



**Edmund G. Brown Jr. Governor**  
*State of California*

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## **INTRODUCTION**

The 2017 Budget Act continues to bolster the state’s Rainy Day Fund and pay down accumulated debts and liabilities to counter the potential fiscal impact of federal policy changes on California and the potential end of an economic expansion that has surpassed historical averages. While maintaining fiscal prudence, the Budget focuses state spending on the Governor’s key priorities—investing in education, counteracting the effects of poverty, and improving the state’s streets, roads and transportation infrastructure.

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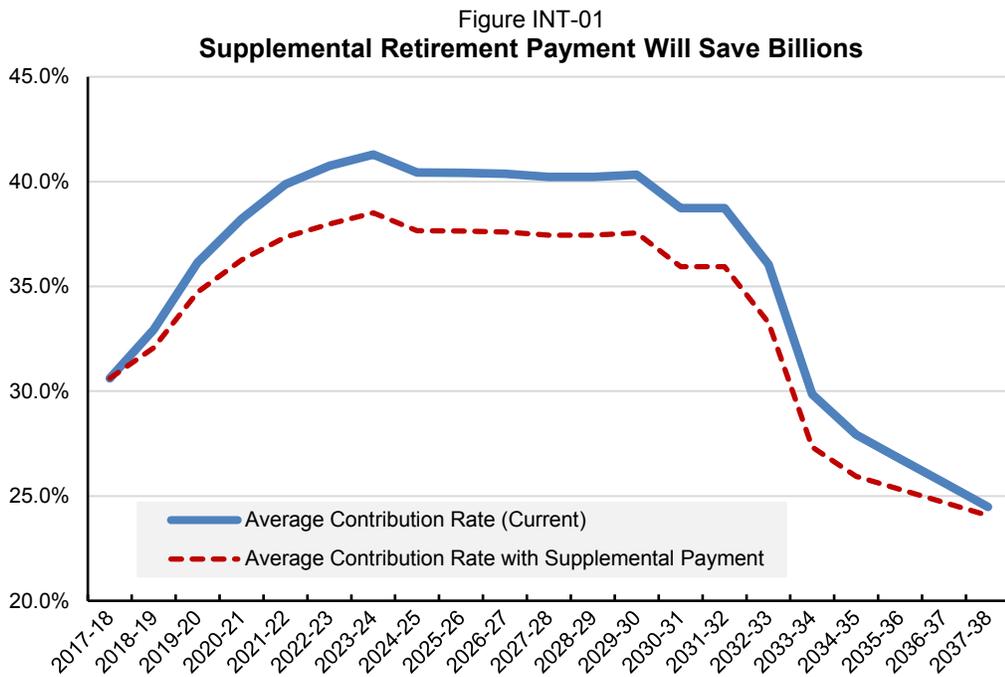
## **MAINTAINING FISCAL PRUDENCE**

In addition to a \$1.4 billion reserve in the Special Fund for Economic Uncertainties, the Budget adds \$1.8 billion to the Proposition 2 Budget Stabilization Account, bringing the balance to \$8.5 billion in 2017-18—or 66 percent of its constitutional target. Additionally, much of the new spending added after the May Revision is one-time in nature, which avoids ongoing commitments that would put pressure on the budget.

## CONTINUING TO PAY DOWN DEBTS AND LIABILITIES

The Budget uses dedicated proceeds from Proposition 2 to pay down nearly \$1.8 billion in past budgetary borrowing and state employee pension liabilities.

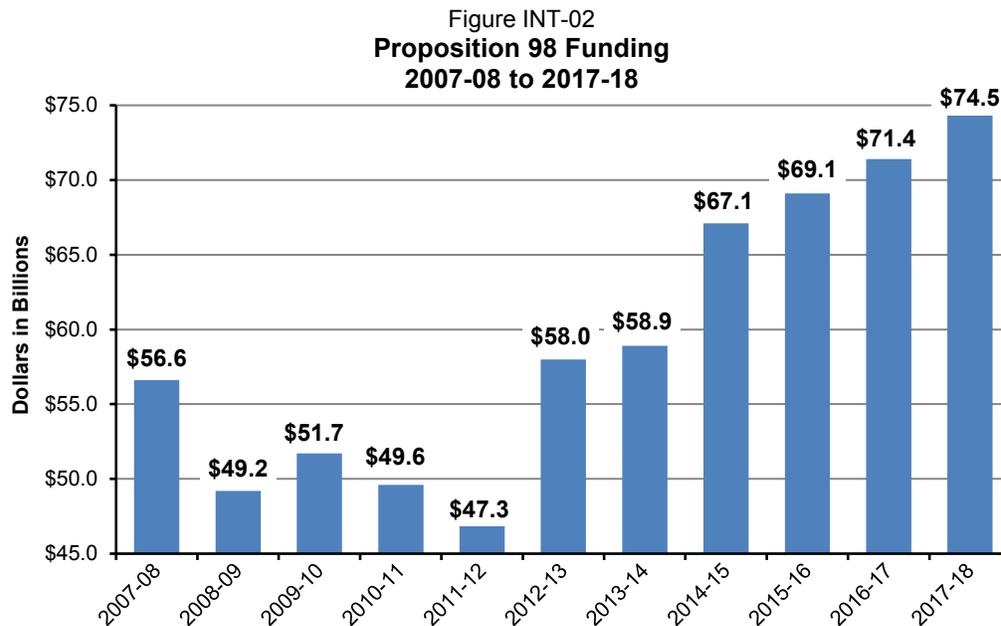
In addition, the Budget reflects a \$6 billion supplemental payment to CalPERS through a loan from the Surplus Money Investment Fund that will reduce unfunded liabilities, stabilize state contribution rates, and save \$11 billion over the next two decades (Figure INT-01). The General Fund share of the repayment will come from Proposition 2’s revenues dedicated to reducing debts and long-term liabilities—without the cost or risk of external borrowing. Absent this supplemental payment, the state’s contribution rate will increase by 93 percent in 2031-32.



## K-12 EDUCATION

The Budget provides K-12 schools and community colleges with \$3.1 billion above the revised 2016-17 funding level, bringing the funding level to \$74.5 billion in 2017-18—an increase of \$1 billion since January. Schools will receive an additional \$1.4 billion next year for the Local Control Funding Formula, which increases the formula’s

implementation to 97 percent funded. As shown in Figure INT-02, the funding guarantee for K-14 schools was \$56.6 billion in 2007-08 and sank to \$47.3 billion in 2011-12. From this low, funding has been at all-time highs since 2012-13 and has grown by \$27.3 billion—or 58 percent—over six years.



## HIGHER EDUCATION

The Budget includes a total of \$13.4 billion General Fund for higher education, with additional funds provided in 2017-18 to expand capacity for California students at the state's public institutions, create guided pathways for students to earn degrees and credentials and keep the costs of attendance low for students and their families. Additionally, it holds the University of California accountable for implementing needed reforms to its cost structure so that the system remains sustainable over the long term. The Budget also includes \$2.2 billion in financial aid for the state's neediest students.

## SUPPORTING WORKING FAMILIES

The Budget expands the state's Earned Income Tax Credit (EITC) to include self-employed individuals, conforming California to the Federal EITC and every other

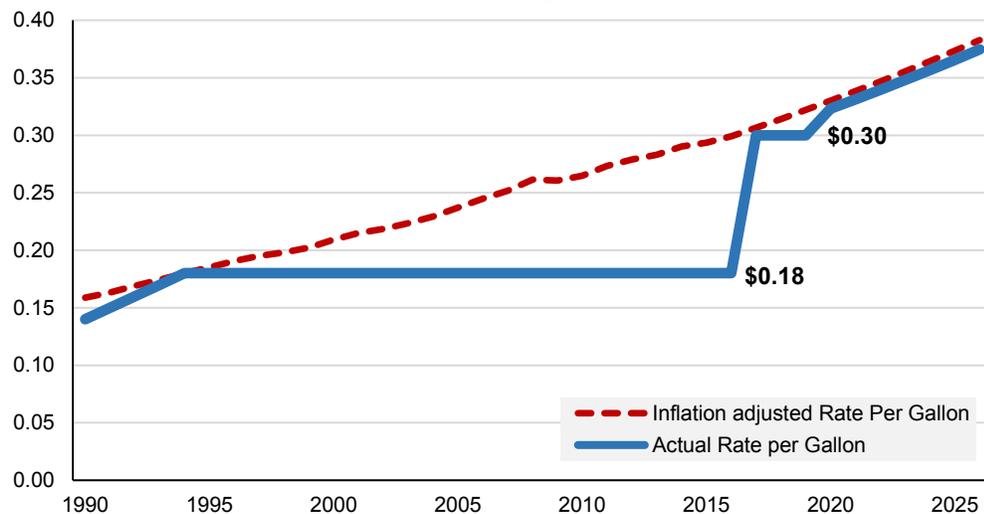
state offering the credit. Additionally, the Budget expands the income ranges for which the EITC is allowed, so more individuals working up to full-time at the newly increased minimum wage will still qualify. These changes will expand the credit to more than 1 million additional households, bringing the total to 1.5 million households.

The Budget continues to fund the multi-year child care and early education increases included in the 2016 Budget Act by raising reimbursement rates and providing additional State Preschool slots. The Budget also increases income eligibility requirements for state-subsidized programs and establishes that an eligible family may remain eligible for the subsidy for 12 months, regardless of change in need or income, so long as their income does not exceeds 85 percent of the current state median income.

