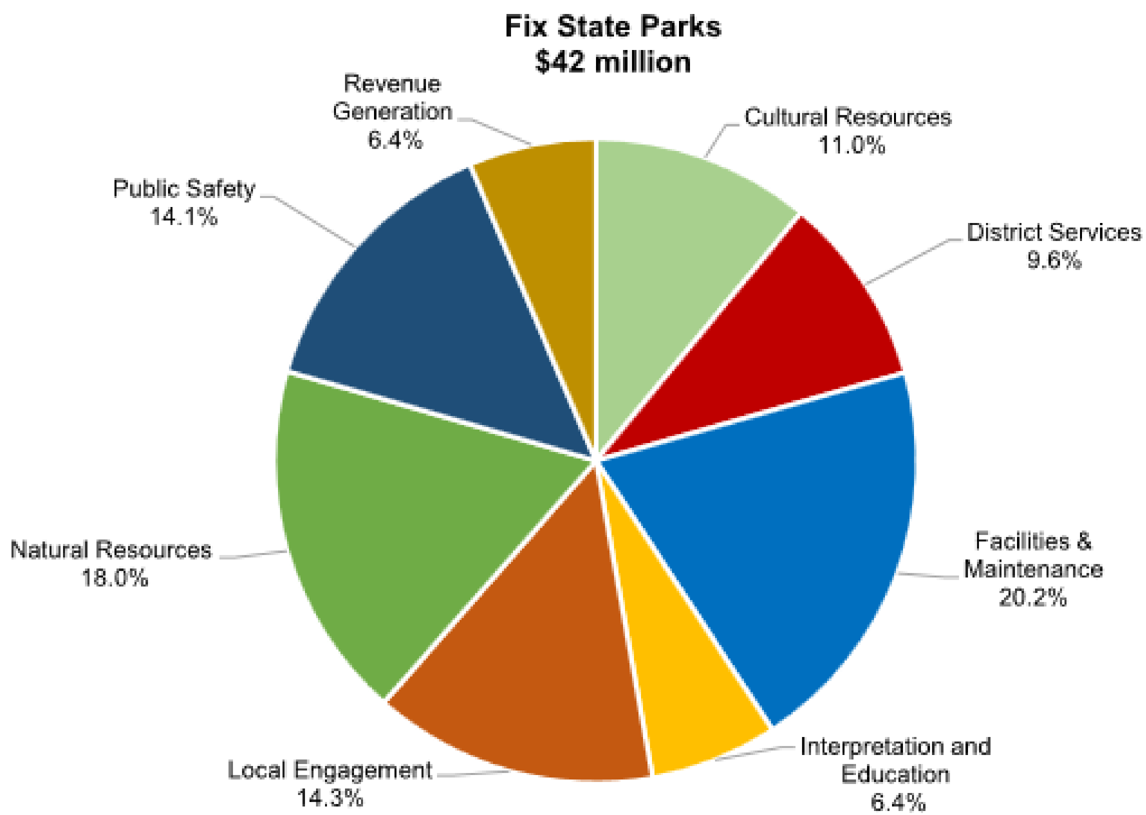
The California Drought, Water, Parks, Climate, Coastal Protection, and Outdoor Access for All (SB 5) Package. SB 5 (Chapter 852, Statutes of 2017) proposed the issuance of $4 billion in general obligation bonds to be made available for California's parks, water and flood control infrastructure, ocean and coastal protection, safe drinking water, groundwater management and climate preparedness and resiliency. The availability of these funds is contingent upon approval of the bond measure by the voters in the June 2018 election. The Governor's budget proposes to spend $1.02 billion of the $4 billion for a variety of projects across several departments. The chart below summarizes the proposed investments.

California Drought, Water, Parks, Climate, Coastal Protection and Outdoor Access For All (SB 5)
(Dollars in Millions)

Investment Category	Department	Program	Amount
State and Local Park Improvements	Department of Parks and Recreation & Natural Resources Agency	Local and Regional Grant Programs for Neighborhood Parks and Greenway Trails	$464
	Department of Parks and Recreation	State Park System Enhancements	$4
	Department of Food and Agriculture	Deferred Maintenance for Fairs	$4
Ecosystem Restoration & Climate Resilency	Multiple Departments & Conservancies	River Recreation, Creek, and Waterway Improvements	$58
	Natural Resources Agency	Salton Sea Restoration	$30
	Multiple Departments & Conservancies	Climate Adaptation & Resiliency	$110
	State Coastal Conservancy & Ocean Protection Council	Coastal Protection	$13
	California Conservation Corps	CCC Restoration and Rehabilitation Projects & Grants to Local Community Conservation Corps	$10
Water Action Plan	State Water Board	Safe Drinking Water Projects	$63
	Department of Water Resources & Natural Resources Agency	Flood Management	$99
	Department of Water Resources & State Water Board	Sustainable Groundwater Management Act	$146
	Department of Food and Agriculture	State Water Efficiency and Enhancement Program	$18
	Total		**$1,019**

Source: Department of Finance

The Department of Parks and Recreation. Over the past several years, the Department of Parks and Recreation has undertaken reform and innovation efforts to address the department's long-term structural shortfalls and to improve the Department's management, responsiveness, and accountability. Key reforms include a new organizational structure, new fiscal management tools, and modernized fee collection and management systems. Building upon this success, the Governor's budget proposes $42 million and 364 positions to increase services across a variety of programs. The largest areas of investment is facilities and maintenance, which includes deferred maintenance, maintaining clean water supplies, maintaining dynamic trail systems, and safe roads. The categorical breakdown is as follows:



Source: Department of Finance

The Governor's budget additionally proposes $26.6 million in permanent funding to address the structural deficit in the State Parks and Recreation Fund and $1 million in permanent funding for the newly established recruitment and training program for hard-to-fill classifications and to emphasize diversity in the Department's workforce.

The Department of Fish and Wildlife. The Budget Act of 2017 provided a temporary fix to the $20 million structural deficit in the Fish and Game Preservation Fund non-dedicated account, which serves as the Department's general fund. The temporary fix included language directing the Department to reconvene the strategic visioning process to review policies to improve and enhance the Department's capacity and effectiveness in fulfilling its mission. The Department reconvened its stakeholder group in the fall of 2017 and produced a new plan which outlines a future vision for the Department. Consistent with this plan, the Governor's budget proposes $50.6 million of ongoing funding ($6.6 million General Fund, $18 million Motor Vehicle Account, and $26 million Tire Recycling Management Fund) to address the structural imbalance and to support the future vision detailed by the Department and the stakeholder group.

Parolee-to-Firefighter Training Program. The Governor's budget proposes $26.6 million in General Fund for the Department of Forestry and Fire Protection, the California Department of Corrections and Rehabilitation, and the California Conservation Corps to operate the proposed Firefighter Training and Certification Program for ex-offenders at the Ventura Conservation Camp in Ventura County. The Governor's budget envisions this program to be 18 months long and would enable 80 ex-offenders to gain the training and experience needed to qualify for entry-level firefighting positions with local, state, and federal firefighting agencies.

Cap and Trade. The Governor's budget proposes a $1.25 billion Cap and Trade plan that focuses on four areas of investment: 1) zero-emission vehicles; 2) sequestration and resilience; 3) integrated climate investment; and 4) climate change technology and solutions. The ZEV initiative will provide $2.5 billion over eight years and help reach the Governor's goal of 5 million ZEVs on the road by 2030. This includes $235 million to the California Energy Commission for hydrogen and electric charging stations in 2018-19 and $900 million in total through 2025. It also includes $200 million annually for ZEV rebates through 2025.

The sequestration and resilience initiative will focus on making California's forests more resilient and reliable as a long-term carbon sink. Reducing fuel loads from dead trees is also a priority. The California Integrated Climate Investment Program provides $20 million to seed funding to accelerate private sector investments in California Infrastructure projects that reduce GHGs and improve climate resilience. Finally, the California Climate Change Technology and Solutions Initiative provides $35 million for research and development of innovative technologies and other solutions to maximize GHG emission reductions and prepare the state for a changing climate.

The proposed expenditures are spread across these four areas and others as noted in the table below:

2018-19 Cap and Trade Expenditure Plan
(Dollars in Millions)

Investment Category	*Department*	*Program*	*Amount*
Air Toxic and Criteria Air Pollutants	Air Resources Board	AB 617 - Community Air Protection	$250
		Technical Assistance to Community Groups	$5
Low Carbon Transportation	Air Resources Board	Clean Vehicle Rebate Project	$175
		Clean Trucks, Buses, & Off-Road Freight Equipment	$180
		Enhanced Fleet Modernization Program, School Buses & Transportation Equity Projects	$100
	Energy Commission	Low Carbon Fuel Production	$25
Climate Smart Agriculture	Air Resources Board	Agricultural Diesel Engine Replacement & Upgrades	$102
	Energy Commission	Energy Efficiency	$34
	Department of Food and Agriculture	Healthy Soils	$5
	Energy Commission	Renewable Energy	$4
Healthy Forests	CAL FIRE	Healthy & Resilient Forests	$160
	CalOES	Local Fire Response	$25
Short-Lived Climate Pollutants	Department of Food and Agriculture	Methane Reduction	$99
	CalRecycle	Waste Diversion	$20
Integrated Climate Action: Mitigation & Resilience	Strategic Growth Council	Transformative Climate Communities	$25
	IBank	California Integrated Climate Investment Program	$20
	California Conservation Corps	Energy Corps	$6
Climate and Clean Energy Research	Strategic Growth Council	California Climate Change Technology and Solutions Initiative	$35
Total			**$1,250**

Source: Department of Finance

AIR RESOURCES BOARD

The Air Resources Board's proposed budget is $425.5 million, which represents a 73.2 percent decrease in expenditure from last year. This decrease is primarily due to a one-time allocation of $1 billion from the Green House Gas Reduction Fund last year. The Department's entire budget is comprised of special funds.

Major Provisions

- **Off-Road Vehicle and Aftermarket Parts Certification and Compliance.** The budget proposes $1,711,000 ongoing from the Air Pollution Control Fund to strengthen and broaden its mobile source emission oversight program to include off-road, aftermarket parts, and components.

- **Freight Regulations Reporting System to Improve Security and Increase Efficiency.** The budget proposes $1,080,000 one-time from the Motor Vehicle Account and 5.0 temporary positions to begin developing a replacement database for the existing Freight Regulations Reporting System.

CALIFORNIA CONSERVATION CORPS

The California Conservation Corps proposed budget is $104.7 million, which represents a 3.5 percent increase in expenditure from last year. Half of the Corps' budget is comprised of special funds, with $52.3 million in General Fund.

Major Provisions

- **Ventura Training Center.** The budget proposes $2,200,000 in General Fund to operate the Firefighter Training and Certification Program for ex-offenders at the Ventura Conservation Camp in Ventura County.

- **Los Angeles - Existing Nonresidential Center.** The budget proposes $1,725,000 one-time in General Fund to acquire the existing Los Angeles Nonresidential Center, which is leased from the City of Los Angeles, and to renovate the facility to address functional, structural, and seismic deficiencies.

- **Auberry- New Residential Center.** The budget proposes $4,885,000 one-time in General Fund to acquire ($2,847,000) and start preliminary plans ($2,038,000) to renovate the existing Auberry Elementary School for a new residential center in the City of Auberry in Fresno County to meet programmatic needs.

- **Renovation of Existing Fortuna Residential Center.** The budget proposes $1,052,000 one-time in General Fund for preliminary plans to renovate the existing Fortuna Residential Center located in Humboldt County, which was constructed in 1992. The requested funds will also add a multipurpose facility to meet programmatic needs.

- **New Residential Greenwood Center.** The budget proposes $3,172,000 one-time in General Fund for preliminary plans to replace the existing Greenwood Residential Center located in El Dorado County, which was constructed in the 1980s.

- **New Los Piños Residential Center.** The budget proposes $1,725,000 one-time in General Fund for preliminary plans to renovate the existing Los Pinos Residential Center (located in Orange County), which was built in 1966.

- **Replacement of Existing Ukiah Residential Center.** The budget proposes $2,866,000 one-time in General Fund to fund the preliminary plan phase of this project. Initiated in the Budget Act of 2015-16, this proposal would replace the existing Ukiah Residential Center located in Mendocino County, which was built in the 1930s.

- **New Yountville Residential Center.** The budget proposes $200,000 one-time in General Fund for the study phase to renovate an existing warehouse at the Veterans Home of California-Yountville (located in Napa County) to meet programmatic needs.

CALIFORNIA ENVIRONMENTAL PROTECTION AGENCY

The California Environmental Protection Agency proposed budget is $21.6 million, which represents a 2.6 percent decrease in expenditure from last year. Most of the California Environmental Protection Agency's budget is comprised of special funds, with $2 million in General Fund.

Major Provisions

- **Environmental Justice Small Grants.** The budget proposes $1,500,000 one-time ($375,000 from the Air Pollution Control Fund, $375,000 from the California Beverage Container Recycling Fund, $375,000 from the Waste Discharge Permit Fund, and $375,000 from the Toxic Substance Control Account) to implement the Environmental justice Small Grants Program. The grant program will award grants to non-profit entities and federally recognized tribes located in areas adversely affected by environmental pollution and hazards.

CALIFORNIA TAHOE CONSERVANCY

The California Tahoe Conservancy's proposed budget is $7.8 million, which represents a 44.8 percent decrease in expenditure from last year. The Conservancy's entire budget is comprised of special funds.

Major Provisions

- **Aquatic Invasive Species and Forest Health Strategic Leadership and Support.** The budget proposes $ 345,000 annually for three years ($195,000 Proposition 1 Bond fund, $100,000 Federal Trust Fund, and $50,000 Lake Tahoe Science and Lake Improvement Account) and 2 positions to continue to lead and provide strategic direction of multi-agency and stakeholder aquatic invasive species groups and to continue to provide strategic leadership of the Lake Tahoe West Restoration Partnership. The requested funding will be used to contract for outside planning and monitoring supplemental services. This proposal also requests to revert $585,000 in Proposition 1 planning and monitoring funds that were appropriated in FY 2015-16.

- **Conceptual Feasibility Planning.** The budget proposes $450,000 one-time ($90,000 Proposition 12, $78,000 Habitat Conservation Fund, and $282,000 Federal Trust Fund) to support initial conceptual and feasibility planning for new Conservancy project proposals and opportunities along the Upper Truckee River. This proposal also requests to revert $90,000 from the unencumbered balance of Item 3125-301-0005 in the Budget Act of 2014.

- **Upper Truckee River and Marsh Restoration Project. Upper Truckee River and Marsh Restoration Project.** The budget proposes $9,070,000 one-time from a number of voter-approved bond allocations as well as the Habitat Conservation Fund and the Federal Trust Fund for the construction phase of the Upper Truckee River and Marsh Restoration Project to improve and enhance the area's ecological values and water filtering capacity and recreation infrastructure. The total projected cost is $10,370,000. This proposal also requests to revert $1,709,000 from the unencumbered balances of various appropriations from 2014-15 through 2017-18.

DELTA STEWARDSHIP COUNCIL

The Delta Stewardship Council's proposed budget is $28.6 million, which represents a 3.7 percent increase in expenditure from last year. A portion of the Council's budget is comprised of special funds, with $18.5 million in General Fund.

Major Provision

- **Critical Delta Science Investigation Enhancement.** The budget proposes $2,000,000 one-time from the Environmental License Plate Fund and $477,000 ongoing in General Fund to support science research and staff that will support science-based management decisions and legal expertise. Specifically, the $2M ELPF will be used to bolster science investigations as part of the Council's Delta Science Program, $300,000 GF will be used to make 3 environmental scientist positions permanent, and $177,000 will be used to provide legal support related to grants and contracts administration and compliance with CEQA and Public Records/Bagley-Keene Acts.

DEPARTMENT OF CONSERVATION

The Department of Conservation's proposed budget is $135.7 million, which represents a 10.4 percent decrease in expenditure from last year. Most of the Department's budget is comprised of special funds, with $3.6 million in General Fund.

Major Provisions

- **Deserted Well Program (SB 724).** The budget proposes $1,646,000 in 2018-19, $1,598,000 annually from 2019-20 till 2021-22, and $598,000 2022-23 and ongoing from the Oil, Gas, and Geothermal Administrative Fund to develop and implement a Deserted Well/Facility Plugging and Remediation Program and to carry out additional deserted well and production facility work required in SB 724 (Lara, Chapter 652, Statutes of 2017).

- **Enforcement Program.** The budget proposes $1,211,000 ongoing from the Oil, Gas, and Geothermal Administrative Fund and 6 permanent positions to develop the new Centralized Statewide Enforcement Program.

- **Regulatory Field Inspection.** The budget proposes $4,252,000 in 2018-19, $3,664,000 in 2019-20 and ongoing from the Oil, Gas, and Geothermal Administrative Fund and 21 positions to increase inspections and enforcement, assess and mitigate the risk of urban encroachment on oil and gas fields, and work with local agencies to assist with the protection of water resources.

- **Tsunami Hazard Mapping.** The budget proposes $495,000 one-time from the Strong-Motion Instrumentation and Seismic Hazards Mapping Fund to initiate the tsunami hazard zone delineation tasks legislatively mandated by the Seismic Hazard Mapping Act of 1990, and prepare probabilistic tsunami hazard inundation maps for utilization in the 2019 update of the California Building Code in the design of critical and essential facilities.

- **Well Statewide Tracking and Reporting (WellSTAR).** The budget proposes $15,012,000 in 2018-19, $5,545,000 in 2019-20, $2,540,000 in 2020-21, and $1,327,000 ongoing from the Oil, Gas, and Geothermal Administrative Fund to continue the development and implementation of Well Statewide Tracking and Reporting (WellSTAR), a centralized database system to help run operations and meet the requirements of recent legislation.

- **Working Lands and Riparian Corridors (SB 5).** The budget proposes $1,195,000 one-time in SB 5 Bond funds to build agricultural land trust capacity.

DEPARTMENT OF FISH AND WILDLIFE

The Department of Fish and Wildlife's proposed budget is $609.7 million, which represents 1.6 percent increase in expenditure from last year. Most of the Department's budget is comprised of special funds, with $93.8 million in General Fund.

Major Provisions

- **Sacramento Valley Salmon Resiliency Strategy Implementation.** The budget proposes $14,394,000 one-time in Proposition 50 funds and a reversion of $5,698 Proposition 50 funds appropriated in FY 2015-16 and FY 2016-17. The requested funds will support the completion of restoration actions on Battle Creek, to support winter-run Chinook salmon recovery and benefit spring-run Chinook salmon and steelhead. This is a key element of the Sacramento Valley Salmon Resiliency Strategy and an important recovery plan action for these species. The Battle Creek project is an ongoing multi-agency effort, which requires the additional funding to complete and allow re-introduction of winter-run Chinook salmon to the creek.

- **SB 5- Implementation of California Drought, Water, Parks, Climate, Coastal Protection, and Outdoor Access for All Act of 2018.** The budget proposes $23,600,000 one-time in SB 5 Bond funds to support competitive grants and the redirection of 10.5 existing positions, currently supported with expiring bond and other funds, to implement SB 5.

- **State Water Project.** The budget proposes $3,940,000 reimbursement authority to enter into an agreement with the California Department of Water Resources (DWR), to support 17.0 existing positions currently funded by Proposition 84. The requested authority will ensure that the State Water Project (SWP) complies with California Endangered Species Act (CESA) requirements, and supports the implementation of mitigation actions and adaptive management.

- **Sustainable Funding for Fish and Wildlife.** The budget proposes $30,983,000 ongoing ($6,600,000 million General Fund, $6,400,000 million Fish and Game Preservation Fund, $18,000,000 million Motor Vehicle Account) and 98 positions to continue and enhance Department programs that are critical to the conservation of fish and wildlife throughout the State.

  This proposal also includes trailer bill language to transfer $26 million from the Tire Recycling Management Fund to the Fish and Game Preservation Fund.