### STRENGTHENING TRANSPORTATION INFRASTRUCTURE

The Budget implements the Road Repair and Accountability Act of 2017 (SB 1), which returns the gas tax’s purchasing power to 1994 levels (Figure INT-03) and provides \$54 billion in new funding over the next decade, split evenly between state and local funding. The first \$2.8 billion of new funding will:

Figure INT-03  
**SB 1 Restores Lost Purchasing Power for the Gas Tax**



- Focus on “fix-it-first” investments to repair neighborhood roads and state highways and bridges (\$1.3 billion).
- Make key investments in trade and commute corridors to support continued economic growth and implement a sustainable freight strategy (\$450 million).
- Match locally generated funds for high-priority transportation projects (\$200 million).
- Invest in passenger rail and public transit modernization and improvement (\$635 million).

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# SUMMARY CHARTS

This section provides various statewide budget charts and tables.

Figure SUM-01  
**2017 Budget Act**  
**General Fund Budget Summary**  
(Dollars in Millions)

	<b>2016-17</b>	<b>2017-18</b>
<b>Prior Year Balance</b>	\$4,504	\$1,622
Revenues and Transfers	\$118,539	\$125,880
<b>Total Resources Available</b>	<b>\$123,043</b>	<b>\$127,502</b>
Non-Proposition 98 Expenditures	\$70,933	\$72,465
Proposition 98 Expenditures	\$50,488	\$52,631
<b>Total Expenditures</b>	<b>\$121,421</b>	<b>\$125,096</b>
<b>Fund Balance</b>	<b>\$1,622</b>	<b>\$2,406</b>
Reserve for Liquidation of Encumbrances	\$980	\$980
Special Fund for Economic Uncertainties	\$642	\$1,426
<b>Budget Stabilization Account/Rainy Day Fund</b>	<b>\$6,713</b>	<b>\$8,486</b>

Figure SUM-02

**General Fund Expenditures by Agency**  
(Dollars in Millions)

	2016-17	2017-18	Change from 2016-17	
			Dollar Change	Percent Change
Legislative, Judicial, Executive	\$3,508	\$3,487	-\$21	-0.6%
Business, Consumer Services & Housing	494	410	-84	-17.0%
Transportation	225	241	16	7.1%
Natural Resources	3,078	2,857	-221	-7.2%
Environmental Protection	90	95	5	5.6%
Health and Human Services	34,685	34,824	139	0.4%
Corrections and Rehabilitation	10,944	11,228	284	2.6%
K-12 Education	50,714	53,455	2,741	5.4%
Higher Education	14,591	14,892	301	2.1%
Labor and Workforce Development	179	129	-50	-27.9%
Government Operations	938	747	-191	-20.4%
General Government:				
Non-Agency Departments	804	730	-74	-9.2%
Tax Relief/Local Government	459	435	-24	-5.2%
Statewide Expenditures	712	1,566	854	119.9%
<b>Total</b>	<b>\$121,421</b>	<b>\$125,096</b>	<b>\$3,675</b>	<b>3.0%</b>

Note: Numbers may not add due to rounding.

Figure SUM-03

**2017-18 Total State Expenditures by Agency**  
(Dollars in Millions)

	General Fund	Special Funds	Bond Funds	Total
Legislative, Judicial, Executive	\$3,487	\$3,383	\$175	\$7,045
Business, Consumer Services & Housing	410	859	413	1,682
Transportation	241	11,704	863	12,808
Natural Resources	2,857	1,455	795	5,107
Environmental Protection	95	3,049	25	3,169
Health and Human Services	34,824	25,446	-	60,270
Corrections and Rehabilitation	11,228	2,641	-	13,869
K-12 Education	53,455	109	658	54,222
Higher Education	14,892	177	327	15,396
Labor and Workforce Development	129	718	-	847
Government Operations	747	231	6	984
General Government:				
Non-Agency Departments	730	1,976	7	2,713
Tax Relief/Local Government	435	1,908	-	2,343
Statewide Expenditures	1,566	1,235	-	2,801
<b>Total</b>	<b>\$125,096</b>	<b>\$54,891</b>	<b>\$3,269</b>	<b>\$183,256</b>

Note: Numbers may not add due to rounding.

Figure SUM-04  
**General Fund Revenue Sources**  
(Dollars in Millions)

	2016-17	2017-18	Change from 2016-17	
			Dollar Change	Percent Change
Personal Income Tax	\$83,161	\$88,821	\$5,660	6.8%
Sales and Use Tax	24,494	24,470	-24	-0.1%
Corporation Tax	10,210	10,894	684	6.7%
Insurance Tax	2,483	2,538	55	2.2%
Alcoholic Beverage Taxes and Fees	375	377	2	0.5%
Cigarette Tax	79	65	-14	-17.7%
Motor Vehicle Fees	24	24	0	0.0%
Other	727	464	-263	-36.2%
<b>Subtotal</b>	<b>\$121,553</b>	<b>\$127,653</b>	<b>\$6,100</b>	<b>5.0%</b>
Transfer to the Budget Stabilization Account/Rainy Day Fund	-3,014	-1,773	1,241	-41.2%
<b>Total</b>	<b>\$118,539</b>	<b>\$125,880</b>	<b>\$7,341</b>	<b>6.2%</b>

Note: Numbers may not add due to rounding.

Figure SUM-05  
**2017-18 Revenue Sources**  
(Dollars in Millions)

	General Fund	Special Funds	Total	Change From 2016-17
Personal Income Tax	\$88,821	\$1,888	\$90,709	\$5,685
Sales and Use Tax	24,470	10,832	35,302	345
Corporation Tax	10,894	-	10,894	684
Highway Users Taxes	-	6,864	6,864	1,959
Insurance Tax	2,538	-	2,538	55
Alcoholic Beverage Taxes and Fees	377	-	377	2
Cigarette Tax	65	2,026	2,091	906
Motor Vehicle Fees	24	8,249	8,273	1,229
Other Regulatory Fees	1	7,140	7,141	-2,155
Other	463	13,789	14,252	347
<b>Subtotal</b>	<b>\$127,653</b>	<b>\$50,788</b>	<b>\$178,441</b>	<b>\$9,057</b>
Transfer to the Budget Stabilization Account/Rainy Day Fund	-1,773	1,773	0	0
<b>Total</b>	<b>\$125,880</b>	<b>\$52,561</b>	<b>\$178,441</b>	<b>\$9,057</b>

Note: Numbers may not add due to rounding.

## K THRU 12 EDUCATION

California provides instruction and support services to roughly six million students in grades kindergarten through twelve in more than 10,000 schools throughout the state. A system of 58 county offices of education, more than 1,000 local school districts, and more than 1,000 charter schools provide students with instruction in English, mathematics, history, science, and other core competencies to provide them with the skills they will need upon graduation for either entry into the workforce or higher education.

The Budget includes total funding of \$92.5 billion (\$54.1 billion General Fund and \$38.4 billion other funds) for all K-12 education programs.

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### PROPOSITION 98

Proposition 98 is a voter-approved constitutional amendment that guarantees minimum funding levels for K-12 schools and community colleges. The guarantee, which went into effect in the 1988-89 fiscal year, determines funding levels according to multiple factors including the level of funding in 1986-87, General Fund revenues, per capita personal income, and school attendance growth or decline. The Local Control Funding Formula is the primary mechanism for distributing funding to support all students attending K-12 public schools in California.

The Budget includes Proposition 98 funding of \$74.5 billion for 2017-18, an increase of \$2.6 billion over the 2016 Budget Act level. When combined with revenue changes

attributable to the 2015-16 and 2016-17 fiscal years, as well as other one-time savings and adjustments in those years, the Budget provides a \$3.3 billion increased investment in K-14 education over the three-year period. Since 2011-12, Proposition 98 funding for K-12 education has grown by more than \$24.1 billion, representing an increase of more than \$4,043 per student.

The Proposition 98 maintenance factor—an indicator of past reductions made to schools and community colleges—totaled nearly \$11 billion as recently as 2011-12. The Budget reduces this obligation to \$900 million.

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### **K-12 BUDGET ADJUSTMENTS**

Significant Adjustments:

- **Local Control Funding Formula**—An increase of almost \$1.4 billion Proposition 98 General Fund to continue the State’s transition to the Local Control Funding Formula (LCFF). This formula commits most new funding to districts serving English language learners, students from low-income families, and youth in foster care. This increase will bring the formula to 97 percent of full implementation.
- **One-Time Discretionary Grants**—An increase of \$877 million Proposition 98 General Fund to provide school districts, county offices of education, and charter schools with discretionary resources to support critical investments at the local level. These funds can be used for activities such as deferred maintenance, professional development, induction for beginning teachers, instructional materials, technology, and the implementation of new educational standards. Funds received by K-12 local educational agencies will offset applicable mandates debt owed to those entities.
- **After School and Education Safety (ASES) Program**—An increase of \$50 million Proposition 98 General Fund to increase provider reimbursement rates for the ASES program, bringing the total spending to \$600 million Proposition 98.
- **Teacher Workforce**—A combined increase of \$41.3 million one-time (\$30 million one-time Proposition 98 General Fund and \$11.3 million one-time federal Title II funds) to fund several programs aimed at recruiting and developing additional teachers and school leaders, with particular emphasis on key shortage areas such as special education, math, science, and bilingual education. Specific investments include:

- California Educator Development Program—An increase of \$11.3 million one-time federal Title II funds for a one-time competitive grant program that assists local educational agencies in attracting and supporting the preparation and continued learning of teachers, principals, and other school leaders in high-need subjects and schools.
- Classified School Employees Credentialing Program—An increase of \$25 million one-time Proposition 98 General Fund, available for five years, to support a second cohort of the California Classified School Employees Credentialing Program established in the 2016 Budget Act. The program will provide grants to K-12 local educational agencies to support recruitment of non-certificated school employees to participate in a teacher preparation program and become certificated classroom teachers in California public schools.
- Bilingual Professional Development Program—An increase of \$5 million one-time Proposition 98 General Fund for one-time competitive grants to support professional development for teachers and paraprofessionals seeking to provide instruction in bilingual and multilingual settings.
- Charter School Facility Grant Program—The budget has been adjusted to increase the per student funding rate to \$1,117 for the 2017-18 fiscal year and provides an ongoing cost-of-living adjustment for the program moving forward.
- County Office of Education Accountability Assistance—An increase of \$7 million Proposition 98 General Fund on an ongoing basis to support county office Local Control and Accountability Plan review and technical assistance workload. Specifically, this funding will be distributed proportionally to 24 county offices currently funded at their LCFF target level on a per district basis with no county receiving less than \$80,000. This funding will be adjusted annually for cost-of-living. The Budget also requires county superintendents of schools to prepare a summary of how the county office of education will support school districts and schools within the county, and work with the California Collaborative for Education Excellence, the state Department of Education and other county offices of education.
- K-12 Mandate Block Grant—An increase of \$3.5 million Proposition 98 General Fund to reflect the addition of a cost-of-living adjustment for this program. The Budget also adds two additional mandated programs to the block grant for 2017-18, the California Assessment of Student Performance and Progress program and the Training for School Employee Mandated Reporters program.