DEPARTMENT OF FOOD AND AGRICULTURE

The Department of Food and Agriculture's proposed budget is $479.4 million, which represents 23.1 percent decrease in expenditure from last year. Most of the Department's budget is comprised of special funds, with $98.9 million in General Fund.

Major Provisions

- **Bee Safe Program.** The budget proposes $1.853 million from the General Fund to develop a program to promote and protect a safe and healthy food supply through the protection of bees, providing funds for local enforcement of existing laws that promote and protect California's beekeeping industry.

- **Blythe Border Protection Station Replacement.** The budget proposes $9,348,000 in General Fund for the acquisition of land to replace the BIythe Border Protection Station in Riverside County.

- **Citrus Pest and Disease Prevention Program.** The budget proposes $5 million ($2.5 million in General Fund and $2.5 million in Ag Fund) to enhance Asian citrus psyllid and huanglongbing suppression activities.

- **Fair Deferred Maintenance Program - California Drought Water, Parks, Climate, Coastal Protection, and Outdoor Access for All Act of 2018 (SB5).** The budget proposes $3,559,000 in SB 5 Bond funds and 2 positions for 2018-19 to provide deferred maintenance support to the Network of California Fairs, as specified in SB 5. Also requests budget bill language to make this funding available for encumbrance or expenditure for two years through June 30, 2020.

- **Farmer Equity Act of 2017 (AB 1348).** The budget proposes $139,000 ongoing in General Fund and 1 position to support activities mandated by AB 1348 (Chapter 620, Statutes of 2017).

- **Food Labeling (AB 954).** The budget proposes $294,000 in General Fund ($269,000 one-time and $25,000 ongoing) to implement AB 954 (Chapter 787, Statutes of 2017), which seeks to promote consistent terminology and use of quality and safety dates on food projects sold in California.

- **Safe and Affordable Drinking Water.** The budget proposes $1.41 million ($335,000 one-time and $1,075,000 ongoing) to establish and collect a dairy and livestock safe drinking water fee and a fertilizer safe drinking water fee and transfer the funds collected to the Safe and Affordable Drinking Water Fund. The proposed amount for those activities at CDFA is $1.41 million, which would be advanced from the Fund to support the initial startup costs.

- **State Water Efficiency and Enhancement Program and Healthy Soils Program (SB 5).** The budget proposes $27.4 million in SB 5 bond funds for two of CDFA's climate smart agriculture programs – $17.8 million for ongoing SWEEP grants and $8.6 million in grants from the Healthy Soils Program. $1.25 billion in Cap and Trade funding (which has been the funding source for CDFA's climate smart agriculture programs) will be available for appropriation in 2018-19. The plan for these funds will be announced later in January as part of the Governor's annual State of the State Address.

- **Use of Antimicrobial Drugs on Livestock (SB 27).** The budget proposes $2.668 million ($121,000 one-time and $2,547,000 ongoing) in General Fund and 11 permanent positions to address the full implementation of SB-27, which introduces limits on antibiotic use in livestock and stewardship practices to reduce antimicrobial resistance; and it provides antimicrobial availability through licensed retail stores and/or new regulations.

DEPARTMENT OF FORESTRY AND FIRE PROTECTION

The Department of Forestry and Fire Protection's proposed budget is $2.12 billion, which represents a 22.2 per cent decrease in expenditure from last year. This decrease is primarily due to a one-time allocation of $300 million from the Green House Gas Reduction Fund last year. Most of the Department's budget is comprised of General funds, with $1.4 billion in General Fund.

Major Provisions

- **Alhambra Valley Fire Station- Relocate Facility.** The budget proposes $2,500,000 one-time General Fund for the acquisition phase of this project to relocate the existing

Steven's Creek Fire Station (located in Santa Clara County) to the Alhambra Valley Fire Station (located in Contra Costa County). The existing Steven's Creek Fire Station, which was built in 1958.

- **Ventura Training Center.** The budget proposes $7,324,000 in General Fund and 11.0 positions to provide additional fire crews for wildland fire suppression, other emergency incident mitigation, and to perform fire prevention and resource management work.

- **Higgins Corner Fire Station- Replace Facility.** The budget proposes $900,000 one-time in General Fund for the acquisition phase of this project to replace the existing Higgins Corner Fire Station (located in Nevada County), which was built in 1948.

- **Intermountain Conservation Camp- Replace Facility.** The budget proposes $500,000 one-time in General Fund for the study phase of this project to replace the existing Intermountain Conservation Camp (located in Lassen County), that was constructed in 1960.

- **Mobile Equipment Replacement.** The budget proposes $3,000,000 one-time in General Fund for mobile equipment replacements. The fleet is currently 43 percent behind scheduled replacement cycles. Funding had been previously included one-time in the Budget Acts of 2016 and 2017.

- **Perris Emergency Command Center- Remodel Facility.** The budget proposes $70,000 one-time in General Fund for the preliminary plans and working drawings phases of this project to remodel the Perris Emergency Command Center (ECC) located in Riverside County.

- **Prado Helitack Base- Replace Facility.** The budget proposes $1,259,000 one-time in General Fund for the preliminary plans phase of this project to replace the existing Prado Helitack Base located in San Bernardino County.

- **Urban Forestry Program (SB 5).** The budget proposes $14,600,000 in SB 5 Bond funds and 4 positions to provide urban forestry projects.

DEPARTMENT OF PARKS AND RECREATION

The Department of Parks and Recreation’s proposed budget is $1.17 billion, which represents a 29.5 percent increase in expenditure from last year. This increase is primarily due to the one-time proposed allocation of the SB 5 bond funds. Most of the Department’s budget is comprised of special funds, with $147 million in General Fund.

Major Provisions

- **Anza-Borrego Desert SP- Inholding Acquisitions.** The budget proposes $1,656,000 one-time in Federal Trust Fund authority to acquire approximately 17,000 acres of private inholdings from the Anza-Borrego Foundation. The total amount for these acquisitions is anticipated to be $4,817,000. The Department will spend $3,161,000 in currently available Habitat Conservation Funds authorized for acquisitions in addition to this request to provide authority to spend $1,656,000 in federal money obtained through a Land and Water Conservation grant.

- **Conservancy Administrative Services Consolidation.** The budget proposes $902,000 ongoing in reimbursement authority from the State Parks and Recreation Fund and seven permanent positions to consolidate administrative services work for six state conservancies who are currently contracted under the Department of General Services' Contracted Fiscal Services Unit.

- **Fix Our Parks Facility, Access, and Visitor Service Enhancement and Improvements.** The budget proposes $61,500,000 ongoing from the State Parks and Recreation Fund and 364 full-time positions to improve the State Park System, deliver critical services that will address facilities and other infrastructure, and increase access to the State Park units. The resources requested in this proposal have been informed by the Department's Service-Based Budgeting efforts.

- **Hungry Valley SVRA- 4x4 Obstacle Course Improvements.** The budget proposes $42,000 one-time from the Off-Highway Vehicle Trust Fund for working drawings to upgrade and enhance an existing 4x4 obstacle course at Hungry Valley State Vehicular Recreation Area. Improvements to the facility will provide a variety of experiences and challenges to meet the growing demand of the Off-Highway Vehicle community. An enhanced facility will encourage Off-Highway Vehicle enthusiasts to use the designated obstacle course instead of searching for more challenging terrain, possibly off limits to Off-Highway Vehicle use, resulting in excessive resource damage.

- **Lake Oroville SRA- Gold Flat Campground Upgrades.** The budget proposes $91,000 one-time from Proposition 84 bond funds for working drawings to upgrade the aged and failing infrastructure in Gold Flat Campground. This project will replace the outdated electrical and water distribution systems, install data conduit for future use, and overlay campground roads and campsite spurs at this popular campground.

- **Los Angeles SHP- Soil Remediation.** The budget proposes $3,470,000 one-time from Proposition 40 Bond funds for the preliminary plans, working drawings, and construction phases of this project. This project will perform remediation of the arsenic and lead contamination in the soil remaining after initial clean-up through the Phase I Build-Out project completed in 2017. The remaining contaminated soil has been secluded and fenced off to the public in the northern portion of the site. Upon completion of this project, this area will be open to the public as an extension of the existing park, as originally planned.

- **Off-Highway Motor Vehicle Recreation.** The budget proposes $2,845,000 one-time and $2,681,000 ongoing from the Off-Highway Vehicle Trust Fund and 17.5 positions to meet the requirements of Senate Bill 249, which permanently authorizes the OHMVR program and establishes standards to improve environmental protections throughout California's nine SVRAs.

- **Off-Highway Vehicle and Beach Erosion Control Local Assistance Grants.** The budget proposes $36,300,000 one-time and $2,000,000 ongoing from special and federal funds ($35,000,000 Off-Highway Vehicle Trust Fund, $2,000,000 Recreational Trail Fund, $1,300,00 Public Beach Restoration Fund), for various local assistance programs.

- **Revenue Generation Program.** The budget proposes $4,935,000 ongoing from the State Parks and Recreation Fund to continue its established revenue generation program and to support ongoing costs associated with implementation of successful Revenue Generation projects. The Governor also proposes to amend and extend the Revenue Generation Program through trailer bill language.

- **Safe Neighborhood Parks Local Assistance (SB 5).** The budget proposes $463,427,000 one-time ($3,135,000 for support and $460,292,000 for local assistance) in SB 5 bond funds and 13 positions to administer grant programs to local agencies and non-profits pursuant to SB 5.

- **State Park System Scoping, Planning, and Redwood Reforestation (SB 5).** The budget proposes $4,185,000 one-time in SB 5 bond funds and three positions to undertake scoping and planning for critical State Park System projects and for a critical redwood reforestation partnership. SB 5 (De Leon, Chapter 852, Statutes of 2017 places a new natural resources bond on the June 2018 ballot. If approved by the California voters, the bond will provide $200,000,000 in general obligation bond allocations to the Department of Parks and Recreation in several critical need areas.

- **Topanga SP- Rehabilitate Trippet Ranch Parking Lot.** The budget proposes $3,202,000 one-time in Proposition 84 bond funds for the construction phase to rehabilitate the Trippet Ranch parking lot and surrounding area, which have been damaged by erosion and storm water. This project will reduce the safety risk to the public, reduce maintenance costs and better support interpretive uses of the historic zone. Total project cost is currently estimated at $3,737,000.

DEPARTMENT OF PESTICIDE REGULATION

The Department of Pesticide Regulation's proposed budget is $104.8 million, which represents a 0.11 percent increase in expenditure from last year. The entire Department's proposed budget is comprised of special funds.

Major Provisions

- **Senior Toxicologists for Human Health Assessment Review.** The budget proposes $539,000 from the Department of Pesticide Regulation Fund and 3.0 permanent positions to meet the department's risk assessment workload.

- **SWPP Wastewater.** The budget proposes $717,000 from the Department of Pesticide Regulation Fund in 2018-19, $677,000 ongoing from the DPRF, and 2.0 permanent positions to address increased workload in the Surface Water Protection Program (SWPP).

DEPARTMENT OF RESOURCES RECYCLING AND RECOVERY

The Department of Resources Recycling and Recovery's proposed budget is $ 1.53 billion which represents an 8.4 percent decrease in expenditure from last year. The Department's entire budget is comprised of special funds.

Major Provisions

- **EEI Curriculum Printing and Fulfillment.** The budget proposes $1.1 million one-time, divided proportionately between the Integrated Waste Management Account, the Department of Pesticide Regulation Fund, the Waste Discharge Permit Fund, and the State Water Quality Control fund to continue to provide the Education and Environment Initiative Curriculum in printed form for 2018-19.

- **Improving Recycling Redemption Opportunities (AB 458).** The budget proposes $216,000 from the Beverage Container Recycling Fund ongoing for 3 years (2018-19, 2019-20, 2020-21), and $110,000 one-time from the BCRF for 2021-22 to implement SB 458 (Weiner, Chapter 648, Statutes of 2017).

DEPARTMENT OF WATER RESOURCES

The Department of Water Resources' proposed budget is $3 billion, which represents a 28.2 percent decrease in expenditure from last year. Most of the Department's budget is comprised of special funds, with $119 million in General Fund.

Major Provisions

- **Central Valley Flood Protection Board- General Fund Baseline Increase.** The budget proposes $1,400,000 ongoing for two years in General Fund to continue the support of 10 existing positions to meet its statutorily mandated functions consistent with the Central Valley Flood Protection Act of 2008. The Central Valley Flood Protection Board's current funding, Proposition IE funds, will be expended in FY 2017-18. This proposal will redirect its funding source to General Fund for FY 2018-19 and 2019-20.

- **Drought and Groundwater Investments (SB 5).** The budget proposes $61,800,000 one-time in SB 5 Bond funds and 6 positions for drought and groundwater investments to achieve regional sustainability. DWR also requests a two-year extended encumbrance period for the local assistance funds.

- **Flood Corridor Program and Tribal Engagement.** The budget proposes a total of $2,900,000 in various bond funding in 2018-19, $177,000 in 2019-20, and $176,000 in 2020-21. Specifically, DWR requests a reversion and new appropriation of $2 million in local assistance from Proposition 84 for FY 2018-19, and $530,000 in state operations from Proposition 13, for three FYs ($177,000 for FY 2018-19 and FY 2019-20, and $176,000 for FY 2020-21) to support the Flood Corridor Program (FCP). The local assistance funds are requested as multi-year funds with three years to encumber and two years to liquidate. DWR also requests one-time funding of $684,000 from Proposition 84, Integrated Regional Water Management (IRWM) Interregional for grants or contracts that facilitate greater and more effective participation by Tribal governments and Tribal communities in IRWM programs and activities.

- **Floodplain Management, Protection and Risk Awareness Program (SB 5).** The budget proposes $2,000,000 one-time in SB 5 Bond funds to begin implementation of the Floodplain Management, Protection and Risk Awareness Program to protect people and property in California's alluvial fan, coastal and riverine floodplains.

- **Floodwater for Groundwater Recharge (SB 5).** The budget proposes $2,500,000 one-time in SB 5 Bond funds to conduct strategic planning, identify data gaps, and develop tools necessary to prepare a statewide plan to use floodwater for managed aquifer recharge (Flood-MAR) and support sustainable water resources.

- **Multi-Benefit Flood Improvement Projects (SB 5).** The budget proposes $94,000,000 one-time from SB 5 Bond funds to implement multi-benefit flood improvement projects.

- **Salton Sea Management Program Phase 1 Implementation (SB 5).** The budget proposes $30,000,000 in reimbursement authority to be reimbursed by SB 5 Bond funds. The requested funds will be used to construct water management infrastructure and habitat conservation and dust mitigation projects pursuant to the CNRA Salton Sea Management Phase1 10-year Plan and required by the State Water Resources Control Board Stipulated Order WRO 2002-0013.The requested funds will provide DWR the resources needed to implement the design, construction, and construction management for the 1,000 acres of aquatic habitat/dust mitigation and construct water supply infrastructure required for the full implementation of the Salton Sea Management Program Plan and to support 13 existing full-time positions.

- **San Joaquin River Restoration Program and San Joaquin Projects.** The budget proposes $20,800,000 in state reimbursement authority ($6,200,000 in FY 2018-19, $7,400,000 in FY 2019-20, and $7,200,000 in FY 2020-21) from CNRA and WCB to support 17 existing positions for continued work to support the San Joaquin River Restoration Program and implement restoration projects along the San Joaquin River.

- **State Water Project Aging Infrastructure Improvements.** The budget proposes Requests 74 positions for the following:
    - To meet new and expanded state and federal regulatory requirements.
    - To respond timely, safely, and cost-effectively to urgent or emergency work as defined by Public Contract Code §10122 et seq, and other Executive, Legislative or regulatory mandates.
    - To implement an asset management program, enhance condition assessment and maintenance programs, and facilitate increased design, construction and inspection projects for an aging SWP infrastructure.
    - To provide legal support for the Oroville Dam spillway emergency and recovery.

- **Statewide Bond Costs (SB 5).** The budget proposes $1,362,000 one-time in SB 5 Bond fund and 8 one-year limited-term positions to provide bond management and oversight. This request also includes estimated costs incurred by the State Treasurer's Office, State Controller's Office and the Department of Finance for their bond related responsibilities.

- **Urban Streams Restoration Program (SB 5).** The budget proposes $537,000 one-time in SB 5 Bond funds to support the Urban Streams Restoration Program.

CALIFORNIA NATURAL RESOURCES AGENCY

The California Natural Resources Agency's proposed budget is $155.2 million, which represents a 53.5 percent decrease in expenditure from last year. Most of the Agency's budget is comprised of special funds, with $4.86 million in General Fund.

Major Provisions

- **Appropriations for Agency Programs (SB 5).** The budget proposes $57,200,000 one-time in SB 5 bond funds and 5 positions to provide various conservation, recreation, restoration, and multi-benefit greening and water conservation projects.

- **California Ocean Protection Council- Ocean Resiliency Program.** The budget proposes to transfer $15,000,000 one-time from the Environmental License Plate Fund to the California Ocean Protection Trust Fund to: (1) support projects that advance understanding of the impacts of climate change on coastal and ocean ecosystems, (2) support adaptation strategies to address sea-level rise and changing ocean conditions such as ocean acidification and hypoxia, and (3) build broader ecosystem resilience by improving ocean health.

- **California Ocean Protection Council- Once Through Cooling.** The budget proposes to transfer $5,400,000 ongoing from the State Water Resource Control Board's Once-Through-Cooling Interim Mitigation Program mitigation payments to the Ocean Protection Trust Fund to fund projects to mitigate the harm to Marine Protected Areas caused by entrainment and impingement of marine life as a result of once-through-cooling. The requested funds will also be used to make 2 positions currently funded by Proposition 1 Bond funds permanent.

- **Information Security Operations.** The budget proposes a total of $2,916,000 ($1,778,000 one-time, $1,138,000 ongoing) from a number of funds and 6 positions to establish a new Security Operations Center to address information security and cyber security vulnerabilities and threats. The breakdown is as follows:

    - $1,312,000 in General Fund
    - $437,000 in Environmental License Plate Fund
    - $146,000, Fish and Game Preservation Fund
    - $31,000 Off-Highway Vehicle Trust Fund
    - $103,000 State Parks and Recreation Fund
    - $12,000 in Harbors and Watercraft Revolving Fund

- $408,000 in Reimbursements
- $146,000 in Oil, Gas, and Geothermal Administrative Fund
- $321,000 in Alternative and Renewable Fuel and Vehicle Technology Fund

- **Ocean Protection Council- Advancing Ocean and Coastal Health Productivity and Resiliency (SB 5).** The budget proposes $20,284,000 one-time in SB 5 bond funds and 2 positions to support projects that maintain and advance healthy, resilient, and productive ocean and coastal ecosystems.

SAN GABRIEL AND LOWER LOS ANGELES RIVER AND MOUNTAINS CONSERVANCY

The San Gabriel and Lower Los Angeles River and Mountains Conservancy's proposed budget is $10 million, which represents an 85 percent decrease in expenditure from last year. The Conservancy's entire budget is comprised of special funds.

Major Provisions

- **Los Angeles River Watershed and Tributaries Support, Local Assistance, and Capital Outlay Allocations (SB 5).** The budget proposes $8,675,000 one-time in SB 5 Bond fund to begin implementation of projects consistent with SB 5 and the Watershed and Open Space Plan for the San Gabriel and Los Angeles Rivers.

SANTA MONICA MOUNTAINS CONSERVANCY

The Santa Monica Mountains Conservancy's proposed budget is $11.6 million, which represents an 82.7 percent decrease in expenditure from last year. The Conservancy's entire budget is comprised of special funds.

Major Provisions

- **Los Angeles River Watershed and Tributaries (SB 5).** The budget proposes $8,675,000 one-time in SB 5 Bond fund to begin implementation of the Santa Monica Mountains Comprehensive Plan, the Rim of the Valley Trails Corridor Master Plan, the Los Angeles County River Master Plan, the San Gabriel and Los Angeles Rivers Watershed and Open Space Plan, and to further cooperation with local governments in the region to secure open space and parkland, to expand efforts to integrate nature into the urban environment and to expand education, public access, and resources stewardship components.