- California Equity Performance and Improvement Program—An increase of \$2.5 million one-time Proposition 98 General Fund to support and build capacity within local educational agencies and the State Department of Education to promote equity in California public schools.
- Refugee Student Support—An increase of \$10 million one-time Proposition 98 General Fund to provide additional services for refugee students transitioning to a new learning environment.
- California-Grown Fresh School Meals Grants—An increase of \$1.5 million one-time Proposition 98 General Fund to incentivize the purchase of California-grown food by schools and expand the number of freshly prepared school meals offered that use California-grown ingredients.
- K-12 School Facilities Program Accountability—The Budget requires that projects funded under the School Facilities Program be subject to expenditure audits in the annual K-12 Audit Guide utilizing the structure of the Education Audit Appeals Panel process. To help facilitate compliance with this requirement, the Budget authorizes participating local educational agencies to repay any audit findings with local funds.
- District of Choice Program Extension—The Budget extends the District of Choice program, due to sunset in 2018, by six years and adds various oversight and accountability requirements for participating districts.

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## CHILD CARE AND STATE PRESCHOOL

The state funds nine child care and early education programs and dozens of other programs that support services including quality of care, family resource and referral agencies, and local child care planning councils. These programs are administered by the Department of Education and the Department of Social Services. Families can access child care and early education subsidies through centers that contract directly with the Department of Education, local educational agencies, or through vouchers from county welfare departments or alternative payment program providers.

Significant Adjustments:

- Provider Reimbursement Rates—An increase to child care provider reimbursement rate ceilings to reflect a corresponding cost increase for providers given increases in the state minimum wage. The 2017 Budget Act includes the following

amounts, which are expected to grow due to the multi-year augmentation in the 2016 Budget Act:

- Standard Reimbursement Rate—An increase of \$92.7 million General Fund (\$60.7 million Proposition 98, \$32 million non-Proposition 98) to increase the reimbursement rate for State Preschool and other direct-contracted child care and development providers, beginning July 1, 2017.
- Regional Market Reimbursement Rate—An increase of \$40.6 million non-Proposition 98 General Fund to (1) increase the maximum reimbursement ceiling for voucher-based child care providers to the 75<sup>th</sup> Percentile of the 2016 Survey beginning January 1, 2018 and (2) provide a one-year hold harmless provision.
- Increased Child Care Eligibility—An increase of \$25 million non-Proposition 98 General Fund to update the income eligibility requirements for state-subsidized child care and development programs and establish that a family determined to be eligible for a subsidy remains eligible for 12 months, regardless of change in need or income, unless income exceeds 85 percent of the current state median income.
- Full-Day State Preschool—An increase of \$7.9 million Proposition 98 General Fund to provide access to full-day State Preschool for an additional 2,959 children from low-income working families, starting March 1, 2018.

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## HIGHER EDUCATION

The 2017 Budget Act makes additional resources available to the state’s public higher education segments—the California Community Colleges (CCC), the California State University (CSU), and the University of California (UC). The Budget maintains the state’s commitment to financial aid to help students defray the costs of attending college. The Budget furthers the expectation that higher education leaders ensure their institutions are “student-ready.” Colleges and universities must smooth the transition between K-12 and higher education to move more students into college-level courses faster, integrate technology in new ways to improve learning, and redesign curriculum to create seamless pathways to degrees and credentials.

The Budget includes total funding of \$32.5 billion (\$17.7 billion General Fund and local property tax and \$14.8 billion other funds) for all higher education entities in 2017-18.

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### STUDENT SUCCESS

The Budget includes \$150 million one-time Proposition 98 General Fund for community colleges to develop and implement “guided pathways” programs. Guided pathways programs are an integrated, institution-wide approach focused on student success. These programs include organizing students’ academic choices in a way that promotes better course-taking decisions. Once implemented, guided pathways programs will also serve as a framework for colleges to better organize existing student support programs and strategically use existing funding to support student success.

The Budget also includes \$12.5 million one-time General Fund to support the CSU Graduation Initiative. This initiative aims to raise four-year graduation rates for freshmen to 40 percent and two-year rates for transfer students to 45 percent and to close achievement gaps for low-income students, first-generation students, and students from underrepresented groups.

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### **AFFORDABILITY**

The Budget includes \$25 million Proposition 98 General Fund for a new CCC Completion Grant Program to provide grants of up to \$2,000 to community college students who demonstrate financial need, enroll in 15 or more credit units per semester, complete an educational plan, and meet other criteria. The grant is intended to encourage eligible students to complete their educational programs by providing them with additional financial aid to help offset the total costs of community college attendance. Additionally, the Budget augments the Full-Time Student Success Grant by \$25 million Proposition 98 General Fund, increasing the grant amount from \$300 to \$500 per semester for students who take 12 or more units each semester.

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### **TECHNOLOGY**

The state's colleges and universities are expanding the number of online courses offered to students, using technology in new ways to support students taking online courses, and articulating courses across colleges to make it easier for students to apply the courses to graduation.

To further support the online education infrastructure at the community colleges, the Budget includes \$10 million Proposition 98 General Fund to provide all colleges with access to the Online Education Initiative's learning management system. This software allows instructors to post instructional materials and assignments, and provides students with access to online courses and supports, including online tutoring.

The Budget also includes an increase of \$6 million one-time Proposition 98 General Fund to facilitate the development of an integrated library system for the community colleges. Once operational, a system-wide integrated library system will allow community college students access to a cloud-based library and allow libraries to better coordinate acquisitions and share materials.

Finally, the Budget includes \$3 million Proposition 98 General Fund to make educational materials more publicly available, including at schools and libraries. The State Librarian will coordinate a process to select and develop these new resources.

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## **SIGNIFICANT ADJUSTMENTS**

The following are significant adjustments proposed in the Budget.

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### **CALIFORNIA COMMUNITY COLLEGES**

- Apportionments—An increase of \$382 million Proposition 98 General Fund, which includes the following:
  - An increase of \$183.6 million Proposition 98 General Fund to support increased community college operating expenses in areas such as employee benefits, facilities, professional development, converting faculty from part-time to full-time, and other general expenses.
  - An increase of \$97.6 million Proposition 98 General Fund for a 1.56-percent cost-of-living adjustment.
  - An increase of \$76 million Proposition 98 General Fund to reflect the amounts earned back by community college districts that declined in enrollment during the previous three years.
  - An increase of \$57.8 million Proposition 98 General Fund for enrollment growth of 1-percent.
  - A decrease of \$33 million Proposition 98 General Fund to reflect unused growth provided in 2015-16.
- Guided Pathways Grant Program—An increase of \$150 million one-time Proposition 98 General Fund and settle-up for grants to community colleges to develop an integrated, institution-wide approach to student success.
- Chancellor’s Office State Operations—\$618,000 General Fund and \$458,000 in reimbursement authority, for six new positions and funding for a second Deputy Chancellor, to support the Chancellor’s priorities to provide greater leadership and technical assistance to community colleges and improve student outcomes.

## HIGHER EDUCATION

- Financial Aid—An increase of \$50 million Proposition 98 General Fund to provide financial aid to community college students, which includes the following:
  - An increase of \$25 million Proposition 98 General Fund for the Community College Completion Grant to provide grants of up to \$2,000, to students who meet specified criteria.
  - An increase of \$25 million Proposition 98 General Fund to the Full-Time Student Success Grant.
- Innovation Awards—An increase of \$20 million one-time Proposition 98 General Fund to provide funding for the development and implementation of innovative practices.
- Compton Community College—An increase of \$11.3 million one-time Proposition 98 General Fund to the Compton Community College District for the transition of Compton Community College from a learning center back to a community college.
- Services for Veterans—An increase of \$10 million Proposition 98 General Fund (of which \$5 million is one-time) to develop and enhance veterans’ resource centers. Additionally, a one-time increase of \$2 million for allocation to Norco College to expand the capacity of its student veterans’ service center and establish articulation agreements, policies, and processes related to awarding course credit for prior military service.
- Online Education Initiative—An increase of \$10 million Proposition 98 General Fund to provide system-wide access to the Initiative’s learning management system.
- Integrated Library System—An increase of \$6 million one-time Proposition 98 General Fund to facilitate the development of an integrated library system that, once operational, will allow California community college students access to a cloud-based library system.
- Deferred Maintenance—An increase of \$76.9 million one-time Proposition 98 General Fund for deferred maintenance, instructional equipment, and specified water conservation projects.
- Community College Facilities—A total of \$16.9 million Proposition 51 bond funds for initial design activities for 15 community college facilities projects.

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**CALIFORNIA STATE UNIVERSITY**

- General Fund Augmentations—An increase of \$182.2 million ongoing, including a base augmentation of \$162.2 million proposed in the Governor’s Budget and an increase of \$20 million to support enrollment of an additional 2,487 full-time enrollment students in 2017-18 compared to the number enrolled in 2016-17.
- One-Time General Fund—One-time funds totaling \$20 million, including \$12.5 million for the Graduation Initiative, \$3 million for the CSU San Bernardino Palm Desert Campus, \$2.5 million to encourage campuses to become “hunger free campuses,” and \$2 million for equal employment opportunity programs.

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**UNIVERSITY OF CALIFORNIA**

- General Fund Augmentations—An increase of \$136.5 million ongoing, including a base augmentation of \$131.2 million proposed in the Governor’s Budget and an increase of \$5 million to support 500 additional graduate students in 2017-18.
- Cost Structure Commitments—A set-aside of \$50 million General Fund from the UC base augmentation. The release of this \$50 million is conditioned on certification by the Director of Finance that the UC has: 1) achieved commitments made in the agreement with the Governor related to activity-based costing and target enrollment of transfer students, 2) adopted recommendations made by the State Auditor to the UC Board of Regents and UC Office of the President, 3) eliminated certain benefits for UC senior managers, and 4) committed to disclose additional information as part of the annual budget process.
- Office of the President—A separate item of appropriation of \$348.8 million for the Office of the President, with a corresponding reduction in UC’s base funds, conditioned on the Office of the President certifying in writing to the Director of Finance that there will be no campus assessment for support of its operations in 2017-18 and that overall campus revenues will be greater in 2017-18 than in 2016-17.
- One-Time Funding—One-time funds totaling \$175.6 million, including \$169 million in Proposition 2 debt funds, which will be used for unfunded retirement liabilities; \$2 million General Fund for equal employment opportunity programs; \$2.5 million General Fund to encourage campuses to become “hunger free campuses;” \$2 million General Fund for grants to marine mammal stranding networks; and \$100,000 General Fund for grants for whale disentanglement activities.

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### CALIFORNIA STUDENT AID COMMISSION

- Cal Grant Program Costs—An increase of \$33.3 million General Fund in 2016-17 and \$12.9 million General Fund in 2017-18 to account for the following:
  - Temporary Assistance for Needy Families (TANF) Reimbursements—An increase of \$117.7 million in federal TANF reimbursements in 2017-18, which reduces the amount of General Fund used for program costs.
  - Participation Estimates—An increase of \$33.3 million General Fund in 2016-17 and \$71.6 million General Fund in 2017-18 to reflect an increase in the number of new recipients in 2016-17.
  - Tuition Award for CSU Students—An increase of \$28 million General Fund in 2017-18 to reflect the increase in maximum award amounts that correspond with the CSU Board of Trustees' approval of a tuition increase.
  - Tuition Award for UC Students—An increase of \$20.9 million General Fund in 2017-18 to reflect the increase in maximum award amounts that correspond with the UC Board of Regents' approval of a tuition increase.
  - Tuition Award for Students at Private Institutions—An increase of \$8 million General Fund in 2017-18 to maintain the maximum Cal Grant tuition award for new students attending private nonprofit institutions and private for-profit institutions accredited by Western Association of Schools and Colleges at \$9,084 for that year.
  - Cal Grant C Books and Supplies Award—An increase of \$1.7 million General Fund in 2017-18 to increase the Cal Grant C books and supplies award for students attending community colleges from \$547 to \$1,094.
  - Cal Grant B Access Award—An increase of \$447,000 College Access Tax Credit Fund for a supplement of \$24 for any student who receives a Cal Grant B access award.
- Middle Class Scholarship Program—A decrease of \$21 million General Fund, to reflect one-time savings, bringing the total appropriation to \$96 million General Fund in 2017-18. Approximately, 55,000 students are expected to receive a grant in the budget year.

## HEALTH AND HUMAN SERVICES

The Health and Human Services Agency oversees departments and other state entities that provide health and social services to California’s vulnerable and at-risk residents.

The Budget includes total funding of \$161 billion (\$35 billion General Fund and \$126 billion other funds) for all programs overseen by this Agency.

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### DEPARTMENT OF HEALTH CARE SERVICES

Medi-Cal, California’s Medicaid program, is administered by the Department of Health Care Services. Medi-Cal is a public health care coverage program that provides comprehensive health care services at no or low cost for low-income individuals. The federal government mandates basic services, including: physician services; family nurse practitioner services; nursing facility services; hospital inpatient and outpatient services; laboratory and radiology services; family planning; and early and periodic screening, diagnosis, and treatment services for children. In addition to these mandatory services, the state provides optional benefits such as outpatient drugs, dental, home and community-based services, and medical equipment. The Department also operates the California Children’s Services and the Primary and Rural Health programs, and oversees county-operated community mental health and substance use disorder programs.

### Significant Adjustments:

- Proposition 56—The Budget includes \$711.2 million to support new growth in Medi-Cal for expenditures as compared to the 2016 Budget Act and \$546 million for supplemental provider payments for physician services, dental services, women’s health, Intermediate Care Facilities for the Developmentally Disabled, and HIV/AIDS waiver providers. The \$546 million in supplemental provider payments are subject to federal approval, and contingent on continued stability in federal Medicaid funding.
- Restoration of Medi-Cal Dental Benefit—The Budget includes \$34.7 million in 2017-18 and \$72.9 million General Fund annually thereafter to restore full dental services for adult beneficiaries in the Medi-Cal program, effective January 1, 2018.
- Restoration of Medi-Cal Vision Benefit—The Budget includes statutory changes to restore optometric and optical services for adult beneficiaries in the Medi-Cal program, effective January 1, 2020, contingent on the Legislature including funding for these services in the state budget process. This results in estimated costs of approximately \$12.5 million General Fund in the Medi-Cal program beginning January 1, 2020, growing to \$26.3 million in 2020-21.
- Skilled Nursing Facility Staffing Ratios—The Budget includes an increase in the minimum number of direct care services hours in skilled nursing facilities from 3.2 to 3.5 hours per patient day, effective July 1, 2018. It also specifies that a minimum of 2.4 hours per patient day must be provided by certified nurse assistants. This change allows for waivers of the direct care service hour requirements when there is a shortage of available and appropriate health care professionals. This results in estimated costs of approximately \$10.4 million General Fund in the Medi-Cal program starting in 2018-19.
- California Children’s Services Medical Therapy Program—The Budget includes \$1.6 million General Fund for nonmedically necessary occupational therapy and physical therapy services. Recent court decisions have required the provision of these services if included in a child’s written Individualized Education Program, even when they are not deemed medically necessary. These services are not eligible for federal financial participation. The Administration will continue to work with the Legislature to resolve this issue.
- Mental Health Services Act Reversions—The Budget includes statutory changes to hold counties harmless for the reversion of unspent Mental Health Services Act funds prior to July 1, 2017. Going forward, statute also specifies the reversion

timeline begins when a county’s innovation program plan is approved and requires the Department of Health Care Services to annually report on the amount of unspent county Mental Health Service Act funds to be reverted.

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## DEPARTMENT OF SOCIAL SERVICES

The Department of Social Services serves, aids, and protects needy and vulnerable children and adults in ways that strengthen and preserve families, encourage personal responsibility, and foster independence.

Significant Adjustments:

- In-Home Supportive Services County Mitigation—The Budget includes \$400 million General Fund in 2017-18 to mitigate the increase in counties’ costs for the In-Home Supportive Services (IHSS) program associated with the end of the Coordinated Care Initiative. The amount of General Fund relief provided to counties will be phased down over time, decreasing to \$330 million in 2018-19, \$200 million in 2019-20, and \$150 million annually thereafter.
- IHSS Administration—The Budget includes a one-time increase of \$37 million General Fund for county IHSS administrative costs in 2017-18. The Administration will work with representatives of counties and the County Welfare Directors Association of California to examine the workload and budget assumptions related to IHSS administration.
- CalWORKs Single Allocation—The Budget provides a one-time augmentation of \$108.9 million in 2017-18 to the single allocation for counties. The Administration will work with representatives of counties and the County Welfare Directors Association of California to develop recommendations for revising the single allocation budgeting methodology to address the cyclical nature of caseload changes and impacts to county services.
- Housing and Disability Advocacy Program—The Budget includes one-time funding of \$45 million General Fund for a county matching grant program designed to provide outreach to homeless persons with disabilities who may be eligible for disability benefits.
- Immigration Services—The Budget includes \$45 million General Fund in 2017-18 to expand the availability of legal services for people seeking naturalization

services, deportation defense, or assistance in securing other immigration services and remedies. Funding will be evaluated on an annual basis.

- Child Care Bridge for Youth in Foster Care—The Budget includes \$15.5 million General Fund in 2017-18 and \$31 million General Fund annually thereafter to assist foster care providers in securing short-term child care services.
- CalFood Program—The Budget provides \$8 million General Fund in 2017-18 and \$6 million General Fund annually thereafter for the CalFood program, which provides emergency food and funding to food banks. Funding will be evaluated on an annual basis.
- Safe Drinking Water Pilot Program—The Budget includes one-time funding of \$5 million General Fund, available through July 1, 2020, for a Safe Drinking Water Supplemental Benefit pilot program to provide time-limited benefits to residents served by public water systems that fail to meet safe drinking water standards.