- **ELPF- Environmental Education.** The budget proposes $100,000 one-time from the Environmental License Plate Fund for the Naturalist Explorer Leadership Program or similar programs to introduce young adults from disadvantaged communities to the outdoors and trains them as interpretive naturalists.

STATE COASTAL CONSERVANCY

The State Coastal Conservancy's proposed budget is $51.2 million, which represents a 76.5 percent decrease in expenditure from last year. The Conservancy's entire budget is comprised of special funds.

Major Provisions

- **ELPF Appropriation for Explore the Coast.** The budget proposes $225,000 ongoing from the Environmental License Plate Fund to support the Explore the Coast grant program. The Conservancy is requesting ELPF because the amount of funding available to the Conservancy from the California Beach and Coastal Enhancement Account ("Whale Tail") has been decreasing in recent years and the Conservancy can no longer rely on continued availability of Whale Tail funds to implement the ETC program. The two main goals of the ETC program are supporting activities that allow more people to explore California's spectacular coast and enhance visitor's experience while at the coast.

- **Support and Local Assistance Appropriations (SB 5).** The budget proposes $4,872,000 one-time in SB 5 Bond funds for local assistance and $191,000 one-time in SB 5 Bond funds for state operations and 1.5 permanent positions. The requested support funds include $131,000 of planning and monitoring funding and $61,000 of program administration.

STATE LANDS COMMISSION

The State Land's Commission's proposed budget is $103.8 million, which represents a 103.3 percent increase in expenditure from last year. A small portion of the Commission's budget is comprised of special funds, with $77 million in General Fund.

Major Provisions

- **Bolsa Chica Lowlands Restoration Project.** The budget proposes $2,000,000 annually for two years from the Environmental License Plate Fund to continue operations and management of the Bolsa Chica Lowlands Restoration Project in Orange County.

- **Coastal Hazard Removal Program (SB 44).** The budget proposes $2,000,000 ongoing from tideland oil and gas revenues be transferred to the Land Bank Fund to implement its coastal hazard and legacy oil and gas well removal and remediation program as required by SB 44 (Jackson, Chapter 645, Statutes of 2017).

- **Oil and Gas Plug Abandonment.** The budget proposes $108,500,000 in General Fund over three years to permanently secure, plug and abandon, and decommission oil wells and facilities, located onshore and offshore, in Santa Barbara and Ventura Counties. Specifically, this proposal requests for $58,000,000 in 2018-19, $40,000,000 in 2019-20, and $10,500,000 in 2020-21.

- **Selby Slag Remediation.** The budget proposes $3,045,000 one-time in General Fund to fund the State's obligation to pay a proportionate share of certain ongoing hazardous waste remediation costs at Selby, California. The Commission's share of these costs, pursuant to a 1989 Consent Judgment is 38 percent. The activities identified for FY 2018-19 funding according to the Project Budget Forecast are estimated to cost $7,882,700. The Commission's portion is $2,995,426. In addition to the cost of the activities shown on the Project Budget Forecast, the Commission must contribute an estimated $50,000 to the Department of Toxic Substances Control for its share of DTSC's staff oversight costs, which include direct and indirect labor costs attributable to the remediation effort and overseeing development of the Environmental Impact Report.

- **SIRMS IT Project.** The budget proposes $2,039,000 one-time in General Fund to fund the Spatially Indexed Records Management System (SIRMS) project, which will protect and preserve historic state sovereign land ownership records. The requested funds will support the first part of a three-phased effort, when complete, SIRMS will provide geo-referenced, digital accessibility to these land ownership records and improve leasing and permitting workflow processes associated with them.

STATE WATER RESOURCES CONTROL BOARD

The State Water Resources Control Board’s proposed budget is $1.13 billion, which represents a 57.5 percent decrease in expenditure from last year. Most of the Board’s budget is comprised of special funds, with $40.2 million in General Fund.

Major Provisions

- **California Drought, Water, Parks, Climate, Coastal Protection, and Outdoor Access for All Act of 2018.** The budget proposes $147.3 million from SB 5 (De Leon, Chapter 852, Statutes of 2017) and 10.0 positions to administer the programs and permit projects authorized by the Bond, if approved by the voters at the June 5, 2018 statewide election.

- **Safe and Affordable Drinking Water.** The budget proposes $3.3 million one-time ($2.988 million in state operations and $325,000 in contract services), to be provided via a loan from the Underground Storage Tank Cleanup Fund to a new fund, the Safe and Affordable Drinking Water Fund. The requested resources will be used to implement the Safe and Affordable Drinking Water Program as proposed in trailer bill language from the Governor.

WILDLIFE CONSERVATION BOARD

The Wildlife Conservation Board proposed budget is $133.3 million, which represents a 73.2 percent decrease in expenditure from last year. Most of Board's budget is comprised of special funds, with $19.8 million in General Fund.

Major Provision

- **Lower American River Conservancy and Conservation Project Grant Programs (SB 5).** The budget proposes $20,853,000 one-time from SB 5 Bond funds and 5 positions to implement the applicable statutory requirements in SB 5 (De Leon, Chapter 852, Statutes of 2017). Specifically, this proposals request $20,000,000 in local assistance funding and $853,000 for state operations.

PUBLIC UTILITIES COMMISSION

The Governor's budget includes $1.6 billion all funds for the California Public Utilities Commission (CPUC) in 2018-19, a reduction of $216.0 million or 11.8 percent from the current year. The CPUC has 1,042 personnel and receives no General Fund support.

Major Provisions

- **Building Administrative Core.** The Governor's budget provides $2.6 million from various fund sources and 23 positions to strengthen the administrative core of the Commission and perform functions such as contract and procurement services, human resources functions, and business services. The proposal is intended to address chronic understaffing in these administrative areas.

- **Reduce Carbon Emissions.** The budget proposes $1.4 million for two positions and contracting resources for four years from the Public Utilities Commission Utilities Reimbursement Account (PUCURA) to further work on carbon reduction in the state. The focus of these resources is on transportation electrification.

- **Electric Transmission Rates Advocacy.** The budget proposes $1.5 million from PUCURA for five positions and $600,000 in consulting services to represent ratepayers at the Federal Energy Regulatory Commission rate cases and in the California Independent System Operator transmission planning process related to electric transmission rates.

- **Decentralization of the Safety Enforcement Division (Rail).** The Governor's budget provides $2.2 million from the State Transportation Fund and PUCURA to fund 17 positions (12 new) to decentralize its activities.

- **California Advanced Services Fund (CASF) - Internet for All Now Act (AB 1665).** The budget includes $76.6 million from the CASF to address staffing shortfalls in the CASF program and funding for consultant services for California Environmental Quality Act reviews. This amount also includes $72.6 million in local assistance funding for the CASF program, until 2029.

- **Electric Vehicle Charging at Public Parks, Beaches, and Schools.** The budget proposes $546,000 and three positions for one year from the PUCURA to implement AB 1082 and AB 1083 (Burke, Chapters 637 and 638, Statutes of 2017) which together allow six electric utilities to submit up to 12 new applications to the CPUC to provide electric vehicle charging infrastructure at public parks, beaches, and schools.

- **Office of the Ratepayer Advocate Proposals.** The Governor's budget includes an increase of nearly $1.0 million and six positions across four proposals for the Office of the Ratepayer Advocate to conduct analysis of community choice aggregation, perform electric resource modeling, analyze the impact of electric utilities safety efforts on rates, and to perform geographical information systems analysis.

ENERGY RESOURCES CONSERVATION AND DEVELOPMENT COMMISSION

The Governor's budget includes $384.1 million for the Energy Commission in 2018-19, a decrease of $299.8 million or 78.1 percent from the current year. All of the Commission's budget is special fund and provides for 669 personnel.

Major Provisions

- **On-Call Delegate Chief Building Official Contract Funding (DCBO).** The Governor's budget provides $1 million from the Energy Facility License and Compliance Fund to provide contract funding for a DCBO. This contract would change the flow of funds from between the project owner and the DCBO to between the Energy Commission and the DCBO. The Energy Commission would seek reimbursement from the project owners.

- **Appliance Efficiency Enforcement Testing Contract.** The Governor's budget includes $100,000 to increase the contract funding available for testing appliances' compliance with efficiency standards.

Staff Comment and Analysis of Governor's Budget Proposal

The Governor's 2018-19 proposed budget for environmental protection and resources and energy provides significant new investments to the major issues in these areas. As the Legislature deliberates the Governor's proposals, it may wish to consider the following:

SB 5 bond measure has yet to be approved. Senate Bill 5 (De Leon, Chapter 852, Statues of 2017), also known as the California Drought, Water, Parks, Climate, Coastal Protection, and Outdoor Access For All Act, places a new natural resources bond on the June 2018 ballot. If approved by the California voters, this measure will provide $4,000,000,000 in general obligation bonds for a variety of critical needs in the areas of natural resources and environmental protection. The Governor's budget proposes to allocate approximately $1.02 billion of the $4 billion. Although there is a fair amount of confidence in the approval of this measure, the money is not yet in hand. In addition to funding existing programs, the Governor's budget proposes new programs to fund with SB 5 dollars. Should the bond measure fail before the voters, these programs would be brought to a standstill for FY 2018-19. The Legislature may wish to consider how to prioritize the projects that are proposed to receive SB 5 dollars in the event the measure fails and another funding source is needed.

Full magnitude of DFW's budget shortfall remains unclear. DFW work on a broad range of activities such as habitat protection, law enforcement, promotion of hunting and fishing opportunities, and management of wildlife areas and ecological reserves. Costs to deliver these programs have increased considerably over the years and expenditures from the Fish and Game Preservation Fund, according to DFW, currently exceed annual revenues by around $20 million. The Governor's budget proposes to right size the DFW's budget and provides additional funding to expand conservation efforts.

Additional funding for DFW is long overdue. However, there remains a need to ascertain the full scope of DFW's historical underinvestment in order to ensure the adequacy of funding levels. The Legislature may wish to consider requiring a detailed review of the full breadth of the Department's regulatory mandate, how DFW's programs are currently resourced, and how revenues are generated.

Proposed funding source to right size DFW's budget has tenuous nexus. The Governor's budget proposes $18 million ongoing from the Motor Vehicle Account and $26

million ongoing from the Tire Recycling Management Fund to address the structural imbalance in DFW's budget as to expand conservation efforts. The reason provided for the proposed use of these funds is the impact vehicles have on wildlife, specifically vehicle collisions with wildlife and the impacts roads and traffic conge

Vehicle registration fees and driver's license fees are deposited into the Motor Vehicle Account. This account primarily funds the Department of Motor Vehicles and the California Highway Patrol. This account has been under pressure in the recent years and would have a projected shortfall if the Governor's budget did not include about $200 million in proposals to shift capital outlay projects previously funded from the MVA to lease-revenue bonds. The added pressure on the MVA could potentially result in increasing fees on motorists. Long-term sustainable funding is crucial for DFW to fulfill its regulatory mandate. The Legislature may wish to consider the adequacy and appropriateness of the funding source.

Better forest land management is needed to reduce risks of more devastating wildfires. Wildfires in California are not uncommon. However, climate change coupled with decades of fire suppression has caused forest lands to get too dense, making them more susceptible to those large, hot devastating wildfires. Referring to the response efforts to the Tubbs fire that burned portions of Napa and Sonoma counties, Scott McLean, deputy chief at the California Department of Forestry and Fire Protection said "we could've put every piece of equipment in its path and that fire would've gone over it, under it, through it. It wouldn't have mattered." The costs of wildfires, in terms of risks to human life, property damage, and state and federal dollars, are devastating, and they are only likely to increase unless we better address the risks of wildfires. It is crucial to look at ways to build climate resiliency and adaptation through better forest land management moving forward.

Aging flood control infrastructure is in need. California is a flood-prone state with many Californians living in flood-vulnerable areas. A report in September of 2017 by the Public Policy Institute of California suggests that California needs to spend at least $34 billion to upgrade dams, levees, and other flood management infrastructure. Assuming these upgrades happen over a 25 years span, that would require spending roughly $1.4 billion per year, which is roughly twice the current level of investment. Bonds approved since the mid-2000s provide some assistance but falls short of meeting actual needs. SB 5 5 (De Leon, Chapter 852, Statues of 2017) places a new natural resources bond on the June 2018 ballot. If approved by the California voters, this measure will provide $2 million for floodplain management, protection and risk; and $94 million for multi-benefit flood improvements. However these funds, if approved by voters, represent one-time money for flood infrastructure. The legislature may wish to consider looking at potential sources of sustainable funding for the long-term needs of flood control infrastructure.

California Beverage Container Recycling Fund is flush but the program still needs help. The California Beverage Container Recycling and Litter Reduction Act, better known as the Bottle Bill was established by AB 2020 (Margolin, Chapter 1290, Statutes of 1986). The purpose of the program is to be a self-funded program that encourages consumers to recycle beverage containers to prevent littering. The program accomplishes this goal by requiring consumers to pay a deposit for each eligible container purchased. Then the program guarantees consumers repayment of that deposit, the California Redemption Value, for each eligible container returned to a certified recycler. Statute includes two main goals for the program: (a) reducing litter; and, (b) achieving a recycling rate of 80% for eligible containers.

Over the three decades of operation, the Bottle Bill program has diverted tons of beverage containers from the landfills. However, in the recent years, many have also raised a variety of concerns for the program. These concerns include fraud, the effectiveness of some supplemental programs supported by the program, whether some offsets support the goals of the program, and the program's ability to adapt to changes. More recently, the concerns centered on the program's ongoing structural deficit and the over reliance on consumers for financing. Urgency to reform the program began in 2015, when approximately one-third of the total in-state convenience zone recycling infrastructure shuttered operations. This was caused by the compounding effects of plummeting worldwide commodities prices and a reduction in state payments.

Due to the very diverse group of stakeholders, the Legislature and the Administration was not able to reach an agreement on how to comprehensively reform the program. The Assembly attempted a temporary fix in the 2016-17 budget cycle and again in the 2017-18 budget cycle, both attempts were stymied. The program is currently reflecting a healthy balance, however much of the concerns raised over the years remain an issue. The Legislature may wish to take a comprehensive look at the program and explore ways to reform.

Looming budget shortfall at the Department of Toxics and Substance Control. DTSC is in the process of improving transparency, enforcement actions, and administrative processes and procedures. However, the legacy of these systemic issues, from uncollected cleanup costs to a growing backlog of applications to renew hazardous waste permits, will result in a structural budget deficit at DTSC in approximately two years. A number of legislative measures were introduced in 2017 in attempts to resolve some of these issues at DTSC. Many of these legislative measures are still being negotiated. As we move forward with the budgetary process, the Legislature may wish to consider the ramifications of an already troubled department compounded with a looming structural deficit.

Helicopter procurement authority is unclear. The Budget Act of 2016-17, reappropriated in the Budget Act of 2017-18, provided $12 million for CalFire to purchase one helicopter and allows the Department of Finance, after notification to the Joint Legislative Budget Committee, to augment this amount based on actual costs for one helicopter. The purpose of this was to allow the Department to initiate the fleet replacement with the purchase of one helicopter. The purchase of additional helicopters would require the Department to submit a budget change proposal for approval by the Legislature in order to assess the total costs and benefits associated with replacing CalFire's helicopter fleet—including infrastructure, staffing, and other ancillary costs. The Governor's budget includes $98 million from the General Fund to purchase four helicopters. However, the Legislature has not received the expected budget change proposal at this time. The Legislature may wish to request for a budget change proposal from CalFire in order to properly and thoroughly evaluate the cost benefits of this purchase.

Do We Have a Thoughtful and Cohesive Approach to Installation of ZEV Charging Infrastructure? The Governor's budget increases funding at the CEC for ZEV charging infrastructure, in addition to continuing to fund projects that are underway. As mentioned earlier, these proposals involve installing charging stations at various locations throughout the state by various entities. For example, Caltrans has a project underway to install charging stations at highway rest stops, in addition, consistent with AB 1082 and 1083, electric utilities can apply to the CPUC to install charging infrastructure at public parks, beaches, and schools. As part of the VW settlement with the Air Resources Board, VW will invest $2 billion in EV charging infrastructure throughout the state. The IOUs have proposals into the CPUC for EV charging infrastructure and some cities have been installing this type of infrastructure. Finally, the Energy Commission has awarded more than $64 million to EV charging infrastructure projects as of December 2016.

Coordination of this massive effort is critical to ensure that the right types of charging stations are being installed where needed and that the availability of public sector funding does not prevent the private sector from participating in what will likely be a robust market in the future. At this time, while there are workgroups that involve many of the entities providing funding or approving the development of charging infrastructure, there does not appear to be a single entity that is responsible for coordinating these efforts. The Assembly may want to take steps to ensure that there is a single point of coordination. It may also want to consider directing an outside research group to assess the adequacy and efficacy of the state's approach to developing a statewide charging system.

What Role Should the Legislature Play in Helping to Ensure the Long-Term Stability of Investor-Owned Electric Utilities? The Governor's budget does not include any proposals to address the recent fires impacts on the state's investor owned utilities. In part, this is because this is a very recent issue. It is likely that workgroups are being formed or will be formed to work on this issue. The Assembly will want to make sure that it is a part of these conversations, so that it helps shape the long-term future of the utilities. The Legislature may want to consider things such as the role of the state and taxpayers in helping to ensure the financial health of the utilities and to what extent in the future investor-owned utilities or other models are more appropriate.

Does the Administration's Cap and Trade Expenditure Proposal Make Sense? The Governor released his Cap and Trade Expenditure Plan about two weeks after the budget was released and there has not been much time to review his proposals. In addition, many of the details of these proposals will not be known until the Administration provides the proposed legislation that is necessary to implement these proposals. Our initial review finds that many of the proposed expenditures are consistent with priorities funded by the Legislature last year and the plan continues to make investments in the areas of air toxic and criteria air pollutants, low carbon transportation, and agricultural energy efficiency and renewal energy. Further, some of the new proposals, such as increased funding for forest health, may help the state to better address the ongoing high risk of fires that the state is currently faces. In order to ensure these proposed expenditures make sense, the Legislature will want to evaluate the effectiveness of prior investments to ensure that continued investments in those areas are appropriate and identify any significant gaps in the plan.

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.
- Is front and center for transformation related to automation and electrification of various types of vehicles.

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

Vehicle Automation. The technology that allows for self-driving vehicles is rapidly advancing. The changes resulting from having automated vehicles on the road will have many positive and possibly negative impacts on Californians. Is the Legislature being forward thinking enough about the impact of automated light and heavy duty vehicles on the state's roads, the environment, land use, insurance, and the overall economy?

Staffing Caltrans. The passage of SB 1 (Beall, Chapter 5, Statutes of 2017), also known as the Road Repair and Accountability Act of 2017 will result in Caltrans' staff delivering a much greater volume of projects each year than it has delivered in the recent past. It is possible that Caltrans is not adequately staffed to deliver a $55 billion program of projects over the next 10 years. The potential need for additional staff is compounded by Caltrans have a relatively high attrition rate due to the retirement of senior staff that is making it hard to keep up with filling existing vacancies.

Traffic Enforcement. After a steady reduction in deaths due to traffic accidents there has been an increase in fatalities due to distracted driving. In addition, the legalization of marijuana could potentially increase the number of traffic violations. The effect of these two changes could result in an increased need for traffic enforcement officers especially at the California Highway Patrol.

High-Speed Rail Funding. The High-Speed Rail project continues to lack a source of funding that is adequate to complete the project within a reasonable time frame. The cap and trade program was not extended for a long enough period of time to allow for the securitization of those revenues for the project. The lack of a permanent ongoing funding source is compounded by project costs continuing to increase. The High Speed Rail Authority recently announced that for the Central Valley section project costs are up by $2.8 billion to a total of $10.6 billion. 2018 Business Plan which is required to identify funding sources for completion of the project is due on May 1 of this year.

Transit Ridership Continues to Decline. Between various programs such as SB 1, the Transit and Intercity Rail Capital Program, Low Carbon Transit Operations, State Transit Assistance and federal funds billions over $4 billion annually goes to support local transit systems. In Los Angeles County alone, only 6.7 percent of 4.5 million commuters use public transit. The percent using transit represents a 19 percent drop since 2013. Most of the decline is attributed to a dramatic drop in bus ridership. Similarly, in the Bay Area, per capita transit ridership has declined 11 percent over 25 years. The state continues to provide billions of dollars for transit systems that are not resulting in increased ridership and getting more people out of their cars.

Governor's January Budget Proposals in Transportation

The Governor's budget proposes $4.6 billion in new funding from the passage of SB 1 or the Road Repair and Accountability Act of 2017. This amount is in addition to the $2.8 billion SB 1 provides in 2017-18. The expenditure plan for SB 1 funding is below.

Road Maintenance and Accountability Act Funding

(Dollars in Millions)

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

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

Source: Department of Finance

The Department of Finance estimates SB 1 will result in $53.8 billion in new transportation revenue over the next ten years which will provide $15 billion for highway maintenance and repair, $4 billion for bridge repair, $3.3 billion in the state's trade corridors, and $2.5 billion for the state's most congested commute corridors. Local roads will receive more than $15 billion for maintenance and repairs, and $2 billion in matching funds for local partnership projects. Transit and intercity rail will receive $7.6 billion in additional funding, and local governments will have access to $1 billion for active transportation projects. SB 1 expenditures included in the 2018-19 budget are described in more detail in individual department's budgets in this document.

CALTRANS

The Governor's budget includes $13.6 billion all funds for Caltrans in 2018-19, an increase of $2.3 billion, or 20 percent from the current year, and increase of $4.5 billion from 2016-17. This budget includes new SB 1 funding in both the current year and budget year. The proposed budget for Caltrans only includes special funds, with no General Fund support. The total number of proposed positions is 19,518.

Major Provisions

SB 1 Expenditures in Caltrans. Funds from SB 1 will be expended in the Caltrans budget, the State Transit Assistance Budget, the Secretary for California State Transportation Agency Budget, and the shared revenue budget. Caltrans' budget includes SB 1 expenditures of $1.8 billion which is primarily for maintenance and repairs, in addition $330 million is for transformative transit projects, $250 million for congested commuter corridors projects, $306 million for trade corridor enhancements, and $25 million for freeway service patrols. The budget also provides $53.3 million for 400 new maintenance positions.

Information Technology Infrastructure Replacement. The Governor's budget includes $2 million from the State Highway Account (SHA) and up to an additional $12 million SHA contingent upon the approval of the Information Technology Roadmap by the departments of Finance and Technology for the replacement of end of life IT infrastructure equipment. In addition, last year's budget provided a one-time increase of $12 million SHA funds to replace critical information technology (IT) infrastructure equipment that had reached its end of life.

Privacy and Enterprise Security Enhancements. The Governor's budget includes $10.4 million from the State Highway Account for four positions, consulting services, and $9.2 million (one-time) for software and hardware purchases to develop a privacy office to address ongoing cyber security needs. Last year's budget provided six positions and $4 million from the State Highway Account to upgrade and improve Caltrans' IT Cyber Security Program.

Personal Services Adjustment. The budget includes a permanent increase of $58 million to correctly align funding resources to fund all program vacancies for currently authorized positions. This is to correct for an error made during the conversion to FI$CAL, the state's financial system.

Road Usage Charge Pilot Program Continuation. 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. The budget proposes $3.2 million ($1.4 million State Highway Account and $1.8 million federal funds) for two-year funding for five positions and $2.5 million for a demonstration of a pay-at-the-pump charging station alternative not tested in the original pilot program.

CALIFORNIA TRANSPORTATION AGENCY

The Governor's budget includes $365.9 million all funds for the California Transportation Agency (CalSTA) in 2018-19, a decrease of about $241.3 million or 39.7 percent from the current year. The Commission is completely funded with special funds and receives no General Fund support. The reduction results from about $220 million less in Greenhouse Gas Reduction Funds being programmed through CalSTA. Otherwise, there are no new proposals in CalSTA.

CALIFORNIA TRANSPORTATION COMMISSION

The Governor's budget includes $14.8 million all funds for the California Transportation Commission in 2018-19, an increase of $86,000 or less than 1 percent from the current year. The Commission is completely funded with special funds and receives no General Fund support.

DEPARTMENT OF MOTOR VEHICLES

The Governor's budget includes $1.2 billion mostly from the Motor Vehicle Account for the Department of Motor Vehicles (DMV) in 2018-19, which is a 3 percent increase in funding from the current year level. DMV's budget includes 8,308 positions to support its operations.

Major Provisions

Front End Sustainability Project. The Governor's budget includes a total of $89 million from the Motor Vehicle Account to provide multi-year funding to replace DMV's aging IT systems. The request includes three permanent positions and seven limited-term positions and $15 million in 2018-19, $16.7 million in 2019-20, $20 million in 2020-21, $17.3 million in 2022-23 and ongoing funding of $14.9 million beginning in 2023-24.

Information Technology Infrastructure Replacement. The budget includes $3.1 million in one-time Motor Vehicle Account funding to replace DMV's most critical IT infrastructure that has reached its end of life (113 devices). This request will be followed by a long-term request for funding consistent with a replacement plan.

High Occupancy Vehicle Lanes. The Governor's budget provides $2.6 million and 18 temporary positions and three permanent positions to implement AB 544 (Bloom, Chapter 630, Statutes 2017). AB 544 requires DMV upon expiration of the current Clean Air Decal program to create a new program to allow super ultra-low emission vehicles and transitional zero-emission vehicles access to HOV lanes for about four years regardless of vehicle occupancy level.

Capital Outlay Funding Requests. The Governor's budget includes $11 million from the Motor Vehicle Account in 2018-19 for capital outlay projects as follows:

- **Perimeter Security Fences.** $6.1 million to fund the installation of perimeter fencing at 13 DMV offices. This is the second year of funding for a total of 20 projects over two years.
- **Delano Field Office Replacement Reappropriation.** $795,000 to reappropriate the funding for the working drawing phase of the project due to delays.
- **Reedley Field Office Replacement.** $1.1 million for the acquisition phase of the Reedley Field Office replacement project.
- **San Diego Normal Street Field Office Replacement Reappropriation.** $1.5 million for the working drawing phase of the San Diego Normal Street Field Office replacement project.
- **Oxnard Field Office Reconfiguration.** $414,000 for the working drawings phase of the Oxnard Field Office.
- **Santa Maria Field Office Replacement Reappropriation**. $914,000 for the working drawings phase of the Santa Maria Field Office.
- **Statewide Planning and Site Selection.** $200,000 for advance planning and studies for two future reconfiguration/ renovation projects.

CALIFORNIA HIGHWAY PATROL

The Governor's budget includes $2.4 billion all from non-General Fund sources for the California Highway Patrol (CHP) in 2018-19, which is about the same level of funding as the current year. The CHP has 10,856 positions.

Key Provisions

Radio Console Replacement Project II. The Governor's budget provides $3.9 million Motor Vehicle Account in 2018-19, $4.5 million in 2019-20, $4.9 million in 2020-21, and $0.5 million in 2021-22 for the CHP to replace its dispatch consoles. This funding would allow for four limited-term positions and the replacement of 187 consoles in all communications centers statewide over three years.

Vehicle Fleet Replacement. The Governor's budget provides $4.5 million Motor Vehicle Account ongoing for the anticipated replacement of vehicles that reach the state mileage threshold which is 100,000 miles. Based on this, CHP estimates it needs to replace 1,027 enforcement vehicles annually. CHP has a varied fleet of 4,311 vehicles, of which 3,432 are enforcement vehicles.

Capital Outlay Funding Requests. The Governor's budget includes $6.2 million from the Motor Vehicle Account in 2018-19 for the following capital outlay projects. The budget also includes $173.8 million in lease-revenue bonds from the Public Buildings Construction Fund. For various proposals noted below, the budget shifts these capital outlay projects from being funded directly from the MVA to bond funds.

- **Quincy Facility Replacement.** $32.7 million from the Public Buildings Construction Fund for the design-build phase of the Quincy Replacement Facility project.

- **Keller Peak Tower Replacement.** $281,000 Motor Vehicle Account for the working drawings for the Keller Peak Tower replacement project.

- **California Highway Patrol Enhanced Radio System- Phases I and II Replace Towers and Vaults.** Total reappropriation of $6.9 million Motor Vehicle Account for working drawings and construction.

- **Santa Barbara Replacement Facility-Reversion and Shift Delivery Method.** Reversion of funds and request for trailer bill language to shift project to build-to-suit leasing due to inability to acquire land in Santa Barbara under the capital outlay process.

- **El Centro- Area Office Replacement Shift to Lease Revenue Bonds.** Reversion of $30.4 million from the Motor Vehicle Account and new funding of $30.4 million from the Public Buildings Construction Fund.

- **Hayward- Area Office Replacement Shift to Lease Revenue Bonds.** Reversion of $38.1 million from the Motor Vehicle Account and new funding of $38.1 million from the Public Buildings Construction Fund.

- **San Bernardino- Area Office Replacement Shift to Lease Revenue Bonds.** Reversion of $33.2 million from the Motor Vehicle Account and new funding of $34.2 million from the Public Buildings Construction Fund.

- **Ventura- Area Office Replacement Shift to Lease Revenue Bonds.** Reversion of $37.1 million from the Motor Vehicle Account and new funding of $38.4 million from the Public Buildings Construction Fund.

HIGH-SPEED RAIL AUTHORITY

The Governor's budget includes $1.1 billion for the High Speed Rail Authority in 2018-19, an increase of $848.9 million or nearly 300 percent greater than the current year. Most of the budget in 2018-19 is for capital outlay and comes primarily from Cap and Trade Funds.

Key Provision

Initial Operating Segment, Section 1/Blended System Early Improvements Reappropriation. The Governor's budget requests a reappropriation of $1.6 billion through June 30, 2022 to provide additional time to liquidate funds associated with the Initial Operating Segment, Section 1 and for the early improvements in the Bay Area and the greater Los Angeles regions of the Phase 1 blended system (also known as the "bookends"). The reappropriation includes $380.0 million in federal funds and $147.6 million in Proposition 1A bond funds for the initial operating segment, and $1 billion in Proposition 1A funds for the bookends.

BOARD OF PILOT COMMISSIONERS

The Governor's budget includes $2.4 million all funds for the Board for Pilot Commissioners in 2018-19, which is about the same level of funding as the current year. The Commission has four positions and is completely funded from the Board of Pilot Commissioners Special Fund and receives no General Fund support.

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. This program received a significant infusion of new funding into the Public Transportation Account (about $355 million in 2018-19) from the passage of the Road Repair and Accountability Act of 2017, resulting in new revenues for local transit agencies. In addition, the program receives Greenhouse Gas Reduction Funds for low-carbon transit projects. The table below outlines this funding.

State Transit Assistance Funding
(Dollars in Millions)

Funding Sources	Actual 2016-17	Estimated 2017-18	Proposed 2018-19
Public Transportation Account	$269.1	$587.8	$659.0
Greenhouse Gas Reduction Fund	34.5	91.7	179.4
Propositions 1B Bond Funds	35.4	27.1	17.0
Totals	**$339.0**	**$706.5**	**$855.4**

Staff Comment and Analysis of Governor's Budget Proposal

Last year, the Legislature addressed the single greatest transportation need by enacting the Road Repair and Accountability Act of 2017 which provides significantly more funding for various aspects of the state transportation system. Below are areas of additional concern in transportation that the Assembly may wish to address in 2018.

Issues Related to Vehicle Automation. Many issues will come along with the widespread introduction of automated vehicles on the state's roadways. These include who is responsible for carrying insurance and liability, what types of parking and zoning should be adopted in cities, and what can be done to ensure that the availability of driverless vehicles does not result in more miles being driven and as a result an increase in GHGs. The sooner the Legislature begins to consider these issues so that it can adopt policies that reflect its values, the better, because it can be very hard to enact changes after the technology is in widespread use.

Helping Caltrans Do Well. During discussions about various transportation funding packages, concerns were raised about the efficiency of Caltrans staff. 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. However, due to the large number of retirements, Caltrans will be challenged with filling vacancies and retaining experienced staff. The Assembly may want to direct the new Inspector General at Caltrans to assess the adequacy of Caltrans' staff, succession and workforce planning, retention policies, training programs, and recruitment efforts.

Does CHP Need Additional Traffic Enforcement Officers? The Governor's budget does not propose an increase in the number of traffic enforcement officers at CHP. The current number of uniformed officers is 7,609 which has not increased significantly since 2015-16, when about 200 positions were added. The reason for the force not increasing in the past was because the number of traffic fatalities had been decreasing each year. However, this trend has changed. The most recent data shows there were 3,074 fatalities in California in 2014. However, between 2015 and 2016 and in 2016 there were 3,680 motor vehicle deaths in the state. This trend is similar to the nationwide trend in increasing fatalities.

Some of the increase in fatalities has been attributed to an increase in distracted driving, particularly an increase in talking or texting on cell phones while driving. While California has passed strict laws to limit the use of hand held devices while driving, it is unclear if it has adequate resources to enforce these laws. Similarly, the legalization of marijuana may result in a greater need for CHP enforcement of various traffic laws. The Assembly may wish to consider if an increase in uniformed CHP officers would help to better ensure the safety of California motorists.

Is Additional Ongoing Funding for High Speed Rail a Priority? The Governor's budget is fairly quiet regarding the High Speed Rail project, except for the reappropriation of $1.6 billion, which is for the "bookend" projects in the Bay Area and greater Los Angeles. While the budget does not provide additional new funding for the project, the 2018 Business Plan (the Administration asserts it will provide a draft plan in March 2018 that can be finalized by June 2018) is required to identify full funding for the project. At this time, the amount of cap and trade funding available each year is not enough to fund construction of the project within a reasonable amount of time.

Without the identification of a permanent, secure, and stable source of funding it is unclear how the project can be completed, or if enough of it could be built to attract investors who would want to fund completion of the remainder of the system. The Assembly may want to consider other options to provide additional funding for the project such as passing a bond, or attempting to pass an additional gas tax to fund the project. The Assembly may also want to consider what options it has if more money is not available to complete the initial construction segment and how the investments that have been made so far can be best used in the future.

How Can the State Increase Transit Ridership? Consistent with SB 1, the Governor's budget continues to provide more funding for local transit systems. This in itself may have merit, if it results in more ridership. The state cannot achieve its greenhouse gas reduction goals or reduce congestion without a significant reduction in the reliance on cars. The Legislature could do a better job of holding local transit systems accountable and asking questions such as if the money is going to the right things and how could transit be made to work better. Some areas the Legislature may wish to focus on are the first and last mile of commutes, how to make transit safe and reliable, and what are acceptable amounts of time to wait for the next bus or train? Where are different types of transit, such as bus versus rail, the most appropriate? What are considered reasonable costs and what percentage of costs are reasonable to expect will be covered by the fare the transit rider pays?

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

Serving Those Who Have Served. The Legislature has made many efforts to improve service delivery for 1.7 million veterans living in California. However, implementation of a cohesive, long-term plan that maximizes the state’s use of its veterans’ homes is needed to minimize gaps in service and free-up resources to use for other unmet needs. The Assembly may wish to continue its focus on these assets, thereby helping to ensure that progress that has been made is not lost.

Implementing the 2017 Housing Legislative Package. The budget proposes a significant amount of resources for the Department of Housing and Community Development to implement the 2017 Housing Legislative Package. After many years of decreased funding, HCD is ramping up at a rapid rate both with funding and staffing. To ensure that implementation is seamless and that HCD can move funding out as soon as possible to help address the housing crisis, the Assembly may wish to consider continued oversight on the department to ensure that legislative changes are implemented as intended.

Insuring a Complete Count in the 2020 Census. The decennial census plays an important role in the determining federal funding, representation in Congress, and social research. California has traditionally had to support federal efforts to connect with Californians that are harder to count due to cultural, economic, or social barriers. The Trump Administration is considering an approach towards the census that would make it more difficult to identify these populations coupled with less outreach. The State will need to increase its role in the census process to make up the difference.

Governor's January Budget Proposal in General Government

- **New Skilled Nursing Facility at Yountville Veterans Home.** The Governor's budget proposes $15.7 million General Fund for the preliminary plans phase of a new 280,000 square foot, 240 bed skilled nursing facility at the Veterans Home in Yountville. Total project costs are estimated to be $317.1 million and a significant share of the cost would be borne by the federal government. Construction is estimated to be completed in 2024.

- **Replacement of County Voting Systems.** For several years, the Legislature has been anticipating the costly replacement of county voting systems. The Governor's budget includes $134 million General Fund for the replacement of voting systems and related technology in all 58 counties. Recently enacted legislation, SB 450 (Allen, Chapter 832, Statutes of 2016) will help to reduce the cost of system replacement somewhat; however, it is still a major and expensive undertaking. The Assembly will want to ensure that the 50-50 cost-sharing approach proposed by the Administration is reasonable and the proposed level of funding is adequate.

- **Housing.** The Governor's January Budget provides resources to implement the significant changes included in the 2017 statewide housing legislative package, the Budget allocates $3 million General Fund to the Department of Housing and Community Development. Additionally, there will be an estimated $258 million in real estate transaction fee revenue for housing programs and proceeds from the housing bond upon voter approval in the November 2018 election.

- **County Assessors' Operations.** The Governor's budget includes $5 million annually for the next three years for a new program to assist in the maintenance and equalization of the county property tax rolls. Trailer bill language has not been released detailing the program.

- **Civil Service Improvement**. Similar to last year, the Governor's budget continues to discuss strategies to improve the state's civil service efforts. The Governor's budget focuses on consolidating the state's job classifications to streamline civil service. Trailer bill language has not been released detailing the statutory changes that will make the civil service system more efficient and transparent.

- **California Complete Count Funding**. The Governor's budget proposes $40 million and 22 limited term positions to focus on hard-to-count populations in the 2020 Census. This proposal responds to concerns regarding changes to the federal Census that threaten to undercount Californians.

DEPARTMENT OF CONSUMER AFFAIRS

The Governor's budget includes $634.2 million (non-General Fund) for the Department of Consumer Affairs (DCA) in 2018-19, a decrease of 6.5 percent from the current year. DCA is funded from special funds of the various boards and bureaus. Proposed staffing for the entire department is 3,128 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

Various Requests for Resources for the DCA Boards and Bureaus. The Governor's budget includes $21.6 million from various funding sources for 12 proposals as shown in the following table. One of the key proposals includes $17 million to fund the maintenance costs of BreEZe, which is DCA's primary information technology system. Another proposal funds 10 positions at the Board of Registered Nursing that would address severe deficiencies within its Enforcement Division.