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## DEPARTMENT OF DEVELOPMENTAL SERVICES

The Department of Developmental Services provides individuals with developmental disabilities a variety of services that allow them to live and work independently or in supported environments. California is the only state that provides developmental services as an individual entitlement. The state is in the process of closing all of the state-operated developmental centers, except for the secure treatment area at the Porterville Developmental Center.

Significant Adjustments:

- Community Resources for Individuals with Developmental Disabilities—The Budget includes one-time funding of \$7.5 million General Fund in 2017-18 for expanded services for individuals with developmental disabilities, including the expansion of mobile acute crisis teams, intensive support services, and the development of transition support services and acute crisis homes.
- Community Disparities Resources—The Budget provides \$5.6 million General Fund in 2017-18 to remove the limit, currently 90 hours per quarter, for home respite services effective January 1, 2018. The Budget also includes statutory changes to allow the Department to allocate grant funding directly to community-based organizations to address disparities in community services.

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**OTHER HEALTH AND HUMAN SERVICES**

- Clinic Lifeline Grants—The Budget includes \$20 million one-time funding from the California Health Facilities Financing Authority Fund to establish a grant program for working capital and operating support to licensed, non-profit small or rural health facilities in medically underserved areas. Grants will be awarded by the California Health Facilities Financing Authority.
- Health Care Workforce Investment—The Budget includes \$33.3 million General Fund to support health care workforce initiatives at the Office of Statewide Health Planning and Development. This funding will primarily pay for new and existing residency slots for primary care physicians.
- Community Infrastructure Grants—The Budget includes \$67.5 million General Fund for one-time community infrastructure grants to promote public safety diversion programs and services by increasing the number of mental health, substance use disorder, and trauma-related services facilities. Grants will be awarded by the California Health Facilities Financing Authority on a competitive basis to cities and/or counties. The grants will aim to expand local resources for facility acquisition or renovation, equipment purchases, and applicable program startup or expansion costs to increase the availability of these programs.
- Children’s Mental Health Crisis Services—The Budget includes one-time funding of \$16.7 million Mental Health Services Fund for the Children’s Mental Health Crisis Services grant program. The grants are intended to increase children’s crisis capacity services and programs. Grants provided by the California Health Facilities Financing Authority will go to local government programs that serve children and youth under the age of 21.

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## PUBLIC SAFETY

The Budget includes the following changes related to California’s correctional system and local public safety.

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### DEPARTMENT OF CORRECTIONS AND REHABILITATION

The California Department of Corrections and Rehabilitation incarcerates the most violent felons, supervises those released to parole, and provides rehabilitation programs to help them reintegrate into the community. The Department provides safe and secure detention facilities and necessary support services to inmates, including food, clothing, academic and vocational training, as well as health care services.

The Budget includes total funding of \$11.4 billion (\$11.1 billion General Fund and \$308 million other funds) for the operation of the Department in 2017-18. Including capital outlay, General Fund spending for the Department represents 8.9 percent of total General Fund spending, compared to a peak of 11.4 percent in 2011-12.

The Budget reflects a projected average daily adult inmate population of 127,693, average daily parolee population of 47,274, and average daily juvenile population of 736 in 2017-18. These estimates include the anticipated population changes resulting from the implementation of Proposition 57, the Public Safety and Rehabilitation Act of 2016.

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**PROPOSITION 57 — PUBLIC SAFETY AND REHABILITATION ACT OF 2016**

In November 2016, the voters approved Proposition 57, which reforms the juvenile and adult criminal justice system in California by creating a parole consideration process for non-violent offenders who have served the full term for their primary criminal offense in state prison, authorizing the California Department of Corrections and Rehabilitation to award credits earned for good conduct and approved rehabilitative or educational achievements, and requiring judges to determine whether juveniles charged with certain crimes should be tried in juvenile or adult court. The implementation of Proposition 57 is expected to provide a durable solution for the state to maintain compliance with the court-ordered population cap of 137.5 percent of design capacity, thereby avoiding the court-ordered release of inmates.

The Budget estimates that Proposition 57 will result in a population reduction of 2,675 adult inmates in 2017-18, growing to an inmate reduction of approximately 11,500 in 2020-21. These figures are preliminary and subject to considerable uncertainty. The anticipated inmate reduction will allow the Department to remove all inmates from one of two remaining out-of-state facilities in 2017-18, and begin removing inmates from the second facility as early as January 2018.

Overall, the Budget estimates that Proposition 57 will result in net savings of \$38.8 million in 2017-18, growing to net savings of approximately \$186 million in 2020-21.

The Budget also includes \$6.7 million General Fund to implement Proposition 57. These resources will be used for additional case records staff to review and make various changes to inmate classification files related to the new credit earning structure and parole process, address parole workload due to additional releases from prison, and Board of Parole Hearings workload for the increased number of inmates considered for release.

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**CONTINUED FOCUS ON INMATE REHABILITATION**

The Budget includes approximately \$445 million General Fund for the Division of Rehabilitative Programs. The Division prepares offenders for their release by offering various programs and services that promote positive in-prison behavior and support rehabilitative efforts by providing a better opportunity for them to reintegrate into society upon release. The core of these services is cognitive behavioral treatment programming, which includes the major areas of substance use disorder treatment, criminal thinking, anger management and family relationships. While offenders are prioritized if they are within four years of release and have a moderate-to-high risk to reoffend and a

moderate-to-high criminogenic need for services, the expansion of rehabilitative programs and reentry services to all prisons has allowed more inmates to participate in programs to help them prepare for reintegration to the community.

Significant Adjustments:

- Drug and Contraband Interdiction—The Budget includes \$6.7 million General Fund to add 42 canine teams to the existing 28, providing two canine teams at each institution. The canine teams will conduct routine searches of housing units, classrooms, offices, buildings and primary entrance points for contraband, including incoming mail and packages, as well as the institution perimeter, parking lots and vehicles. The Budget also directs the Department to consider using passive canines at prison entrances and throughout institutions. These efforts are intended to reduce inmate violence, increase safety for staff and inmates, and promote a drug-free rehabilitative environment.
- Prison Infrastructure—California experienced record levels of rainfall in the past year, and severe storms caused significant damage to prison roofs. Failing prison roofs have resulted in damage to electrical systems and housing units, and interruptions in rehabilitation programs, education programs, and mental health treatment. The Budget includes \$34.9 million to replace roofs at institutions with the greatest need—Salinas Valley State Prison, Pleasant Valley State Prison, and the California Correctional Institute.
- Segregated Housing Unit Conversions—As a result of the agreement in the *Ashker v. Brown* lawsuit related to conditions of confinement at Pelican Bay State Prison, the Department has implemented changes that focus on fixed segregated housing terms for behavior-based violations. In addition, the Department has made changes to its step-down program to allow inmates to transition from segregated housing into the general population more quickly. These changes reduced the need for 992 segregated housing beds at Pelican Bay State Prison and California State Prison, Corcoran. The Budget includes resources to convert the beds at Pelican Bay to level II housing and the beds at Corcoran to level IV housing, beginning in July 2017. The Budget also includes \$539,000 for the design of a yard to provide space for recreational and physical education programs.

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**INMATE HEALTH CARE AND MENTAL HEALTH SERVICES**

The Budget continues the state’s significant financial commitment to improve the Department’s delivery of health care services to inmates. The Budget dedicates \$2.9 billion General Fund to health care services programs resulting in inmates having continued access to mental health, medical and dental care that is consistent with the standards and scope of services appropriate within a custodial environment.

**FEDERAL RECEIVERSHIP OVERSEEING PRISON MEDICAL CARE**

The Budget includes \$2 billion General Fund for prison medical care. The Budget augments the inmate medical care program by \$38.1 million, including \$2.1 million to dedicate property controller positions to oversee all health care assets at the institutions, \$5.4 million for Registered Nurses to triage and remedy medical appeals, \$6.7 million for additional Licensed Vocational Nurses to distribute medication to inmates, \$13.8 million to expand California Prison Industry Authority janitorial services, \$3.1 million for Certified Nursing Assistants to provide one-on-one surveillance of inmates on suicide watch, and \$7 million to implement physician retention strategies to reduce the primary care provider vacancy rate. To date, the Receiver has transitioned oversight of 13 institutions back to the state. These resources are intended to support the full transition of medical care back to the state.

**TRANSFER OF PSYCHIATRIC PROGRAMS TO THE CALIFORNIA DEPARTMENT OF CORRECTIONS AND REHABILITATION**

The Department of State Hospitals currently operates 1,156 inpatient mental health treatment beds at three California Department of Corrections and Rehabilitation prisons: California Health Care Facility, Salinas Valley State Prison, and California Medical Facility. The Department provides the inpatient services as part of a broader system of mental health care within the Department of Corrections and Rehabilitation. The Budget transfers these programs effective July 1, 2017, and redirects \$254.4 million and 1,977.6 positions from State Hospitals to the Department of Corrections and Rehabilitation for this purpose.

Transfer of these programs will streamline processes and improve timelines for inmate referrals for psychiatric inpatient treatment, and is intended to improve service delivery and reduce the review timeline for referrals to either intermediate or acute levels of care. The Budget also includes \$11.4 million to add 72 Intermediate Care Facility beds at the California Medical Facility. In addition, the Budget includes \$7.3 million for the initial design of two Capital Outlay projects to provide 100 additional mental health

crisis beds by summer 2021—50 at the California Institution for Men and 50 at the Richard J. Donovan Correctional Facility. These facilities will be constructed as flexible housing, allowing the beds to also be used for intermediate or acute levels of care, as needed. Combined, these proposals will help the Department mitigate inpatient treatment waitlist pressure that has been of significant concern to the Court in the *Coleman vs. Brown* lawsuit.

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## **LOCAL PUBLIC SAFETY**

The Budget addresses the following local public safety issues.

### **COMMUNITY CORRECTIONS PERFORMANCE INCENTIVE GRANT**

The Community Corrections Performance Incentive Grant, Chapter 608, Statutes of 2009 (SB 678), was created to provide incentives for counties to reduce the number of felony probationers sent to state prison. The Budget includes \$114.6 million to continue this successful program.

### **POST RELEASE COMMUNITY SUPERVISION**

The Budget includes \$15.4 million General Fund for county probation departments to supervise the temporary increase in the average daily population of offenders on Post Release Community Supervision as a result of the implementation of court-ordered measures and Proposition 57. This is an increase of \$4.4 million over the amount estimated in the Governor’s Budget as a result of the revised implementation schedule of Proposition 57.

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## **FINES, FEES, AND ASSESSMENTS REVIEW**

The court system and numerous programs rely on funding generated by fines, fees, and penalties assessed on court filings and citations. In recent years, these revenues have fallen dramatically. The Administration reviewed these revenues, which included an examination of court filings statewide, the revenues collected from these filings, traffic citations, and the collectability of delinquent court-ordered debt and determined changes were necessary.

### **STATE PENALTY FUND**

The State Penalty Fund was created as a depository for assessments on specified fines, penalties, and forfeitures imposed and collected by the courts and counties

for criminal offenses. Based on a statutory formula, assessment revenues are then distributed among eight special funds to fund various programs.

State Penalty Fund revenues have decreased significantly over the past several years largely due to a significant decrease in cited traffic violations. Given that this decrease in revenue is projected to continue, the State Penalty Fund can no longer support all of the programs that receive this funding. In addition, while the costs of these programs have increased, the statutory formula has not been updated to account for these increased costs. As a result, many funds currently have structural deficits and some have received General Fund backfills to ensure solvency.

The Budget addresses the decline in State Penalty Fund revenues and the insolvency of various funds. The Budget makes various changes, including removing the existing statutory formula and making direct appropriations from the Fund for various departments. State Penalty Fund expenditures were prioritized for law enforcement training and victim services programs. See Figure SAF-01.

Figure SAF-01  
**State Penalty Fund Allocations**  
 (Dollars in Thousands)

Department	Program	2017-18
Commission on Peace Officer Standards and Training	Peace Officer Standards and Training Program	\$46,496
Board of State and Community Corrections	Standards and Training for Corrections	\$17,209
Office of Emergency Services	Victim Witness and Assistance Programs	\$11,800
Victim Compensation Board	Restitution Fund	\$9,100
Department of Justice	California Witness Relocation and Protection Program	\$3,277
Department of Rehabilitation	Traumatic Brain Injury Program	\$800
Department of Education	Driver Training Programs	\$838
Department of Fish and Wildlife	Fish & Game Preservation Fund	\$450
Office of Emergency Services	Local Public Prosecutors and Public Defenders Training Program	\$450
<b>Total</b>		<b>\$90,420</b>

**REPEAL OF DRIVER'S LICENSE SUSPENSION**

In the past, when the State Penalty Fund has faced shortfalls, the solution has often been to further increase fines and penalties. While this approach increases revenues generated by those who pay the amount owed, it places an undue burden on those who cannot afford to pay. This approach has led to an increasing amount of fines and penalties going uncollected. For example, in 2008-09, uncollected debt was \$5.5 billion and has grown to \$9.7 billion in 2015-16—a 76-percent increase.

One of the collection methods that courts can use to collect outstanding debt is to suspend driver's licenses for failure to pay. Often, the primary consequence of a driver's license suspension is the inability to legally drive to work or take one's children to school. Therefore, the Budget eliminates the statutory provisions related to suspending driver's licenses for failure to pay fines and penalties.

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# TRANSPORTATION

The Transportation Agency is responsible for developing and coordinating the policies and programs of the state's transportation entities to improve the mobility, safety, and environmental sustainability of California's transportation system.

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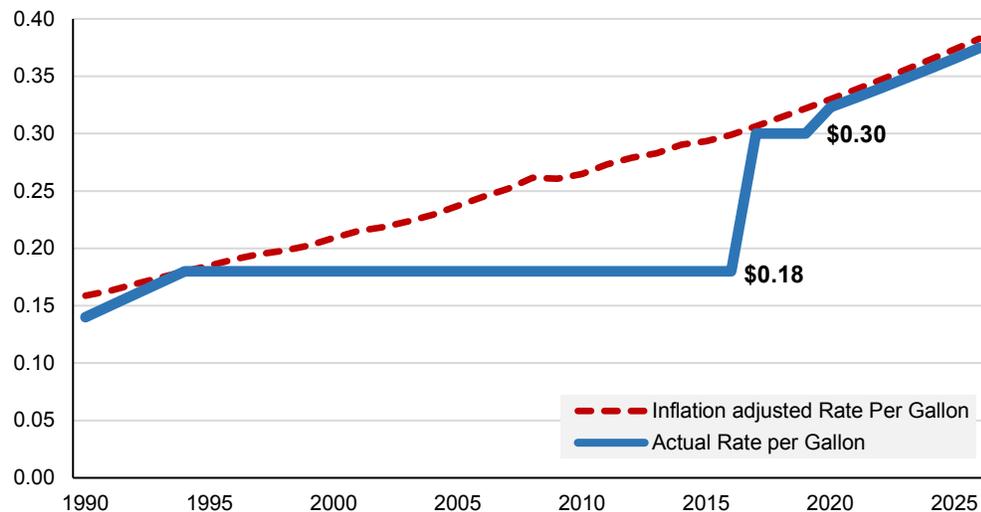
## IMPLEMENTING THE ROAD REPAIR AND ACCOUNTABILITY ACT OF 2017

The repair, maintenance, and efficient operation of the state's transportation system are vital to California's economic growth. State and local funding has fallen dramatically below the levels needed to maintain the system, and a recent transportation study found that Californians spend on average \$762 annually on vehicle repair costs due to poorly maintained roads. California continues to be among the top five states with the longest commute duration.

The gas tax historically has been state and local governments' primary source of funding for highways and roads. Since the last time it was raised in 1994, the effect of inflation has eroded its purchasing power. While construction and repair costs have risen over the past two decades, gas tax revenues have become stagnant as vehicles became more fuel efficient (see Figure TRN-01).

In response, the Administration and the Legislature passed a historic agreement in April that reverses years of inflation-eroding transportation funding and provides stable long-term funding for both state and local transportation infrastructure priorities. The Road

Figure TRN-01  
**SB 1 Restores Lost Purchasing Power for the Gas Tax**



Repair and Accountability Act of 2017 (Chapter 5, Statutes of 2017, SB 1) provides an average of \$5.4 billion per year for state and local transportation. The package includes a combination of new revenues, accelerated loan repayments, reforms, accountability measures, and constitutional protections. The new revenues are split evenly between state and local transportation priorities, and a ten-year funding plan provides \$54 billion with an emphasis on a “fix-it first” strategy that focuses on repairing and maintaining the existing transportation infrastructure. Also included are significant investments in public transit.

Over the next ten years, the \$54 billion transportation package will provide \$15 billion for highway repairs and maintenance, \$4 billion in bridge repairs, \$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 in new funding for maintenance and repairs and \$2 billion in matching funds for local partnership projects. Transit and intercity rail will receive \$8 billion in additional funding, and local governments will have access to \$1 billion for active transportation projects to better link travelers to transit facilities.

The improvements will be implemented starting in 2017-18, and the Administration is working to quickly advance transportation projects. Caltrans, cities, and counties are already accelerating projects into early 2017-18. New revenues will be allocated by formula to cities and counties for local roads, and to transit agencies for operations and

capital expenditure in February 2018. The California Transportation Commission and the State Transportation Agency will move quickly to develop guidelines for new competitive funding programs, so that grant awards can be made next spring in programs such as the Transit and Intercity Rail Capital Program, the Trade Corridor Enhancement Program, the Solutions for Congested Corridor Program, and the Active Transportation Program.

The Budget includes \$2.8 billion in new appropriations, and these partial-year revenues will be distributed evenly between state and local transportation priorities (see Figure TRN-02).

Figure TRN-02  
**2017-18 Road Maintenance and Accountability Act Funding**  
 (Dollars in Millions)

Program		Amount
Local Allocations	Local Streets and Roads	\$445.5
	Transit and Intercity Rail Capital Program	\$355.0
	State Transit Assistance	\$280.1
	Local Partnership Program	\$200.0
	Active Transportation Program	\$100.0
	Local Planning Grants	\$25.0
Total:		<b>\$1,405.6</b>
State Allocations	SHOPP/Maintenance	\$445.5
	Bridges and Culverts	\$400.0
	Congested Corridors	\$250.0
	Trade Corridor Enhancement	\$149.8
	Department of Parks and Recreation	\$54.3
	Air Resources Board	\$50.0
	Freeway Service Patrol	\$25.0
	Department of Food and Agriculture	\$17.3
	CSU and UC Research	\$7.0
	Workforce Development Board	\$5.0
Total:		<b>\$1,403.9</b>
Administration	Department of Motor Vehicles	\$3.8
	Total:	
Revenue	Transportation Improvement Fee	\$727.0
	Gasoline Excise Tax	\$1,251.5
	Diesel Excise Tax	\$399.7
	Diesel Sales Tax	\$200.1
	General Fund Loan Repayment	\$235.0
Total:		<b>\$2,813.3</b>

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## **CALIFORNIA TRANSPORTATION AGENCY**

Significant Adjustment:

- Intercity and Commuter Rail Program—\$25 million Public Transportation Account from increased diesel sales tax revenues to be allocated by the Agency for operations and capital improvements of intercity and commuter rail services.