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

Board/Bureau	Proposal	Funding 2018-19	Positions 2018-19	Funding 2019-20
Consumer Affairs Administration	BreEZe System Maintenance	$16,783	0	$13,047
Acupuncture	Alignment of Manager Ratios	$131	1	$123
Behavioral Sciences	Enforcement Program-Probation Monitoring	$175	1.5	$167
Pharmacy	Enforcement Staff Augmentation	$685	4	$653
Pharmacy	Moving Costs	$1,101	0	$0
Pharmacy	Permanent Position Authority	$440	4	$440
Registered Nursing	Enforcement Staff Augmentation	$1,250	10	$1,250
Security and Investigative Services	Enforcement Staff Augmentation	$111	0	$111
Security and	Licensing Position Funding	$89	0	$89

Investigative Services				
Medical	Licensed Midwifery Program	$107	0	$107
Speech Pathology	Licensing / Administrative Staff Augmentation	$264	2	$183
Veterinary Medical	Veterinary Assistance Controlled Substances Program	$417	4	$417
Total		**$21,553**	**26.5**	**$16,587**

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

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

Board/Bureau	Proposal	Funding 2018-19	Positions 2018-19	Funding 2019-20
Real Estate	SB 173 Establishes Department of Real Estate	$1,000	-11.0	$0
Contractors State License	SB 661, Dig Safe Act of 2016	$549	2.0	$533
BEARHFTI	SB 19 Household Movers Act	$2,155	11.0	$1,942
Security and Investigative Services	SB 559 Limited Liability Company	$43	0.5	$35
Pharmacy	AB 401, SB 351, and SB 443 Fund Various Requirements	$423	3.0	$391
Total		**$4,170**	**5.5**	**$2,901**

BEARHFTI=Bureau of Electronic and Appliance Repair, Home Furnishings, and Thermal Insulation

FAIR POLITICAL PRACTICES COMMISSION

The Governor's budget proposes total spending of $12.9 million ($12.2 million General Fund) for the Fair Political Practices Commission (FPPC), a 4 percent increase from the current year. The Commission is funded from General Fund and reimbursements. Proposed staffing for FPPC totals 69 personnel.

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

Major Proposal

- **Advertisement Disclosure and Earmarking of Funds-Campaign Disclosure (AB 249).** The Governor's budget provides $420,000 General Fund to fund three existing, but unfunded positions to implement AB 249 (Mullin, Chapter 546, Statutes of 2017). AB 249 changes the content and format of disclosure statements required on specified campaign advertisements to generally require them to be more prominent.

DEPARTMENT OF VETERANS AFFAIRS

The Governor's budget includes $467.8 million ($405.9 million General Fund) for the Department of Veterans Affairs (CalVet) in 2018-19, an increase of $6.7 million or 1.5 percent from the current year. CalVet is funded from General Fund, federal reimbursements, and special funds. Proposed staffing at CalVet is 3,180 positions.

California is home to 1.7 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 Provisions in CalVet

- **Veterans Home of California, Yountville: Skilled Nursing Facility.** The Governor's budget includes $15.7 million General Fund for the preliminary plans phase of a new Skilled Nursing Facility at the Veterans Home in Yountville. The total cost of the facility is estimated to be $317 million. It is likely that much of this cost will be reimbursed by the federal government.

- **Yountville: Private Domiciliary.** The budget includes a reduction of $732,000 General Fund and 2.5 positions to convert rooms in the domiciliary level of care at the Veterans Home of California, Yountville from dual occupancy to single occupancy. This will be accomplished by suspending admissions to maintain a domiciliary census of 522—a reduction of 115 budgeted beds.

- **Rector Dam and Reservoir.** The budget provides $1.6 million General Fund and five positions in 2018-19, and five positions and $596,000 General Fund ongoing beginning in 2019-20 to make improvements needed to bring the operation of Rector Dam and Reservoir near Yountville in compliance with state and federal laws.

- **Information Services Division Staffing.** The budget includes $1.2 million ($1.1 million General Fund) and nine positions to support CalVet's information security, applications, websites, databases, and information technology projects and procurements.

- **Veterans Claims Representatives (SB 776).** The budget provides $907,000 General Fund and seven positions to implement SB 776 (Newman, Chapter 599, Statutes of 2017). SB 776 requires CalVet to provide one CalVet employee for every five state prisons to assist incarcerated veterans in applying for and receiving federal benefits for which they may be eligible.

SECRETARY OF STATE

The Governor's budget proposes total spending of $213.7 million ($166.8 million General Fund) for the Secretary of State's Office (SOS), an increase of $126.5 million, or 120 percent from the current year. The SOS is funded from General Fund, reimbursements, and special funds. Proposed staff at SOS totals 542 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

- **Voting System Replacement for Counties.** The Governor's budget provides $134.3 million in one-time General Fund spending to purchase new equipment for county voting systems. This equipment includes hardware, software, and initial licensing to replace existing systems and technology. Under the proposal, counties would provide a dollar for dollar match to receive the state funding.

- **Help America Vote Act-VoteCal.** The Governor's budget includes $7.1 million in spending authority from the Federal Trust Fund to cover the maintenance and operations cost of the VoteCal system. The funding includes $1.6 million of local assistance support for county efforts associated with cybersecurity risks and the associated infrastructure needs.

- **Help America Vote Act Spending Plan.** The Governor's budget provides $4.2 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.

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

The Governor's budget includes $1.196 billion for the Department of Housing and Community Development (HCD) in 2018-19, an increase of $467.9 million or 64 percent 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

- **Statewide Housing Package Implementation.** The budget provides $538.3 million from various funds and 81 positions in 2018-19, $739.9 million and 128 positions in 2019-20, and $796.1 million and 146 positions in 2020-21 and 2021-22, and $796 million and 145 positions in 2022-23 and ongoing to implement recent legislative changes. The housing package shortens the housing development approval process, promotes local accountability to adequately plan for needed housing, and invests in affordable housing production. Funding sources include a November 2018 $4 billion bond and dedicated real estate transaction fee revenues.

- **Affordable Housing and Sustainable Communities Program.** The budget provides $2.8 million from the Greenhouse Gas Reduction Fund and 16 positions in 2018-19, and $2.6 million and 16 positions in 2019-20, and ongoing for full implementation of the cap-and-trade program through 2030.

Other Key Issues in HCD

- **Transaction Unit Fund Shift.** HCD requests to shift $1,894,000 in expenditure authority to continue workload in the Transactions Unit to restructure and extend previous loans. This request is a net-zero change that moves funds from the Roberti Affordable Housing Fund, the California Earthquake Safety and Housing Rehabilitation

Bond Account, and an account within the Housing Rehabilitation Loan Fund to the General Housing Rehabilitation Loan Fund.

- **Veterans Housing and Homeless Prevention Program.** HCD requests $370,000 in 2018-19 and $350,000 ongoing from the Housing for Veterans Fund for two positions to execute loan closings and mitigate litigation costs related to the Veterans Housing and Homelessness Prevention Program.

- **Mobilehome Purchase Program Technical Assistance (SB 136).** The Department of Housing and Community Development (HCD) requests $161,OO0 in 2018-19 and $151,000 ongoing from the Mobilehome Park Rehabilitation and Purchase Fund for 1.0 position to oversee technical assistance grants with potential applicants of the Mobilehome Park Rehabilitation and Resident ownership Program (MPRROP), pursuant to Chapter 766, Statutes of 2017 (SB 136).

- **Legislation.**

  - **Mobilehome Release of Liability.** HCD requests $289,000 in 2018-19 and $259,000 ongoing from the Mobilehome and Manufactured Home Revolving Fund for three positions to implement the notice of transfer and release of liability provisions of Chapter 832, Statutes of 2017 (SB 542).

  - **Housing for a Healthy California.** HCD requests $450,000 in 2018-19, $927,000 in 2019-20, $477,000 in 2020-21, and $343,000 ongoing from the Federal Trust Fund to implement Chapter 777, Statutes of 2017 (AB 74). The request includes authority for two positions, an interagency agreement with the Department of Health Care Services (DHCS), and a contract with an independent evaluator in 2019-20.

- **Roberti Affordable Sales Program.** HCD requests a baseline increase in reimbursement authority of $370,000 in 2018-19 and $350,000 ongoing for staffing expenses to ensure the sale of Department of Transportation (Caltrans) surplus property is maintained as affordable housing.

- **Long-Term Monitoring and Default Reserves.** HCD proposes Trailer Bill Language to streamline the administration of long-term monitoring, provide consistency across all rental programs, and decrease the risk of default of affordable housing projects.

GOVERNMENT OPERATIONS AGENCY

The Governor's budget includes $4.09 million for the Government Operations Agency (GovOps), in 2018-19, an increase of $325,000 or 8.6 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. GovOps oversees the Department of General Services, Department of Human Resources, Department of Technology, California Department of Tax and Fee Administration, Franchise Tax Board, State Personnel Board, Victim Compensation Board, Office of Administrative Law, California Public Employees' Retirement System, and California State Teachers' Retirement System.

Major Provision

- **Increased Legal and Administrative Workload.** The Budget includes $300,000 in reimbursement authority and two positions associated with increased workload due to the absorption of oversight responsibilities for the California Department of Tax and Fee Administration.

DEPARTMENT OF HUMAN RESOURCES

The Governor's budget includes $107.5 million for the Department of Human Resources (CalHR) in 2018-19, an increase of $1.5 million or 1.5 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 Human Resources Workload.** The budget includes $1.8 million ($213,000 General Fund) and eight positions to implement statewide solutions for hiring and selections, recruitment, and training efforts.

- **Enterprise Data Strategy.** The Governor's budget includes $503,000 ($63,000 General Fund) and three positions to build the foundation of a statewide human resources system (Enterprise HR).

- **Merit System Services Program.** The Governor's budget includes $207,000 in reimbursement authority and seven positions for transitioning the audit functions of the Merit System Services Program from a vendor to CalHR.

STATE PERSONNEL BOARD

The January Budget proposes $12.7 million for the State Personnel Board in (SPB) in 2018-19, an increase of $663,000 or 5.5 percent from the current year. SPB is funded from the General Fund, reimbursements and the Central Service Cost Recovery fund. SPB was established by the California Constitution in 1934 and is governed by a five-members who are appointed by the Governor for ten-year terms. SPB is responsible for California's civil service system.

Major Provision

- **Administrative Services Workload.** SPB requests five positions and $655,000 ($223,000 General Fund, $263,000 Reimbursements, and $169,000 Central Service Cost Recovery) in 2018-19 and ongoing to provide internal administrative resources to assist with equal employment opportunity duties, business services support, and manage Board proceedings.

CALIFORNIA STATE TEACHER'S RETIREMENT SYSTEM

The Governor's budget includes $15.7 billion for the State Teacher's Retirement System (CalSTRS) in 2018-19, an increase of $683,539 or 4.5 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.

Major Provisions

- **Additional State Contributions.** The budget includes an increase to the state's contribution, assuming the Board will exercise its authority to increase state contributions by 0.5 percent of teacher payroll, consistent with the funding strategy from 2014. The Teachers' Retirement Board adopted changes in demographic and economic assumptions in 2017, which resulted in an increase to the system's liabilities, and an increase in the state's funding obligation.

- **Internal Investment Management.** The budget includes $3.4 million and 14 positions to increase internal investment management. The funding and positions in 2018-19 are the first step of a five-year phase in of $15.4 million in permanent funding and 58 positions.

PUBLIC EMPLOYMENT RELATIONS BOARD

The Governor's budget includes $11.8 million for the Public Employment Relations Board (PERB) in 2018-19, a slight increase of $6,000 from the current year. PERB is staffed at 55 persons, same as last 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.

CALIFORNIA SECURE CHOICE RETIREMENT SAVINGS INVESTMENT BOARD

The Governor's budget includes $2.5 million in 2018-19 for the California Secure Choice Retirement Savings Investment Board, a decrease of $ 12.5 million or 83 percent from the current year. The Board is funded through the Secure Choice Retirement Savings Program.

Major Provision

- **Start-Up Activities.** The Governor's budget includes a General Fund loan of $2.5 million in 2018-19 for the program's startup and administrative costs.

CALIFORNIA ABLE ACT BOARD

The Governor's budget includes $900,000 for the California Achieving a Better Life Experience (ABLE) Act Board in 2018-19, an increase of $250,000 or 38.5 percent from the current year. The California ABLE Act Board is funded through a special fund. The California ABLE Act Board was established in 2015 with the goal to provide eligible individuals with disabilities the opportunity to save provides funds in tax-advantaged ABLE accounts for the purpose of supporting persons with disabilities to maintain their health, independence, and quality of life.

Major Provision

- **Continued Implementation.** The Board requests a General Fund loan of $900,000 for 2018-19 to continue to support administrative costs and implementation of the CalABLE Program and outreach activities.

DEPARTMENT OF GENERAL SERVICES

The Governor's budget includes $1.08 billion for the Department of General Services (DGS) in 2018-19, an increase of $10.8 million or 1 percent from the current year. DGS is funded through the General Fund and special funds.

Major Provisions

- **Four Projects in the Sacramento Region.** Total cost of all four projects is estimated to be $1.3 billion with $30.4 million in General Fund costs estimated in the current year.
  - **Gregory Bateson Building Renovation.** DGS requests $5,213,000 General Fund for the performance criteria phase of a project to renovate the Gregory Bateson Building. Total project cost is estimated to be $161,026,000 ($5,213,000 for performance criteria, and $155,813,000 for design-build).
  - **Jesse Unruh Building Renovation**. DGS requests $6,335,000 General Fund for the performance criteria phase of a project to renovate the historic Jesse Unruh Building. Total project cost is estimated to be $89,889,000 ($6,335,000 for performance criteria, and $83,554,000 for design-build).
  - **New Richards Boulevard Office Complex.** DGS requests $18,053,000 General Fund for the performance criteria phase of a new Richards Boulevard Office Complex project. Total project cost is estimated to be $1,032,651,000 ($18,053,000 for performance criteria and $1,014,598,000 for design-build).
  - **State Printing Plant Demolition.** DGS requests $815,000 General Fund for the working drawings phase of the State Printing Plant Demolition project. Total project cost is estimated to be $16,464,000 ($909,000 for preliminary plans, $815,000 for working drawings, and $14,739,000 for construction).

Other Key Issues for DGS

- **EVSE Infrastructure Assessment and Facility Development.** DGS, Office of Sustainability, requests a one-time augmentation of $15.6 million in 2018-19 and one permanent position to continue the installation of Electric Vehicle Service Equipment in state facilities.

- **Legislative Proposals.**

    - **Institutional Purchasers: Sale of California Produce**. DGS is requesting $308,000 Service Revolving Fund and two permanent positions to implement the provisions of Chapter 785, Statutes of 2017 (AB 822, Caballero) and for the development of necessary regulations and updates to the State Contracting Manual.

    - **New Certification for Small Business in Public Works Contracts.** DGS, Office of Small Business and Disabled Veteran Business Enterprise Services (OSDS) is requesting $374,000 Service Revolving Fund authority in 2018-19 ($274,000 in 2019-20 and ongoing) and two permanent Associate Governmental Program Analyst (AGPA) positions to implement the provisions of Chapter 673, Statutes of 2017 (SB 605, Galgiani).

    - **Public Contracts Bid Specifications: Buy Clean California Act.** DGS is requesting $638,000 Service Revolving Fund in 2018-19 ($138,000 in 2019-20 and ongoing) and one permanent position at the Associate Governmental Program Analyst level to establish the maximum acceptable global warming potential for four categories of eligible building materials using a specified methodology for public works contracts, and to publish those thresholds in the State Contract Manual as required by Chapter 816, Statutes of 2017 (AB 262, Bonta).

- **Mercury Cleaners Site Monitoring.** DGS, Asset Management Branch, requests on-going General Fund authority in the amount of $578,000 to continue monitoring the results of remediation efforts of the former Mercury Cleaners site.

- **Modification of Funding Structure for Contracted Fiscal Services.** DGS, Contracted Fiscal Services (CFS) requests a permanent net budget augmentation of $2,503,000 beginning in 2018-19 to fully recover costs in providing fiscal services. Also, CFS requests a modification to the funding structure.

COMMISSION ON STATE MANDATES

The Governor's budget includes $39.3 million for the Commission on State Mandates (COSM) in 2018-19, a slight increase of $60,000 or less than 1 percent from the current year. The COSM is funded through the General Fund and special funds.

The budget continues to fund mandates that are related primarily to law enforcement and property taxes consistent with past years.

Proposed to be Funded	**2017 Budget Act ($ in 000s)**	**2018-19 Proposed Budget Bill ($ in 000s)**
Accounting for Local Revenue Realignments	0	0
Allocation of Property Tax Revenues	629,520	630,000
California Public Records Act	0	0
Crime Victims' Domestic Violence Incident Reports	163,823	164,000
Custody of Minors-Child Abduction and Recovery	12,964,340	12,964,000
Domestic Violence Arrest Policies	7,957,653	7,958,000
Domestic Violence Arrests and Victims Assistance	2,032,638	2,033,000
Domestic Violence Treatment Services	2,440,854	2,441,000
Health Benefits for Survivors of Peace Officers and Firefighters	2,416,037	2,416,000
Local Agency Ethics	1,064	1,000
Medi-Cal Beneficiary Death Notices	20,307	20,000
Medi-Cal Eligibility of Juvenile Offenders	3,006	3,000
Peace Officer Personnel Records: Unfounded Complaints & Discovery	742,892	743,000
Rape Victim Counseling	497,120	497,000
Sexually Violent Predators	3,561,184	3,561,000
State Authorized Risk Assessment Tool for Sex Offenders	836,773	837,000
Threats Against Peace Officers	0	0
Tuberculosis Control	83,527	84,000
Unitary Countywide Tax Rates	347,467	347,000

Post-Election Manual Tally	0	0
Sheriffs Court-Security	0	0
Total Funded Costs	**$39,698,305**	**$34,699,000**

Suspended Mandates. The budget continues to propose to suspend 56 mandates for approximately $584.4 million.

2018-19 Suspended Local Government Mandates for Governor's Budget	November 1, 2017 Balance (AB 3000 Report)
Absentee Ballots	49,538,762
Absentee Ballots - Tabulation by Precinct	67,700
AIDS/Search Warrant	1,582,315
Airport Land Commission/Plans	0
Animal Adoption	37,827,484
Brendon Maguire Act	0
Conservatorship: Developmentally Disabled Adults	348,847
Coroner's Costs	221,667
Crime Statistics Reports for the Department of Justice	146,872,987
Crime Victim's Domestic Violence Incident Reports II	2,009,608
Developmentally disabled Attorney's Services	1,200,934
DNA Database and Amendments to Postmortem Examinations: Unidentified Bodies	309,814
Domestic Violence Background Checks	17,229,328
Domestic Violence Information	0
Elder Abuse, Law Enforcement Training	0
Extended Commitment Youth Authority	0
False Reports of Police Misconduct	10,085
Firearm Hearings for Discharged Inpatients	157,256
Grand Jury Proceedings	0
Interagency Child Abuse and Neglect (ICAN) Investigation Reports	71,388,960
Identity theft	93,567,727
In-Home Supportive Services II	442,854
Inmate AIDS Testing	0
Judiciary Proceedings	273,882
Law Enforcement Sexual Harassment Training	0
Local Coastal Plans	0
Mandate Reimbursement Process	6,841,359
Mandate Reimbursement Process II	0
Mentally Disordered Offenders: Treatment as a Condition of Parole	4,909,840

Mentally Disordered Offenders' Extended Commitments	7,221,996
Mentally Disordered Sex Offenders' Recommitments	339,541
Mentally Retarded Defendants Representation	35,905
Missing Persons Report	0
Modified Primary Election	1,816,619
Not Guilty by Reason of Insanity	5,214,032
Open Meetings Act/Brown Act Reform	105,576,666
Pacific Beach Safety: Water Quality and Closures	343,927
Perinatal Services	2,251,785
Permanent Absent Voters II	11,906,707
Personal Safety Alarm Devices	-2,253
Photographic Record of Evidence	290,594
Pocket Masks	0
Post Conviction: DNA Court Proceedings	410,230
Postmortem Examinations: Unidentified Bodies Human Remains	5,460
Prisoner Parental Rights	0
Senior Citizens Property Tax Postponement	480,794
Sex Crime Confidentiality	0
Sex Offenders Disclosure by Law Enforcement Officers	0
SIDS Autopsies	0
SIDS Contacts by Local Health Officers	0
SIDS Training for Firefighters	-981
Stolen Vehicle Notification	1,116,840
Structural and Wildland Firefighter Safety Clothing and Equipment	-8,722
Very High Fire Hazard Severity Zones	0
Voter Identification Procedures	10,075,391
Voter Registration Procedures	2,481,096
TOTAL	**$584,357,036**

DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL

The Governor's budget includes $75.1 million for the Department of Alcoholic Beverage Control (ABC) in 2018-19, an increase of $2.7 million, or 3.8 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 Staff Augmentation:** ABC requests $854,000 in 2018-19, $340,000 in 2019-20, and $265,000 ongoing from the Alcoholic Beverage Control Fund for two positions in the Information Technology Branch to provide the capacity to modernize the department's internal and external services including:
- **Physical and Information Security Policy Operation:** ABC requests $533,000 in 2018-19, and $146,000 in 2019-20, and ongoing from the Alcoholic Beverage Control Fund to address physical and information security issues.
- **Responsible Beverage Service Training Program Act:** ABC requests $578,000 and four positions in 2018-19, $561,000 and four positions in 2019-20, and $381,000 and three positions ongoing, from the Alcoholic Beverage Control Fund to develop and administer the program mandated by the provisions of the Responsible Beverage Services Training Program Act, Chapter 847, Statutes of 2017 (AB 1221).
- **Santa Ana State Building Relocation:** ABC is requesting $207,000 in 2018-19, and ongoing, for increased rent costs for the Santa Ana District office. ABC is moving out of the Santa Ana state building in coordination with DGS's effort to vacate the building and consolidate state programs into a larger leased office building that will better serve ABC and other tenant departments.

STATE CONTROLLER'S OFFICE

The Governor's budget includes $220.2 million for the State Controller's Office (SCO) in 2018-19, an increase of $5 million or 2.3 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

- **CA-IDMS Licensing Increase.** The SCO requests funding to support the increased costs associated with maintaining the Computer Associates (CA) Integrated Database Management System (IDMS) and to support positions to develop a migration pilot to remove five core systems off of the CA-IDMS.

- **Local Apportionments Workload Increase.** The SCO requests $246,000 ($138,000 GF, $104,000 Central Service Cost Recovery Fund, and $4,000 Reimbursement) in 2018-19, for two positions to address increased workload related to apportionment payments to local governments and schools.

- **Payroll Audits.** The SCO requests $682,000 ($389,000 GF; $293,000 CSCRF) in 2018-19, to support five two-year limited term positions to perform audits of payroll controls and payroll records to ensure compliance with the SCO's decentralized legacy payroll system, processes, and practices.

- **Personnel and Payroll Services Workload.** The SCO requests $6,147,000 ($3,503,000 GF; $2,644,000 CSCRF) in 2018-19, to address understaffing, workload automation and workload related to the Affordable Care Act and Public Employee's Pension Reform Act within Personnel and Payroll Services Division.

- **Road Maintenance and Rehabilitation Program.** The SCO requests $909,000 from the Road Maintenance and Rehabilitation Account (RMRA) in 2018-19, to support seven positions to ensure local agencies are spending funds on street, road, and highway purposes related to RMRA.

- **SCO FI$Cal Implementation.** The SCO is requesting funding for the transitioning of the State's accounting Book of Record (BOR) from the SCO Legacy system to FI$Cal system and provide support to the FI$Cal departments.

STATE TREASURER'S OFFICE

The Governor's budget includes $35.7 million for the State Treasurer's Office (STO) in 2018-19, a decrease of $6.6 million or 15 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

- **Infrastructure Support and Sustainability.** The budget proposes a General Fund appropriation of $450,000 in 2018-19, and $400,000 ongoing, to align the department's information technology infrastructure budget with its recent growth in resources.

CALIFORNIA ALTERNATIVE ENERGY AND ADVANCED TRANSPORTATION FINANCING AUTHORITY

The Governor's budget includes $10.3 million for the California Alternative Energy and Advanced Transportation Financing Authority (CAEATFA) in 2018-19, an increase of $4.5 million or 77.9 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

- **Administration of Energy Efficiency Pilot Programs**. CAEATFA requests reimbursement and expenditure authority in the amount of $8.2 million for 2018-19, and available through 2020-21, to carry out its function as the administrator of the California Hub for Energy Efficiency Financing (CHEEF) on behalf of the PUC. This program is funded with ratepayer funds that have been approved and authorized by the PUC in a total amount of $15.36 million.

CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE

The Governor's budget includes $8.4 million for the California Tax Credit Allocation Committee (CTCAC) in 2017-18, a slight decrease 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.

DEPARTMENT OF BUSINESS OVERSIGHT

The Governor's budget includes $97.8 million for the Department of Business Oversight (DBO) in 2018-19, an increase of $886,000 or less than 1 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 DBO

- **Information Technology Office: Workload Growth and Risk Mitigation.** The DBO requests four permanent positions and $613,000 in 2018-19, and $577,000 ongoing, to begin to eliminate backlogs and fill critical resource and skill gaps in the Information Technology Office organization.

- **Student Loan Servicing Act Implementation.** The DBO requests $737,000 and five permanent positions in 2018-19, and $690,000 ongoing, to perform examinations of Student Loan Servicing Office licensees and to handle consumer complaints.

CALIFORNIA SCIENCE CENTER

The Governor's budget includes $34.5 million in 2018-19, for the California Science Center, a decrease of $705,000 or 2 percent from the current year. The California Science Center, the Office of Exposition Park Management, and the California African American Museum, are all located in Exposition Park. 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 Issues for the Science Center

- **California African American Museum: Temporary Help.** The California African American Museum (CAAM) requests an increase of $175,000 Exposition Park Improvement Fund for temporary help.

- **California Science Center Reimbursement Authority.** The California Science Center requests a $157,000 increase in reimbursement authority; increasing the current authorization from $800,000 to $957,000. This increase is related to higher utility costs and a compounded Consumer Price Index increase to the Joint Operational Agreement between the Science Center and the Los Angeles Unified School District.

- **Office of Exposition Park Management Reimbursement Authority.** The Office of Exposition Park Management (OEPM) requests an increase of $435,000 in reimbursement authority for 2018-19 and 2019-20.

CALIFORNIA ARTS COUNCIL

The Governor's budget includes $27.8 million ($16 million General Fund) in 2018-19 for the California Arts Council, a slight increase of $55,000 or less than 1 percent from the current year. The California Arts Council The Arts Council consists of 11 members, nine appointed by the Governor and one each appointed by the President pro Tempore of the Senate and the Speaker of the Assembly. The Arts Council's mission is to advance California through the arts and creativity.

SECRETARY FOR LABOR AND WORKFORCE DEVELOPMENT AGENCY

The Governor's budget includes $2.9 million in 2018-19 for the Secretary for 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.

AGRICULTURAL LABOR RELATIONS BOARD

The Governor's budget includes $10.3 million in 2018-19 for the Agricultural Labor Relations Board (ALRB), a slight increase 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.

EMPLOYMENT DEVELOPMENT DEPARTMENT

The Governor's budget includes $14.6 billion in 2018-19 for the Employment Development Department (EDD), an increase of $415.5 million or 2.9 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

- **October 2017 Benefit Adjustments.**
  - The Budget provides a decrease of $248.2 million in 2017-18 and a decrease of $314.7 million in 2018-19 for Unemployment Insurance benefit payments based on current economic conditions. The Budget includes an increase of $169.0 million in 2017-18 and an increase of $710.8 million in 2018-19 for Disability Insurance benefit payments. The Budget also includes an increase of $8.0 million in 2017-18 and an increase of $1.0 million in 2018-19 for School Employee Fund benefit payments

- **October 2017 Administrative Adjustments.**
  - The Budget reflects a reduction of 117.7 positions and $12.2 million in 2017-18 and 275.4 positions and $28.6 million in 2018-19 to reflect declining workload in the Unemployment Insurance Program. The Budget also includes an increase of 32.6 positions and $2.8 million in 2017-18 and 38.6 positions and $3.3 million in 2018-19 based on updated workload estimates in the Disability Insurance Program.

- **Employment Training Panel Augmentation**. The budget provides an increase of $10.0 million Employment Training Fund to increase the number of training contracts available through the Employment Training Panel.

- **Unemployment Insurance Interest Payment.** The budget includes $10.3 million General Fund to make an interest payment on funds borrowed from the federal government to pay California's Unemployment Insurance benefits without interruption. This is expected to be the final interest payment.

- **Workforce Innovation and Opportunity Act (WIOA) Funding.** The budget includes an increase of $2.5 million in WIOA discretionary funds, and a $11.1 million increase for the WIOA 25 Percent Rapid Response Program, as a result of 2016-17 carryover. A request for 2018-19 resources will be submitted in the May Revision when the federal Department of Labor allocations are made available.

Key Issues for EDD

- **Benefits System Modernization.** EDD requests a one-time budget augmentation of $4 million and 15 positions and a redirection of $4.4 million and 19 positions in 2018-19 for continuing Project Approval Lifecycle tasks and pre-implementation readiness initiatives for the Benefit Systems Modernization project.

- **Legislation.** AB 677, the Lesbian, Gay, Bisexual, and Transgender (LGBT) Disparities Reduction Act, requires the EDD to collect voluntary self-identification information pertaining to sexual orientation and gender identity in the course of collecting demographic data, implement the data collection by July 1, 2019, and report this data to the Legislature. SB 396 amends the California Unemployment Insurance Code to expand the definition of an "individual with a barrier to employment" to include transgender and gender nonconforming individuals. EDD requests $280,000 Contingent Fund in 2018-19 for one-time costs to implement the requirements of both AB 677 and SB 396.

DEPARTMENT OF INDUSTRIAL RELATIONS

The Governor's budget includes $685.6 million in 2018-19 for the Department of Industrial Relations (DIR), an increase of 8.2 million or 1.2 percent from the current year. DIR is funded through special funds and reimbursements, with no General Fund.

Major Provisions

- **Apprenticeship Program for Nontraditional Industries.** The budget provides $3.5 million Employment Training Fund and 22 positions in 2018-19, $4.5 million and 32 positions in 2019-20, $5.7 million and 42 positions in 2020-21, and $5.6 million ongoing, to expand statewide apprenticeship opportunities to nontraditional industries and the inmate population.

- **Immigration Worksite Enforcement Actions.** The budget includes $1.6 million Labor Enforcement and Compliance Fund and eight positions to protect the immigrant workforce from unlawful detainment and workplace retaliation.

Key Issues for DIR

- **Legislation.**
    - **Apprenticeship Training Funds: Grant Oversight.** DIR requests $143,000 Apprenticeship Training Contribution Fund and one position in 2018-19, and $130,000 ongoing, to implement and meet the ongoing requirements of Chapter 553, Statutes of 2017 (AB 581).
    - **Immigration Worksite Enforcement Actions.** DIR requests $1.6 million Labor Enforcement and Compliance Fund and eight positions in 2018-19 and $1.5 million ongoing to meet the ongoing requirements of Chapter 492, Statutes of 2017 (AB 450).

- **DLSE Recruitment and Administrative Services.** DIR requests $465,000 Labor Enforcement and Compliance Fund in 2018-19, and $415,000 ongoing and four positions for the Division of Labor Standards of Enforcement to support staff recruitment and retention, and to satisfy growing administrative needs.

- **Schools' Occupational Injury and Illness Prevention Programs.** DIR requests $250,000 Workers' Compensation Administration Revolving Fund in 2018-19, 2019-20, and 2020-21, to allow the Commission on Health and Safety and Workers' Compensation to assist schools in establishing effective occupational Injury and Illness Prevention Programs.

- **Victims of Wage Theft.** DIR requests budget bill language to allow fund balance transfers in 2018-19, from the Industrial Relations Unpaid Wage Fund (Unpaid Wage Fund), to the Garment Manufacturers Special Account, the Car Wash Worker Restitution Fund, and the Farmworker Remedial Account, upon approval of the Department of Finance to pay valid claims, in the event of a cash shortage in any of the restitution funds.

CALIFORNIA WORKFORCE DEVELOPMENT BOARD

The Governor's budget includes $26.3 million in 2018-19, for the California Workforce Development Board an increase of $13.9 million or 112 percent from the current year. The Board is funded through the General Fund, special funds and reimbursements. The Board collaborates with both state and local partners to establish and improve the state workforce system, with an emphasis on California's economic vitality and growth.

Major Provisions

- **Prison to Employment Initiative.** The budget provides $16 million General Fund in 2018-19, and $20 million in 2019-20, to better link education and job training in prison to post-release employment; integrate services of reentry service providers and career centers; and fund regional integration, direct services, and post-release supportive services.

- **Workforce Innovation and Opportunity Act (WIOA).** The Budget includes $393,000 Federal Trust Fund and three positions in 2017-18, and $786,000 and six positions ongoing to update and implement the WIOA State Plan.

- **California Global Warming Solutions Report.** The budget provides $400,000 Greenhouse Gas Reduction Fund to create a report for the legislature that aligns the state workforce policy with the state's climate policy.

DEPARTMENT OF FAIR EMPLOYMENT AND HOUSING

The Governor's budget includes $31.4 million in 2018-19, for the Department of Fair Employment and Housing (DFEH) an increase of $2.4 million or 8.2 percent from the current year. DFEH receives, investigates, conciliates, mediates, and prosecutes complaints alleging unlawful discrimination in employment, housing, and public accommodation, and acts of hate violence and human trafficking.

Major Provisions

- **Legislation.**
  - **Job Applicant Criminal History.** DFEH requests $1,9 million in 2018-19, and $1,2 million ongoing, for nine positions to process additional employment discrimination complaints associated with AB 1008 (Chapter 789, Statutes of 2017).
  - **New Parent Leave Act.** DFEH requests $218,000 in 2018-19, and $210,000 ongoing, for two positions to process additional complaints resulting from new parent leave labor protections under SB 63 (Chapter 686, Statutes of 2017).
- **Systemic Litigation Unit.** DFEH requests $262,000 in 2018-19, and ongoing, to fund one position reclassified from the Federal Trust Fund in order to litigate large scale, systemic discrimination cases in accordance with California Civil Rights laws.

DEPARTMENT OF TECHNOLOGY

The Governor's budget includes $398 million in 2018-19, for the Department of Technology an increase of $71.8 million or 22 percent from the current year. The Department is responsible for the approval and oversight of statewide IT projects, statewide IT professional development, and provides centralized IT services to state and local governments as well as non-governmental entities. The Department promulgates statewide IT security policies and procedures, and has responsibility over telecommunication and IT procurements.

Major Provision

- **Cybersecurity Unit Increase.** The budget includes $4.7 million ($1.4 million ongoing) Technology Revolving Funds and 5 positions to augment the Security Solutions Unit within the office of Information Security) The budget documents provided by the Administration state that these resources are necessary to keep pace with today's volatile cybersecurity environment and will be used to procure and maintain technologies supporting the Gold Camp Data Center's monitoring, detection and response functions which are paramount to protecting critical state assets.

DEPARTMENT OF INSURANCE

The Governor's budget includes $287.4 million in 2018-19, for the Department of Insurance an increase of $2.3 million less than percent from the current year. California's publicly-elected Insurance Commissioner regulates the sixth largest insurance economy in the world with insurers collecting more than $289 billion in premium annually in California while protecting consumers and the integrity, health and vitality of the insurance marketplace. The vision of the California Department of Insurance is "Insurance Protection for All Californians." The Department accomplishes this by enforcing insurance laws and regulations, assisting consumers in their dealings with insurers, and using innovation to improve services for insurance producers and consumers.

Major Provisions

- **Worker's Compensation Workload Increases.** The California Department of Insurance (CDI) is requesting a Special Fund expenditure authority increase of $2,936,000 in Fiscal Year (FY) 2018-19 and ongoing, to fund local District Attorney (DA) workers' compensation fraud investigation and prosecution workload increases. This proposed increase is consistent with the assessment approved by the Governor-appointed Fraud Assessment Commission (FAC) on September 7, 2017.

- **Enhanced Fraud Investigation and Prevention.** The Department proposes an increase in General Fund (GF) expenditure authority of $7,725,000 in Fiscal Year (FY) 2018-19 and $7,653,000 in FY 2019-20 - FY 2020-21 to support additional anti-fraud workload. The California Department of Insurance has successfully litigated anti-fraud cases resulting in settlement payments which statute indicates upon appropriation shall be used by the Department for enhanced fraud investigation and prevention efforts. Therefore, Since November 2013, the Department has settled a number of cases including three (3) major whistle-blower settlements (Sutter Health, Warner Chilcott and Bristol-Myers Squibb) that have resulted in $46.6 million being paid to the GF. As a result, the Department has submitted annual SFLs/BCPs to appropriate the funds from the Sutter Health and the Warner Chilcott settlements.

- **Enhanced Fraud Data Analytics Software.** The California Department of Insurance is requesting a General Fund (GF) expenditure authority increase of $485,000 in

  Fiscal Year (FY) 2018-19 and FY 2019-20 to support the Fraud Data Analytics Software (FDAS) system and eDiscovery Software-as-a-Service (SaaS) solution. These systems are utilized to support enhanced fraud investigation and prevention efforts in civil whistleblower cases associated with California's Insurance Fraud Prevention Act.

- **Legal Branch Workload Adjustment.** The California Department of Insurance requests an increase in Special Fund expenditure authority of $1,140,000 in Fiscal Year (FY) 2018-19 and $1,093,000 in FY 2019-20 and ongoing to support 6.0 positions to address an increase in producer licensing enforcement cases covered by the Department's Legal Branch. Since FY 2012-13, the number of Insurance producers (agents and brokers) licensed by the Department has grown from approximately 330,000 to approximately 410,000 (19.5 percent increase). The proposed increase in staffing is to address this historic workload growth.

- **Continuation of the Menu Modernization Project.** The Department is requesting $278,000 in FY 2018-19 and ongoing to maintain the systems completed as part of the Menu Modernization Project. The project has entered year 5 and will begin the maintenance and operations of the project. The Menu Modernization Project is unique in that the State acted as the system integrator and was responsible for solution recommendation, requirements analysis, system design, development, testing and implementation of all replaced applications. The maintenance and operations phase is defined as the phase in which the implementation has ended and the product is put into production.

- **Implementation of AB 1641 (Daly); Chapter 477 of Statutes of 2017**. The California Department of Insurance is requesting an increase in Special Fund expenditure authority of $196,000 in Fiscal Year (FY) 2018-19 and $189,000 in FY 2019-20 and ongoing to support one (1.0) position to comply with the mandates of Assembly Bill (AB) 1641 (Chapter 477, Statues of 2017). The Department regulates the Surplus Line Insurance Market by licensing Surplus Line Brokers and monitoring the placements made by the Surplus Line Brokers for insurance in that market. The placements in the Surplus Line Insurance Market are governed by CIC Sections 1760 et. seq. The Surplus Line Insurance Market is a market by which Californians can obtain insurance from an insurance company that is not licensed by Department when the desired insurance product is not available from the Admitted Market such as a specialized liability contract or the type of risk presented is not a risk written in the Admitted Market such as coverage for vacant buildings, crane operators, or hot air balloon concessions. The measure expands the grounds for additions to and removal of coverages from the Export List by an additional category for "new, innovative products for which a reasonable or adequate market among admitted insurers has not had time to develop." This language is not defined in the existing California surplus lines statutes and is not defined in the measure, as a result the Attorney III will need to research and determine how to implement the new terms to ensure that CDI is compliant with the mandates of AB 1641. The Department will prepare a recommendation on additions or deletions to the Export List. The Export List is prepared and distributed to all Surplus Line Brokers and Admitted Carriers and posted to the Department website.

Staff Comment and Analysis of Governor's Budget Proposal

Making the Most of Limited Resources for Veterans. As mentioned earlier, there are 1.7 million veterans in California. The state's eight veterans homes serve a fraction—about 2,500, or less than 1 percent—of these veterans and consume most of the funding the state provides for veterans. The budget provides about $400 million General Fund for the state's veterans and operating the state's veterans homes costs about $350 million General Fund, or about $152,000 per veteran living in a veterans home. The state is estimated to receive about $120 million in revenues to offset these costs. This revenue includes $75 million in federal reimbursements and $45 million in revenue from other sources.