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## **CALIFORNIA TRANSPORTATION COMMISSION**

The California Transportation Commission advises and assists the Secretary of the Transportation Agency and the Legislature in formulating and evaluating state policies, plans, and funding for California’s transportation infrastructure.

Significant Adjustment:

- Expanded Oversight—\$1.1 million Public Transportation Account and State Highway Account for 4 positions to oversee the annual development and ongoing management of the State Highway Operation and Protection Program and Local Streets and Roads Program funding. Additionally, the Commission will allocate and oversee Caltrans’ Capital Outlay Support project budgets and assist in implementation of the Congested Corridors, Local Partnership, and Trade Corridor Enhancement programs. Finally, the Commission will have an increased role in administering new program funding for the current Active Transportation and State Transportation Improvement programs.

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## **STATE TRANSIT ASSISTANCE PROGRAM**

The State Transit Assistance program provides a share of revenues from diesel sales taxes and the new Transportation Improvement Fee, as well as a statutory share of proceeds from Proposition 1B bonds and the sale of cap and trade credits, to fund operating subsidies for local transit agencies. The State Controller distributes these revenues based on a statutory allocation formula.

Significant Adjustment:

- Increased State Transit Assistance Grants—\$305 million Public Transportation Account to local transit agencies for operations and capital costs.

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## DEPARTMENT OF TRANSPORTATION

The Department of Transportation has nearly 20,000 employees and a budget of \$11.9 billion. Caltrans designs and oversees the construction of state highways, operates and maintains the highway system, funds three intercity passenger rail routes, and provides funding for local transportation projects. The Department maintains 50,000 road and highway lane miles and more than 12,000 state bridges, and inspects 407 public-use and special-use airports and heliports.

### Significant Adjustments:

- Increased Highway Repair and Maintenance—\$446 million Road Maintenance and Repair Account and redirection of 48 positions associated with expiring base workload to accelerate repaving efforts and pavement repair projects.
- Increased Bridge and Culvert Repairs—\$400 million Road Maintenance and Repair Account to begin addressing the backlog of maintenance and repairs on these components of the state’s infrastructure.
- Solutions for Congested Corridor Program—\$250 million Road Maintenance and Repair Account for projects to begin addressing some of the state’s most urgent regional traffic congestion concerns.
- Trade Corridor Enhancement Program—\$150 million Trade Corridor Enhancement Account to fund projects along the state’s major trade corridors, providing ongoing funding for a program originally established with one-time Proposition 1B bond funding.
- Expanded Freeway Service Patrols—\$25 million Road Maintenance and Repair Account to expand these local services that partner with local and state law enforcement to reduce traffic by clearing vehicles and other incidents during rush hours.
- Expanded Transit and Intercity Rail Capital Program—\$330 million Public Transportation Account, including \$85 million in General Fund loan repayments.
- Local Partnership Program—\$200 million in matching funds for local and regional transportation projects in jurisdictions which contribute new locally generated revenues.

## TRANSPORTATION

- Expanded Active Transportation Program—\$100 million for pedestrian and bicycle infrastructure projects that will increase access to transit facilities.
- Local Planning Grants—\$25 million in grants available to regional transportation planning agencies to update regional transportation plans consistent with the sustainability and greenhouse gas reduction requirements of Chapter 728, Statutes of 2008 (SB 375.)
- Support—\$40 million Road Maintenance and Repair Account to redirect 195 positions associated with expiring base workload to initiate the most urgent pavement repair projects. The Department will work with the California Transportation Commission and the Department of Finance to assess workload, identify efficiencies, and determine future staffing needs.
- Office of the Inspector General—\$9.5 million State Highway Account to establish the new Office of the Inspector General to audit Caltrans and find efficiencies. The office will be resourced with 58 total staff, composed of 10 new positions and 48 positions redirected from Caltrans' Division of Audits.

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### SHARED REVENUES

Funding provided through the Shared Revenue program is apportioned to local jurisdictions based on statutory formulas to help maintain the fiscal strength of the various governmental entities throughout the state.

Significant Adjustment:

- Local Road Maintenance—\$446 million Road Maintenance and Rehabilitation Account for cities and counties to be distributed by the State Controller.

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### DEPARTMENT OF MOTOR VEHICLES

The Department of Motor Vehicles promotes driver safety by licensing drivers, and protects consumers and ownership security by issuing vehicle titles and regulating vehicle sales.

## Significant Adjustments:

- Federal Conformity—\$23 million Motor Vehicle Account and 218 positions to address workload requirements associated with conforming to federal requirements for driver licenses and identification cards.
- Expanded Eligibility for Driver Licenses—\$8.6 million Motor Vehicle Account for the extension of 91 positions to continue processing and investigating license applications.
- Motor Voter Expansion—\$1.8 million General Fund and \$5.2 million Motor Vehicle Account to implement a single-step opt-out voter registration process, pursuant to Chapter 729, Statutes of 2015 (AB 1461).
- Collection of the Transportation Improvement Fee—\$3.8 million Road Maintenance and Rehabilitation Account for higher credit card transaction costs associated with collecting additional Transportation Improvement Fee revenues.

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## NATURAL RESOURCES

The Natural Resources Agency consists of 26 departments, boards, commissions, and conservancies responsible for administering programs to conserve, protect, restore, and enhance the natural, historical, and cultural resources of California. The Budget includes total funding of \$9.2 billion (\$2.9 billion General Fund) for all programs included in this Agency.

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### **DROUGHT ENDS, BUT ADAPTATION TO CLIMATE CHANGE CONTINUES**

The recent drought included the driest four consecutive years on record in California. As testament to California's extreme variability in precipitation, the winter and spring of 2016-17 have been the wettest on record in the northern Sierra Nevada Mountains. Nearly all of the state's major reservoirs hold above-average storage, and the water content of the snowpack—the source of one-third of the water Californians use—is currently nearly double the statewide average.

In April 2017, following unprecedented water conservation and plentiful winter rain and snow, the Governor ended the drought state of emergency in most of California. However, the long-term damage from the drought will continue for years in many areas. For example, a state of emergency still exists in Fresno, Kings, Tulare and Tuolumne counties—as the state continues to work on infrastructure projects to connect households with dry wells to water systems. Recent drought conditions have killed

an estimated 100 million trees as a result of an unprecedented bark beetle outbreak in drought-stressed forests.

The Budget reflects a shift from immediate emergency drought actions to ongoing efforts to make the state more resilient to climate change and to continue water conservation.

**CONCLUDING DROUGHT RESPONSE**

Since the first emergency drought declaration in January 2014, the Administration has worked with the Legislature to appropriate \$3.9 billion to assist drought-impacted communities and provide additional resources for critical water infrastructure projects, wildfire suppression and wildlife emergencies.

The Budget includes \$84.9 million to address continuing drought legacy issues, such as tree mortality and groundwater shortages in the Central Valley (see Figure RES-01).

Figure RES-01  
**Concluding Drought Response**  
 (Dollars in Millions)

Investment Category	Department	Program	Amount
Protecting Water Supplies and Water Conservation	Department of Water Resources/Water Board	Emergency Drinking Water Projects	\$17.0
	Water Board	Water Rights Management	\$0.6
	Department of Water Resources	Save Our Water Campaign	\$1.0
Emergency Response	Department of Forestry and Fire Protection	Enhanced Fire Protection	\$41.7
	Department of Forestry and Fire Protection	Fire Prevention Grants	\$10.0
	Office of Emergency Services	Emergency Water Tank Program/ Tree Mortality	\$8.5
Protecting Fish and Wildlife	Department of Fish and Wildlife	At-Risk Fish Monitoring	\$2.6
	Department of Water Resources	Delta Smelt	\$3.5
<b>Total</b>			<b>\$84.9</b>

## Significant Adjustments:

- Department of Forestry and Fire Protection (CAL FIRE)—\$38.7 million General Fund and \$3 million State Responsibility Area Fire Prevention Fund for expanded fire protection in the 2017 fire season in recognition of continuing tree mortality. These funds will support the continuation of firefighter surge capacity, California Conservation Corps fire crews, and exclusive use of one large air tanker. In addition, \$10 million State Responsibility Area Fire Prevention Fund is available for grants to support local fire prevention activities. The Budget also includes additional ongoing firefighting resources for CAL FIRE to respond to the changes brought on by climate change, demographics, invasive species and forest health conditions. (See Climate Adaptation Extended Fire Season.)
- Department of Water Resources—\$12.5 million, including: (1) \$9 million General Fund to provide emergency drinking water supplies for small communities in the Central Valley still facing dry domestic wells, and (2) \$2.6 million General Fund and \$900,000 Harbors and Watercraft Fund to implement the state’s Delta Smelt Resiliency Strategy such as aquatic weed control, adaptive food management and distribution, and wetlands flood and drain operations.
- Department of Fish and Wildlife—\$2.6 million General Fund to sustain resilient systems for protection of fish and wildlife affected by future drought and climate change. During the recent drought, significant investments have been made to ensure that the state is better prepared to mitigate the harmful effects of future droughts on fish and wildlife resources. These resiliency measures include installation of filtration equipment at fish hatcheries, improved water use efficiency at wildlife areas, and a network of fish and wildlife monitoring systems throughout the state.
- Office of Emergency Services—\$8.5 million General Fund, including \$2 million for local agencies to remove dead or dying trees and \$6.5 million to continue providing water tanks, periodic refills of tanks, and tank storage and sanitization to nine counties that continue to experience the effects of the recent drought.
- State Water Resources Control Board—\$8.6 million General Fund, including \$8 million for emergency repairs to community water systems and replacement of failed drinking wells, and \$600,000 to conclude water curtailment compliance and enforcement actions.