The Administration is required to develop a Master Plan for the system of homes and each individual home by July 1, 2019. However, the budget includes proposals for Yountville that beg questions about how to best operate a statewide system of homes. Specifically, the current SNF at Yountville is a critical facility which needs significant and costly attention. But, the proposed replacement of the facility with a new comparably-sized facility at Yountville does not consider what is the best solution for the statewide system of veterans homes and the state's veterans' population going forward. Similarly, reducing the number of domiciliary beds at Yountville may be a good decision, since demand for this type of housing has declined because most veterans have other options. However, this proposal does not address questions such as if the state should be targeting domiciliary care to those who need it the most and maybe would be willing to share a room simply because it provides a roof over their head. The Assembly may wish to consider if it should make these decisions now, or wait for the Master Plan.

As part of the long-term vision, increasing revenue should continue to be a priority and redirecting General Fund savings to provide services to a greater number of veterans. There are a couple of opportunities to help achieve this goal. First, CalVet has numerous leases at Yountville for a wide variety of assets such as a golf course and a swimming pool. The terms of these leases are generally very generous and not to the benefit of the state. The Assembly may wish to redirect CalVet to renegotiate terms of these leases that reflect "fair market value" as they expire.

Last year, statute was enacted that established legislative intent that savings resulting from changes made to who was admitted to the states veterans homes be directed towards expanding supportive services for veterans in the community. These savings will largely occur because of increased federal reimbursements. However, the amount of federal funds CalVet receives as reimbursements is not reflected in CalVet's budget. Instead these reimbursements appear as "revenues" to the state's General Fund making it difficult to determine the true General Fund cost of the program, and to incentivize CalVet to increase federal funds coming into the state.

The Assembly may wish to require CalVet to report annually on the amount of federal reimbursements it receives and what is causing changes in the amount of revenue received. Specifically, changes in revenue should be attributed to changes in the population and the level of care provided. This type of detailed reporting would better enable the Legislature to determine what is an appropriate amount of General Fund that should be retained each year to expand services to veterans not living in the veterans homes. A great example of the types of services that could be provided with additional funding is the implementation of SB 776 (Newman, Chapter 599, Statutes of 2017) which requires CalVet to assign employees to state prisons to assist incarcerated veterans in applying for and receiving federal benefits for which they may be eligible.

Implementing the 2017 Housing Package. The Governor's budget proposes significant resources for HCD. The Assembly may wish to have direct oversight over the Department as it expands its duties and implements new programs according to Legislative intent. Additionally, the Assembly may wish to ensure that the Legislative intent from last year's programs are consistent with implementation. Finally, the Assembly may wish to ensure that the Department is accountable for implementing historical programs such as the Community Development Block Grant program as they balance their new responsibilities moving forward.

Budget Offers a Concrete Plan for Census Outreach. The Governor's budget includes a substantial proposal to respond to concerns regarding the 2020 Census. The Assembly should consider how this plan addresses these concerns to further insure that the State achieves a complete count.

REVENUES

According to the Governor's Budget Summary, California's economy and revenues are expected to continue to grow somewhat faster than forecast in the 2017 Budget Act. The Administration's budget projects an increase of $4.7 billion above the 2017 Budget Act before transfers to the Rainy Day Fund. The growth is attributed to a large share of wage going to high-income taxpayers and stronger consumption and investment. The estimates do not include any impacts of the federal tax changes passed at the end of 2017.

Major Issues in Revenues

Federal Tax Changes. The Governor's budget estimates do not include any impacts of the federal tax law change passed at the end of 2017 nor do the estimates account for changes by individuals and businesses in response to federal tax incentives. The May Revision will provide a better understanding of how the State, individuals, and businesses have responded to the tax changes implemented at the federal level.

Tax Reform. Last year, the Legislature worked with the Administration to enact AB 102 (Chapter 16, Statutes of 2017), which included various reforms for the State Board of Equalization (BOE), including the creation of two new departments. On July 1, 2017, most of the BOE was recast as the California Department of Tax and Fee Administration, which performs all the statutory duties formerly performed by the BOE. Additionally, the Office of Tax Appeals was created to adjudicate the tax appeals previously assigned to the BOE. The BOE’s duties are limited to those duties specifically outlined by the State Constitution. The Assembly may wish to continue oversight of all three departments to ensure adequate resources and appropriate staffing.

California Competes Tax Credit. The Governor’s January budget includes a five-year extension of the California Competes Tax Credit including a restructured program for small businesses. The Assembly may wish to evaluate whether or not there are additional changes that are needed to the program in addition to the extension, and how to make the tax credit more efficient. The Assembly may wish to evaluate where past credits have been awarded and if those awards align with the goal of the credit to capture those businesses that want to come, stay, and grow in California.

Governor's January Budget Proposal

REVENUES

Rainy Day Fund

- By the end of 2017-18, the state's Rainy Day Fund will have a total balance of $8.4 billion (65 percent of the constitutional target). Proposition 2 establishes a constitutional goal of having 10 percent of tax revenues in the Rainy Day Fund. The Governor's budget proposes a $3.5 billion supplemental deposit to reach the 10 percent target. This goal aligns with the Assembly Blueprint that proposes to continue to save and pay down debt.

Personal Income Tax

- The personal income tax (PIT) is the state's largest single revenue source and is expected to generate $93.6 billion in 2018-19, an increase of 2.8 percent from $91.0 billion from what was assumed in the 2017 Budget Act. The budget estimates personal income tax (PIT) revenues will increase in 2017-18 by 0.7 percent, from $88.8 billion to $89.4 billion from what was assumed in the 2017 Budget Act.

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

Corporation Tax

- The Corporation tax is estimated to decrease by 2.2 percent from $10.9 billion to $10.7 billion in 2017-18 from the 2017 Budget Act. Additionally, the budget projects Corporation tax will slightly decrease by 0.2 percent from $11.24 billion to $11.22 billion in 2018-19 from the 2017 Budget Act.

Cannabis Excise Tax

- Proposition 64, the Adult Use of Marijuana Act, levies new excise taxes on cultivation and retail sale of both recreational and medical cannabis as of January 1, 2018. Cannabis excise taxes are expected to generate $175 million in 2017-18 and $643 million in 2018-19.

STATE BOARD OF EQUALIZATION

The Governor's budget includes $30.5 million for the State Board of Equalization (BOE) in 2018-19, a slight decrease from current year. The BOE is funded from General Fund, special funds and reimbursements.

Prior to July 1, 2017, the BOE administered a variety of tax and fee programs including the Sales and Use tax, as required by statute. The BOE also adjudicated appeals for these tax and fee programs including income tax.

The BOE now handles only those duties assigned to it by the California Constitution. These primarily include assessing and allocating the property value of railroads, and specified utilities and businesses; adjudicating property tax appeals of taxable government owned property; overseeing the property tax assessment practices of the 58 county assessors; adopting rules to clarify property tax law, and administering the alcoholic beverage excise tax and insurance tax, including appeals.

Major Provision

- **2017 Budget Act.** The 2017 Budget Act included reporting language that directed the Director of Finance to evaluate the ongoing staffing needs of the Board Members and shall report to the Joint Legislative Budget Committee by April 1, 2018, along with any recommended changes to the amounts authorized by the provision.

CALIFORNIA DEPARTMENT OF TAX AND FEE ADMINISTRATION

The Governor's budget includes $663.5 million for the California Department of Tax and Fee Administration (CDTFA) in 2018-19, an increase of $39.2 million or 6.3 percent over the current year. CDTFA was created in 2017 to assume most of the statutory duties formerly performed by the BOE. The CDTFA administers numerous tax and fee programs, including the Sale and Use Tax, the Cigarette and Tobacco Products Tax Program, and the excise and cultivation taxes for medicinal and recreational cannabis. The CDTFA also administers the alcohol excise tax and the insurance tax pursuant to agreements with the BOE.

Major Provision

- **Compensation Costs.** The CDTFA requests resources to ensure that the Centralized Revenue Opportunity System (CROS) Project has the resources required to continue the implementation Phase including 2018-19, $701 million redirection of two positions and 615 temporary positions.

OFFICE OF TAX APPEALS

The Governor’s budget includes $19.9 million for the Office of Tax Appeals (OTA) in 2018-19, an increase of 12.4 million from the current year. The OTA is funded solely from the General Fund. The OTA’s mission is to ensure tax appeals are performed in a fair, transparent, consistent, equitable, and impartial manner.

FRANCHISE TAX BOARD

The Governor's budget includes $793.2 million for the Franchise Tax Board (FTB) in 2018-19, a decrease of $6.5 million or 1 percent from the current year. The main funding source of FTB's budget is General Fund, $759.5 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.

Key Issues for FTB

- **Audit Staffing Increase.** The FTB is requesting $7.8 million General Fund in funding in 2018-19, and ongoing, to address unfunded needs for staff resources performing audits.
- **Enterprise Data to Revenue Project – Conversion of Limited-Term Positions to Permanent.** The FTB requests $2.5 million General Fund and conversion of 20 limited term positions to permanent status in 2018-19 and ongoing.
- **Information Technology Security Enhancements.** FTB is requesting 23 permanent positions and $5.0 million ($4.9 million General Fund and $135,000 Special Funds) in 2018-19, and $4.1 million ($4.0 million General Fund and $111,000 Special Funds) in 2019-20, to accommodate workload growth within the critical functions of Information Security, Worksite Security, Privacy and Disclosure, and FTB's Infrastructure.

GOVERNOR'S OFFICE OF BUSINESS AND ECONOMIC DEVELOPMENT

The Governor's budget includes $27.5 million for the Governor's Office of Business and Economic Development (GO-Biz) in 2018-19, a decrease of about $2.7 million or 9.2 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

- **California Competes Tax Credit Program Extension.** GO-Biz requests a five-year extension of the California Competes Tax Credit program, tax credit allocation authority of $180 million per year through 2022-23, and $1.4 million in budget authority from the General Fund per fiscal year through 2022-23 to maintain the 10 positions associated with administering the program. This proposal also requests to remove provisions of law that reserve a portion of the credit allocation for businesses with gross receipts of less than $2 million

- **Cloud Support and Business Analysis.** GO-Biz is requesting budget authority of $277,000 in General Fund and two positions beginning in 2018-19 and ongoing. The Information Technology unit within GO-Biz requests this funding to add one Systems Software Specialist III (Technical) and one Staff Information Systems Analyst.

Staff Comment and Analysis of Governor's Budget Proposal

This Governor's January budget projects a healthy one-time surplus in 2018-19 while continuing to plan and save for the next recession. The Assembly blueprint's includes goals to build reserves and pay down debt aligns with the Governor's budget. The Assembly will have to determine what is the appropriate level of reserves and where to invest one-time spending.

Tax Credits in the budget process. For the past years, the Governor has stated that tax credits need to be discussed in the budget process to better understand their impact on the state budget. The Assembly has created and expanded the Earned Income Tax Credit through the budget. This year the Governor has proposed extending the California Competes tax credit through the budget but remains silent on other proposals.

Expanding the Earned Income Tax Credit. The Assembly has worked with key partners to create and expand the Earned Income Tax Credit (EITC). The Governor's budget is silent on any additional expansions of the EITC. The Assembly Blueprint outlines a plan to further expand the EITC and help lift working families out of poverty. If the expansion is enacted under the Assembly Blueprint, a worker who makes $12 hour an hour would make the equivalent to $15 an hour with the increase to the EITC.

Extending the California Competes Tax Credit. Both the Governor's budget and the Assembly Blueprint point to extending the tax credit and providing creating a job package for small businesses. The challenge will be to create a program that truly works in California.

PUBLIC SAFETY

California's public safety goals are achieved through the collaborative efforts of numerous departments, agencies, offices, boards, commissions, programs, and branches of government. The most prominent of which include: the California Department of Corrections and Rehabilitation (CDCR), the Judicial Council (JC), the California Office of Emergency Services (OES), the Department of Justice (DOJ), the California Victim Compensation and Government Claims Board (VCGCB), the Board of State and Community Corrections (BSCC), the Commission on Peace Officer Standards and Training (POST), the California Military Department, and local law enforcement programs.

Recent History and Background

In the past decade, California has achieved notable progress in improving public safety. Through vehicles like Proposition 47 (The Safe Neighborhoods and Schools Act) and Proposition 57 (Parole for Non-Violent Offenders and Juvenile Court Trial Requirements), Californians, elected leaders, and system partners have demonstrated the ability to achieve thoughtful reforms that yield better public safety outcomes. According to recent studies, California's overall crime rate has fallen by 5% between 2010 and 2016. Property crimes have dropped by 6% and robbery has dropped by 10% during this same time period. While there are geographical differences, overall violent crime rates are comparable to levels in the late 1960s. As a result of these propositions, the state has achieved safe reductions in the jail and prison population, provided more rehabilitative programming for state inmates, and have curbed the treatment of youth as adults. Moreover, Proposition 47 continues to yield the state significant savings annually ($64.4 million for 2018-19 as calculated by the Department of Finance) to support mental health services and programs to reduce truancy. Locally, counties continue to experiment with innovation and different approaches to addressing the needs of the AB 109 (The Public Safety Realignment of 2011) population. The looming challenge continues to be how the Legislature can reduce a corrections budget that has grown by more than $2 billion while reducing its prison population by 35,000 people.

Recent threats to our democracy by the federal government have called on the Legislature to protect the progress made in the area of public safety for all Californians. The signing into law of the California Values Act. (De Leon, Chapter 495, Statutes of 2017), which limits the collaboration between the state's law enforcement bodies with federal immigration authorities and the expansion of language access services in the trial courts demonstrate the state's bold commitment to protecting the 10 million immigrants who live and work in California. As the federal government threatens to roll back hard-earned bipartisan criminal justice reforms at the federal level, California's lawmakers continue to advance bold public safety solutions

like SB 180 (The Rise Act), which eliminates three sentencing enhancements for prior convictions of low-level drug offenses, and AB 208 (Drug Treatment Diversion), which provides diversion in a pre-plea system (Mitchell and Eggman, Chapters 677 and 778, Statutes of 2017, respectively), both signed into law in 2017. The challenge moving forward is not only maintenance of these reforms, but the articulation of additional, comprehensive reforms that will end out-of-state prison contracts, further reduce the prison population, provide quality rehabilitative programming to reduce recidivism, and continue California's track record of being a leader on public safety in the nation.

Major Issues in Public Safety

Corrections Spending. Since 2011 California has adopted several major criminal justice reforms (described above) to meet court-mandated prison population reduction numbers and reduce overall corrections costs. While the state has gradually reduced its prison population through AB 109 realignment, out-of-state prison contracts, and reform initiatives, it continues to struggle with the task of reducing prison spending. Major cost drivers identified by CDCR include employee compensation and retirement, inmate healthcare-related costs, and measures to comply with the court-ordered population cap. CDCR currently has 50,745 staffing positions, with a total 2018-19 projected prison population of 127,412. In addition, the Department faces significant costs associated with a crumbling infrastructure. According to the latest published version of the CDCR Outstanding Special Repair/Deferred Maintenance Project list (as of September 2017), the total for these repairs alone is $1.14 billion. In order to proactively address CDCR's growing costs, the Assembly may wish to invite the Department to provide a comprehensive overview of long-term staffing and infrastructure needs, plans to continue reducing the overall prison population, and what approaches are being sought to decrease and ultimately end out-of-state prison contracts.

Rehabilitation and Re-entry. At the state level, Proposition 57 provides an opportunity for CDCR to consider the expansion of proven and emerging programs that reduce recidivism. These include higher education provided through in-person instruction and vocational programs that respond to current growth sectors. The Governor's budget provides resources for CDCR to expand classroom space, which has been a significant barrier to program delivery. The Governor's budget also includes a collaboration among CAL FIRE, the California Conservation Corps, and CDCR to develop and operate a Firefighter Training and Certification program for formerly incarcerated individuals. Collaborations like this can create a direct pipeline to employment for formerly incarcerated individuals and fill an important workforce need. The Assembly may wish to consider other similar collaborations among agencies that meet these dual goals. Further, due to the increase in credit-earning opportunities, the Assembly may also wish to review parole release procedures, including parole decision-making to determine whether the current processes complement the intention of Proposition 57.

Locally, AB 109 and Proposition 47 funding provide counties with the opportunity to prioritize public safety dollars for strategies that lower recidivism and improve outcomes. Research indicates that counties that prioritized funding with a greater proportion of their AB 109 allocations going towards re-entry services have yielded better public safety outcomes. The Assembly may wish to review those local strategies that focus on re-entry to determine whether such strategies should be expanded throughout the state.

Governor's January Budget Proposals in Public Safety

- **Inmate Rehabilitation and Re-Entry.** The Governor's Budget includes $454.4 million to expand opportunities for inmates to earn credits through qualifying rehabilitative programs which will lead to better public safety outcomes upon their release. Included in the proposal is a Firefighter Training and Certification program that provides training and career pathways for inmates to become firefighters upon their release. The budget also includes additional resources to expand Career Technical Education programming and innovative grants for non-profit organizations to provide programming inside the prisons.

- **Inmate Medical Care and Mental Health Services.** The Governor's Budget includes $3.1 billion for health care services programs which continues the state's significant commitment to improve the Department's delivery of health care services to inmates. Highlights in the proposal include resources to improve health care data reporting and the replacement of health care vehicles.

- **9-1-1 Sustainment and Early Earthquake Warning System.** The Governor's Budget includes investments in modernizing and updating the state's emergency alert systems in order to respond to evolving technology and improve service delivery in times of emergencies and natural disasters.

- **Expansion of Military Youth Programs.** The Governor's Budget includes an expansion of existing Youth and Community Programs, including $6.5 million to update the statewide curriculum for the California Cadet Corps and expand the program to serve 8,125 youth in 2018-19.

- **Capital Outlay Proposals.** The Governor's Budget includes significant investments in infrastructure for the following departments:

    - ***Department of Corrections and Rehabilitation***. $131 million for roof repair, classroom expansion, and other infrastructure deficiencies.

- ***Judicial Branch***. $32.2 million to complete the design of three courthouse projects and a commitment to completing construction on the next ten courthouse projects.

CALIFORNIA DEPARTMENT OF CORRECTIONS AND REHABILITATION

The Governor's budget includes $12 billion ($11.7 billion General Fund and $313 million other funds) in total funds for the California Department of Corrections and Rehabilitation (CDCR) in 2018-19, an increase of $200 million or 1.7 percent from the current year. The 2017 Budget Act projected an overall adult inmate average daily population of 130,317 in 2017-18 but now is projected to decrease by 2.2 percent to 127,412 in 2018-19.

Major Provisions

Variations to Standardized Staffing. The Governor's Budget includes $4.4 million and 31.6 positions to augment custody-standardized staffing levels to lessen over time.

Inmate Rehabilitation and Reentry. The Governor's Budget includes $454.4 million General Fund in order to support the Division of Rehabilitative Programs. The Division prepares inmates for release by offering various programs and services that promote positive in-prison behavior and support rehabilitative efforts. The proposed budget includes the following additional expansions:

- $8.2 million to expand Career Technical Education programing by adding 338 additional slots.
- $2.5 million to expand inmate activity groups from 1,100 programs to 3,000 programs.
- $4 million from the Inmate Welfare Fund to provide rehabilitative programming grants for non-profit organizations.
- $16 million to support the Statewide Prison to Employment Initiative, a partnership of the CDCR, the California Workforce Development Board, and California Prison Authority to support local and regional planning to integrate re-entry, workforce, and direct services for the formerly incarcerated.
- $26.6 million to establish a Firefighter Training and Certification Program at Ventura Conservation Camp for 80 formerly incarcerated individuals.

Juvenile Justice Reform. The Governor's Budget includes a proposal to raise the juvenile age of jurisdiction from age 23 to 25 and provide $3.8 million to fund a Youth Adult Offender Pilot Program. The Young Adult Offender Pilot Program would establish two housing units and divert a limited number of young adults convicted of specific crimes from adult prison to a juvenile facility. The Department will develop criteria for placement in this program, initially targeting individuals committed to adult prisons between the ages of 18-21 and who can complete their sentence before their 25th birthday.

Inmate Medical 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 Governor's Budget highlights the following expenditures to Inmate Medical Care and Mental Health Services:

- $20.1 million and 115.9 positions to address mental health treatment bed capacity issues, improve health care data reporting, and manage patient referrals.
- $4.5 million to lease Automated Drug Delivery Systems as part of the California Correctional Health Care Services implementation of a Correctional Clinical Model.
- $8.3 million to complete the integration of a comprehensive Electronic Health Records System throughout California's prison system.
- $17.5 million to replace and purchase health care vehicles

Capital Outlay Proposals. CDCR requests resources for the following Capital Outlay efforts:

- **New Boiler Facility.** $20.5 million to design and construct a new central high-pressure steam boiler facility at San Quentin State Prison.
- **Kitchen and Dining Facilities**.
    - $19.7 million to demolish and replace two existing kitchen/dining buildings at California Correctional Center in Susanville and Antelope Camp.
    - $22 million to reappropriate construction phase funding for the design and construction of a new kitchen and two satellite dining facilities at the California Men's Colony.
- **Brine Concentrator System Replacement**. $2.1 million for the design and construction of a new Vibratory Shear Enhanced Process system at the Deuel Vocational Institution.

- **Medication Distribution Improvements.** $3.3 million for the design and construction of the second phase of medication distribution improvements at 14 prisons.

- **Mental Health Care**.

    - $3.4 million to construct a licensed 50 bed Mental Health Crisis Facility at California Institution for Men.
    - $3.6 million to construct a licensed 50-bed Mental Health Crisis Bed at Richard J. Donovan Correctional Facility.

- **Air Cooling Facility**. $935,000 to install evaporative cooling units with required fire/life/safety improvements at the California Institution for Men.

- **Classroom Space**.

    - $459,000 to design and construct three classrooms at California State Prison, Sacramento.
    - $1.0 million to modify a storage room in Pelican Bay State Prison into three separate classrooms.
    - $296,000 to remodel classroom space at San Quentin State Prison.

- **Recreation Yard**. $1.9 million to construct a recreation yard at Pelican Bay State Prison.

- **Fire Suppression Upgrade.** $1.1 million to correct fire suppression system deficiencies at Pelican Bay State Prison identified during an inspection by the State Fire Marshal.

- **Statewide - Budget Package and Advanced Planning. $**250,000 to perform advance planning functions and prepare budget packages for capital outlay projects.

- **Statewide- Minor Capital Outlay Program.** $609,000 for the construction of minor capital outlay improvements at CDCR's adult and juvenile facilities.

Other Key Issues

Roof Replacement and Mold Remediation. $60.7 million for roof replacements at the California Substance Abuse Treatment Facility, Salinas Valley State Prison, and Ventura Youth Correctional Facility, and $20 million to repair interior water damage caused from more roof leaks at various institutions.

Radio Communications. $32.9 million to replace the public safety radio system infrastructure and subscriber equipment at nine institutions, two juvenile justice facilities, and fire camps, and interoperability to the transportation unit.

Administrative Segregation Cell Door Retrofit. $9.8 million to replace 144 barred cell fronts with more secure cell fronts with vision panels in Administrative Segregation Unit at the Correctional Training Facility.

Dental Care. $7.4 million to replace critical equipment and fund a contract to provide critical oral surgery services.

Video Surveillance. $1.5 million to implement and monitor an audio/video surveillance system within designated areas of California State Prison, Sacramento.

Inmate Pay. $1.8 million to fund inmate pay wage increases for Plant Operations positions to bring pay rates in line with the California Prison Industry Authority and Inmate Ward Labor jobs.

Janitorial Services. $185,000 and 148.9 positions to transition janitorial contract with PRIDE industries to a civil service janitorial solution at the California Health Care facility in Stockton.

Rehabilitative Achievement Credits Staffing. $2.5 million and 13.0 positions to implement a Rehabilitative Achievement Credit earning program associated with the passage of Proposition 57.

Division of Adult Parole Operations. $2.3 million and 23.0 positions to support field operations and ratio-driven staff.

Office of Research. $755,000 and 6.0 positions to support requests for time-critical data analysis and reporting.

OFFICE OF EMERGENCY SERVICES

The Governor's budget includes $1.4 billion ($537 million in General Fund and $863 million in other funds) total funds for the Office of Emergency Services (OES) in 2018-19, with no change from the current year.

Major Provisions

California Early Earthquake Warning System. $15.8 million to complete the build out of and provide continued staffing and operating costs for the California Earthquake Early Warning (CEEW) system and program.

9-1-1 Sustainment. $1.1 million state operations and $10.4 million local assistance State Emergency Telephone Number Account (SETNA) authority, and six positions to build out and support Next Generation 9-1-1 activities and maintain the legacy 9-1-1 system. This proposal will provide technological updates that will improve response time, location accuracy for wireless calls, and may make OES eligible for federal funding.

JUDICIAL BRANCH

The Governor's budget includes $4.2 billion ($3.8 billion General Fund and $400 million other funds) total funds for the Judicial Branch in 2018-19, an increase of $500 million or 12.0 percent from the current year.

Major Provisions

Self Help Centers in Trial Courts. $19.1 million to expand the availability of attorneys and paralegal staff at self-help centers in trial courts, primarily in the areas of family, domestic violence, landlord/tenant, consumer debt, employment law, and small claims cases where there are critical unmet needs.

Strategic Plan for Language Access. $4 million to further advance the implementation of the Strategic Plan for Language Access in the California Courts, specifically providing 9,000 additional interpreter service days annually for civil matters.

Pilot Project for Online Adjudication of Traffic Violations. $3.4 million and 7 positions to design, deploy and maintain software to adjudicate traffic violations online in designated pilot courts. Pilot to add 3 additional courts to the initial 5 to offer an alternative option to coming to court or avoid undue financial hardship.

Capital Outlay Proposals. The Branch requests resources for the following Capital Outlay efforts:

- **Imperial County—New El Centro Courthouse**. $41.9 million for the construction phase of the courtroom courthouse in the city of El Centro. This project will consolidate court operations from two facilities.

- **Riverside County—New Indio Juvenile and Family Courthouse**. $45.3 million for the construction phase of a five-courtroom courthouse in the city of Indio. This project will consolidate court operations from two facilities.

- **Riverside County—New Mid County Civil Courthouse**. $5.7 million for the working drawings phase of a new 9 courtroom courthouse in the city of Menifee. This project will replace the existing Hemet court facility.

- **Shasta County—New Redding Courthouse**. $138.8 million for the construction phase to provide a new 14 courtroom courthouse in the city of Redding. The project will consolidate court operations from three facilities.

- **Siskiyou County—New Yreka Courthouse**. $59.2 million for the construction phase of a five-courtroom courthouse in the city of Yreka. This project will consolidate operations from three facilities.

- **Sonoma County—New Santa Rosa Criminal Courthouse**. $11.3 million for the working drawings phase of a new 15 courtroom courthouse in the city of Santa Rosa. This project will consolidate court operations from two facilities.

- **Stanislaus County—New Modesto Courthouse**. $15.3 million for the working drawings phase for a new 27 courtroom courthouse in the city of Modesto. This project will consolidate court operations from four facilities.

- **Tuolumne County—New Sonora Courthouse**. $57.7 million for the construction phase of a five courtroom courthouse in the city of Sonora. This project will consolidate operations from three facilities.

Other Key Issues

- **Collective Bargaining.** $610,000 and 3 positions to support costs associated with the enactment of Chapter 835, Statutes of 2017 (AB 83), the Judicial Council Employer-Employee Relations Act.

- **California Courts Protective Order Registry.** $200,000 to complete the deployment of the California Courts Protective Order Registry (CCPOR) program to the seven largest trial courts. CCPOR provides a statewide repository of protective orders containing both data and scanned images of orders that can be accessed by judges, court staff, and law enforcement agencies. After full deployment, 51 trial courts and 14 tribal courts will have access to the registry.

- **Court Appointed Special Advocate Grants Program.** $500,000 to support the Court Appointed Special Advocate (CASA) grants program to serve an additional 2,200 children in out-of-home care. CASA programs are nonprofit organizations that provide trained volunteers assigned by a juvenile court judge to a child in foster care.

DEPARTMENT OF JUSTICE

The Governor's budget includes $925.9 million ($605 million General Fund and $320.9 million other funds) total funds for the Department of Justice in 2018-19, an increase of $31.8 million or 3.4 percent from the current year.

Major Provisions

- **Antitrust Workload.** $1.8 million and 23.0 positions to handle additional caseload demands resulting from increases in mergers and acquisitions nationally and increasing concerns over competitive abuses in high technology, healthcare, and energy markets.

- **Bureau of Children's Justice.** $3.6 million and 14.0 positions to support active investigations in cases involving school segregation and discrimination, disability discrimination and abuse in non-public schools, civil rights violations by school police, conditions of confinement in juvenile facilities run by probation departments, and consumer fraud affecting children.

- **Bureau of Gambling Control.** $1.6 million and retention of 12.0 positions to reduce the backlog related to background investigations for California card room and third-party providers of proposition player services license applicants.

- **Immigration Data Governance.** $2.4 million and 13.0 positions to address the mandates outlined in Chapter 495 Statutes of 2017 (SB 54). SB 54 requires the AG to report the number of arrests related to immigration enforcement and publish model policies limiting assistance with immigration enforcement to the fullest extent possible consistent with federal and state law in public schools, libraries and health facilities.

Other Key Issues

- **Non-profit Health Facilities.** $369,000 to meet the mandates of Chapter 782 Statutes of 2017 (AB 651) which requires additional public meetings in non-profit hospital transactions.

- **Firearm Violence Research Center.** $138,000 to meet the mandates of Chapter 810 Statutes of 2017 (SB 536) which requires the DOJ to make available information related gun violence restraining orders to specified researchers.

- **Registry of Charitable Trusts.** $525,000 to sustain enforcement of charity compliance and associated activities. Of the 119,070 organizations in the registry, 63,520 are delinquent in their annual filings. The Registry has also identified 137,149 unregistered organizations.

BOARD OF STATE AND COMMUNITY CORRECTIONS

The Governor's budget includes $311 million ($90 million General Fund and $221 million other funds) total funds for the Board of State and Community Relations in 2018-19, a $2 million or 2.0% decrease in General Fund and $225 million or 51 percent in other funds from the current year. There are no major or key proposals for the Board in the Governor's Budget.

COMMISSION ON PEACE OFFICER STANDARDS AND TRAINING

The Governor's budget includes $45.8 million in other funds for the Commission on Peace Officer Standards and Training in 2018-19, a decrease of $4.6 million or 9.0 percent from the current year.

Major Provision

- **Learning Portal Conversions.** $155,000 from the State Penalty Fund and 1 permanent position to convert online training courses from expiring technology.

CALIFORNIA MILITARY DEPARTMENT

The Governor's budget includes $232.9 million ($100.5 million General Fund and $132.4 other funds) total funds for the California Military Department in 2018-19, an increase in General Funds of $39 million and a decrease of $164.7 million other funds from the current year.

Major Provisions

- **California Cadet Corps Expansion.** $6,457,000 and 12.0 positions to expand the California Cadet Corps programs. Resources will go towards purchasing uniforms, equipment, supplies and the expansion to 35 schools. Participation in the Cadets Corps program has shown to decrease dropout rates by 11%.

- **California Military Institute and Porterville Military Institute.** $3.6 million and 21.0 positions to improve educational outcomes in the California Military Institute and the Porterville Military Institute through training opportunities and the provision of credential military staff to carry out the military academy school model in accordance with Section 532 of the Military and Veterans Code.

Readiness Centers

- **San Diego**. $3.9 million, of which 50% is federal matching funds, for Phase 3 construction of the San Diego Readiness Center. The project will 1) eliminate the requirement to relocate the 400 soldiers that work in the building, and 2) allow for the proper application of federal matching funds from the annual allocation that CMD receives under the Sustainment, Restoration, and Modernization program.

- **Los Alamitos.** $24.7 million for the construction phase of continuing Los Alamitos: National Guard Readiness Center project. This request was approved in 2017-18 at this amount in lease revenue bond financing. This request will result in a reversion of the unencumbered balance of the 2017-18 lease revenue bond appropriation and shift the fund source of the construction phase of the project from lease revenue bond financing to General Fund. The existing facility is undersized and unable to accommodate the staff required for daily operations or the additional staff required during emergency response situations.

Armory Renovation Programs. These proposals would allow for the renovation of space to provide more efficient use, improve security with vault upgrades, and include general facility improvements.

- **Burbank.** $5.7 million, of which 50% are federal matching funds, for performance criteria and design-build phase of the Sustainable Armory Renovation Program in Burbank.

- **San Jose.** $4,920,000, of which 50% are federal matching funds, for the performance criteria and design build phase of the Sustainable Armory Renovation Program in San Jose.

- **Santa Rosa.** $5,618,000, of which 50% are federal matching funds, for performance criteria and the design-build phase of the Sustainable Armory Renovation Program in Santa Rosa.

- **Torrance.** $4,822,000, of which 50% are federal matching funds, for performance criteria and the design-build phase of the Sustainable Armory Renovation Program in Torrance.

Other Key Issues

- **State Active Duty Compensation Increase.** $1.2 million to align the pay of its State Active Duty employees to the pay of service members of similar grade in the United States Army, Air Force, and Navy, pursuant to Military and Veterans Code sections 320 and 321.

- **Cyber Network Defense Team.** $2.6 million and 10.0 positions for the Department's Cyber Network Defense Team's cyber-related activities, including the payment of hardware and software to conduct cyber security assessments for 70 state and local entities.

- **Advance Plans and Studies.** $300,000, of which $150,000 is federal matching funds, for Architect-Engineering services to conduct design studies and programming charrettes for future capital projects.

COMMISSION ON JUDICIAL PERFORMANCE

The Governor's budget includes $5.2 million General Fund for the Commission on Judicial Performance in 2018-19, an increase of $170,000 or 3.0 percent from the current year. There are no major or key proposals for the Commission in the Governor's Budget.

JUDGES RETIREMENT SYSTEMS CONTRIBUTIONS

The Governor's budget includes $509.3 million ($274 million General Fund and $235.3 other funds) total funds for the Judges Retirement System Contributions, an increase of $11.9 million or 2.3% from the current year. There are no major or key provisions for this Department.

OFFICE OF THE INSPECTOR GENERAL

The Governor's budget includes $23.8 million General Fund for the Office of the Inspector General in 2018-19, an increase of $1.0 million or 4.2 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 $13.8 million General Fund for the State Public Defender in 2018-19, an increase of $700,000 or 5.0 percent from the current year. There are no major or key proposals for the State Public Defender in the Governor's Budget.

CALIFORNIA VICTIM COMPENSATION BOARD

The Governor's budget includes $118.9 million ($94.1 million General Fund and $24.8 million other funds) total funds for the California Victim Compensation Board in 2018-19, a decrease of $6.2 million or 5.0 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 support policies that align with the Assembly's goal of reducing the state prison population, expanding rehabilitative and re-entry programming, and improving access to justice in local courts. Overall, the Governor's proposed budget continues the state on a positive trajectory of enhancing public safety goals. What remains for the Assembly is to build upon these foundational successes with fiscally prudent policy solutions that provide measurable outcomes.

Reducing Corrections Costs. CDCR has been under various court orders to reduce its facility population to 137.5% of design capacity and improve medical and mental health services to a constitutionally acceptable level of care. The road to meeting the mandates of the Three Judge Panel has been a slow and tumultuous one that requires a significant investment of resources. Since 2009, CDCR has 35,000 fewer inmates. Yet it is projected to spend $12 billion in 2018-19, an increase of $2.1 billion from 2009. As a result of Proposition 57, the prison population is projected to decline by 11,500 inmates as a result of rehabilitative credit earning opportunities. Further reductions in the population will assist the Assembly in revisiting CDCR’s existing infrastructure needs, including the prioritization of capital outlay projects and the necessity of maintaining each of its 35 institutions.

In addition to reducing the prison population and assessing infrastructure needs, the Assembly may wish to look into standardized staffing levels to determine its impact on costs moving forward. From 2013-2014 to the present, CDCR reports an increase of 87% in expenditures related to employee compensation and retirement. This Governor's budget includes 57,000 positions compared to a projected institutional population of 127,412. In light of the declining prison population, the Assembly may wish to consider a review of minimal staffing levels needed to meet rehabilitation goals and court-ordered mandates to eventually end federal court oversight.

Measuring the Quality of Rehabilitative and Re-Entry Programming. As a result of AB 109 Realignment and the passage of reform measures like Propositions 47 and 57, a greater emphasis has been placed on rehabilitative and re-entry programming both in facilities and in the community. CDCR has expanded programming slots in every prison and has submitted requests to expand classroom space in several of its institutions. While this expansion is a welcome step towards re-entry assistance, it is important to note that less than 5% of CDCR's total budget is allocated for rehabilitative programming. A breadth of research indicates the importance of rehabilitative programming leading to safer facilities and lower recidivism rates, while achieving cost savings. A report reviewing the investment of AB 109 dollars into re-entry programs indicates that counties that invested a greater proportion of their funding in this manner achieved lower recidivism rates than those that have invested in expanding their jail beds or staffing. The Assembly may wish to consider how to expand more rehabilitative programming in CDCR using their existing budget and partnering with community-based service providers.

Program expansion, while strongly encouraged, would benefit from evaluation protocols. There are currently no known methods to measure the quality of the programming that is offered, both in the institutions and the community, including whether they meet the workforce needs of the state and most importantly, whether they reduce recidivism. The Assembly may wish to consider a process to evaluate these programs so that the state invests in the most effective programming that reduces recidivism and improves outcomes.

Juvenile Justice. In 2017, the class action Farrell lawsuit against the Division of Juvenile Justice (DJJ) came to an end after both sides acknowledged the significant progress made on court-ordered reforms. When the lawsuit began in 2003, 6,000 youth were incarcerated in 11 state juvenile facilities. At the end of the lawsuit, 3 facilities remain, housing approximately 700 youth. In addition, the passage of Proposition 57 requires a more thoughtful assessment before a minor can be charged in adult court. To maintain the strides made in juvenile justice reform, the Assembly should consider additional policies that emphasize the rehabilitation and treatment focus of the juvenile justice system, including alternatives to detention and removing barriers to reintegration for youth.

The Governor's budget includes proposals to raise the age of juvenile jurisdiction from 23 to 25 and fund a pilot program at DJJ for individuals who meet a particular age threshold and can finish their sentence before their 25th birthday. The Assembly should consider the merits of such a proposal, but be cautioned by the possibility of unintended consequences including increased confinement time for youth who are indeterminately sentenced, the net widening of youth charged as adults, the expansion of DJJ, and the costs associated with its expansion. Further, the Assembly may wish to evaluate these proposals in light of recently-adopted policies that recognize the critical difference between youth and adults and their appropriate treatment in the justice system.

Access to Justice in California's Trial Courts. The Governor's budget includes a significant funding increase of approximately $500 million for the state's judicial branch, including $75 million in discretionary funding to the Judicial Council. The budget also provides funding for ten counties to have their capital outlay projects move forward. An additional seven identified counties will have to wait a minimum of two years before they can be considered for funding.

While the Governor's budget provides some relief, the trial courts are still struggling to meet the critical needs of their court users. In order to operate within budgetary constraints, courts have reported reduced hours of operation, reduced staff hours, and consolidated services and functions—all of which create more barriers for the court user. The Assembly should consider whether the Workload Based Allocation and Funding Methodology, which is the current formula used, is an effective budgeting methodology. A different allocation method may provide a more effective formula in restoring full access to justice in the courts.

Further, the Assembly may wish to consider the need to provide court reporters in certain matters that are not currently mandated by statute. The absence of court reporters in certain matters, like family court, disproportionately impact low-income people who lack the resources to provide their own court reporter and as a result, face significant barriers in appealing decisions.