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**MAKING WATER CONSERVATION A WAY OF LIFE**

A key principle in the California Water Action Plan—the Administration’s priorities for addressing water policies—is to make conservation a way of life. Improving water conservation is essential for a more reliable water supply and to make the state more resilient to future droughts, particularly given population increases and climate change.

While declaring the end to the drought emergency, the Governor directed the Water Board to maintain urban water use reporting requirements and prohibitions on wasteful practices, such as hosing off sidewalks. At the same time, the Department of Water Resources, Energy Commission, Public Utilities Commission, Department of Food and Agriculture, and the Water Board issued a final report with recommendations to (1) use water more wisely, (2) eliminate water waste, (3) establish permanent water use and conservation reporting requirements, (4) strengthen local drought resilience, and (5) improve agricultural water use efficiency and drought planning. The recommendations were developed through a public process and implementation will require new legislation to establish new water efficiency standards and additional drought planning requirements. The Administration is committed to working with the Legislature to enact legislation this year.

The Budget supports these efforts to make conservation a way of life through the following adjustments:

- Water Board—An additional two positions to be funded within existing resources to continue to evaluate ongoing reporting of local water conservation data.
- Department of Water Resources—\$1 million General Fund to support the Save Our Water campaign, which will continue public outreach to encourage water conservation.

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**PURSUING COLLABORATIVE SOLUTIONS TO WATER SUPPLY RELIABILITY AND WATERSHED HEALTH**

The Bay-Delta Water Quality Control Plan establishes water quality control measures needed to protect municipal, industrial, agricultural, and environmental uses of water in the watershed of the Sacramento-San Joaquin Delta and San Francisco Bay.

This watershed, comprising millions of acres of farmland, is a source of drinking water for two-thirds of the state’s population. The waterways of the Bay-Delta estuary and its tributaries also provide critical habitat for numerous threatened and endangered species

and recreationally and commercially important species. The Water Board is currently in the process of updating the Plan.

The Water Board relies on a regulatory approach to balance competing demands for water in the Delta. As directed by the Governor, the Natural Resources Agency is leading negotiations with water districts and environmental groups to develop voluntary agreements to achieve similar goals. These agreements would improve ecological flows and habitat for species, create water supply and regulatory certainty for water users, and facilitate a collaborative approach to the Water Board’s update to the Plan. If sufficient, voluntary agreements could be accepted by the Water Board in lieu of a regulatory proceeding to amend water right permits and licenses.

The Budget includes the following proposals to reach voluntary agreements with federal, state, local, and non-governmental organizations:

- Department of Fish and Wildlife—An increase of \$1.1 million General Fund and five positions for the Department of Fish and Wildlife to provide legal, scientific, and other expertise. Voluntary efforts are needed to integrate watershed restoration projects with updated river flow regimes to help salmon and other fisheries thrive. Agreements would describe additional water flows and habitat restoration and other measures in the major rivers that flow to the Delta.
- Department of Water Resources—An increase of \$40 million Proposition 1 to support Central Valley multi-benefit flood management projects that include, but are not limited to, actions identified by voluntary agreements. State funding would incentivize and complement additional contributions from local public agencies, federal agencies, and others. This proposal is a component of the \$111 million acceleration of Proposition 1 flood control investments (see Enhancing Dam Safety and Flood Control).

In addition, the Budget includes \$21 million Proposition 13 water bond funds over the next five years for the Department of Water Resources to provide scientific and engineering expertise and construction funds to support salmon habitat restoration actions on the San Joaquin River and its tributaries.

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### **CLIMATE ADAPTION EXTENDED FIRE SEASON**

Calendar year 2016 was the state’s hottest on record—the third consecutive year such a record has been set. Climate change has and will continue to lengthen the fire season

in California. In 2016, CAL FIRE responded to nearly 1,000 more fires than average. Furthermore, half of California's 20 largest wildfires on record have occurred in the last 10 years. With warming temperatures, California can expect droughts to occur in the future with greater frequency and intensity.

Recent drought conditions have resulted in millions of acres of forestland becoming vulnerable to bark beetle infestation. With approximately 100 million dead and dying trees statewide, forests face a higher risk of destructive wildfires.

Significant adjustment:

- CAL FIRE—\$42 million General Fund and \$309,000 various special funds and reimbursements to expand the state's firefighting capabilities and extend the fire season. Specifically, this proposal will: (1) add 42 year-round engines, (2) staff CAL FIRE engines and helitack bases one month earlier in spring, and (3) extend peak staffing in fall by approximately two weeks. These additional resources will allow CAL FIRE to complete a greater number of fuel reduction projects during the off-peak season, helping to reduce the fire risk from climate change, drought and tree mortality. The General Fund cost of this proposal is offset through lower expenditures in CAL FIRE's Emergency Fund.

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### **ENHANCING DAM SAFETY AND FLOOD CONTROL**

The Department of Water Resources' Division of Safety of Dams is nationally recognized and inspects 1,250 public and private dams annually. Over the last ten years, the Department has prioritized review of existing dams for seismic risk, an effort that has led to more than \$1 billion in modernization and seismic safety retrofits.

The February 2017 spillway event at Oroville Dam illustrated the public safety importance of investing in the state's water infrastructure and emergency preparedness. After both the gated flood control spillway and emergency spillway at Oroville Dam eroded during operations, the Governor directed state dam inspectors to conduct more detailed evaluations of dam structures, including spillways. The Governor ordered this new review to be expedited for dams with spillways similar to Oroville before the next flood season.

Furthermore, in recognition of the additional pressure that had been placed on flood control systems in the Central Valley as a result of several atmospheric river storms in January and February, the Administration redirected up to \$50 million of existing General Fund for emergency preparedness, response, and flood risk reduction

project implementation. These resources were initially utilized to (1) support flood teams to work on flood protection activities like sandbagging boil rings and overtopping protection, (2) pre-position and deploy flood fighting supplies to numerous counties in anticipation of high water, and (3) complete emergency repairs such as rip-rap erosion protection, seepage berms, and breach closures. It is anticipated that remaining funds will be used for emergency rehabilitation projects to repair damages in the Sacramento and San Joaquin flood control systems as a result of this year's high flows.

The Budget includes additional funding and statutory authority to improve dam safety and enhance flood protection.

### **ENHANCING DAM SAFETY**

The current dam inspection program includes a visual evaluation of appurtenance structures (like the spillway that eroded at Oroville). Over 100 dams have spillways and structures that are relatively old and pose a potential hazard to life, property, and environment in the event of failure. Although 70 percent of high hazard dams have emergency action plans (including Oroville), these plans are not currently required for all dams regulated by the Department. Furthermore, inundation maps are only created at the time a dam is built or enlarged and such maps are limited to a complete dam failure scenario.

Significant Adjustments:

- **Emergency Action Plans and Inundation Maps**—The Budget enacts legislation to: (1) require dams to have an emergency action plan that is updated every ten years, or more frequently as needed, with limited exceptions for low hazard dams, (2) require all dams and critical appurtenant structures to have updated inundation maps and to update the maps every ten years, or sooner if local development patterns change, and (3) provide regulatory tools for the Department to support the above requirements, ranging from monetary fines to operational restrictions for failure to comply.
- **Improvements to Emergency Action Plans**—An increase of \$3.5 million Dam Safety Fund for the Department and \$1.8 million General Fund for the Office of Emergency Services to review and approve required inundation maps and coordinate the review of emergency action plans for incorporation into all-hazard emergency plans.
- **Enhanced Dam Evaluations**—An increase of \$3 million Dam Safety Fund for the Department to conduct more extensive evaluations of appurtenant structures,

such as spillways, gates, and outlets, than the current visual inspections. The inspections will include additional geological and hydrological evaluations as well as structural evaluations based on current design and construction standards. By October 1, 2017, the Department will perform this more comprehensive review of the 108 largest spillways under its jurisdiction. By January 1, 2018, the Department will have dam owners complete a thorough site investigation and evaluation of those spillways found to be potentially at risk, and take immediate action as needed to reduce the risk of any spillway identified to be in poor condition. By January 1, 2019, the Department will complete evaluations of the remaining spillways and direct dam owners to make required repairs or restrict reservoir operations as needed.

### **ACCELERATION OF FLOOD CONTROL INVESTMENTS**

The state has a unique role in flood protection in the Central Valley. The Central Valley Flood Protection Plan, adopted in June 2012, describes a system-wide approach considering the interaction of all flood system components. In particular, the Plan looks beyond the traditional project-by-project approach and justification and incorporates actions on both flood system improvement and proactive floodplain management. Integrated flood management is an approach to flood risk reduction that recognizes the interconnection of flood management actions with water resources management and land use planning, including the value of coordinating across geographic and agency boundaries, integrating environmental stewardship, and promoting sustainability.

Significant Adjustment:

- Flood Management Allocation of 2014 Water Bond—An increase of \$111 million Proposition 1 for the following flood control programs:
  - \$40 million for Central Valley multi-benefit flood management projects that include, but are not limited to, actions identified by voluntary agreements.
  - \$35 million to improve Delta levees and emergency response.
  - \$27 million for flood control projects that are consistent with the system-wide approach identified in the Central Valley Flood Protection Plan.
  - \$9 million for coastal flood projects.

## DEPARTMENT OF PARKS AND RECREATION

The Department of Parks and Recreation protects and preserves significant cultural and natural resources while providing recreational opportunities, including hiking, camping, mountain climbing, horseback riding, boating and off-highway vehicle activities. The Department achieves its mission through grant programs and a network of 280 parks, which includes beaches, trails, wildlife areas, open spaces, off-highway vehicle areas, and historic sites.

Under the Road Repair and Accountability Act of 2017 (SB 1), the Department of Parks and Recreation will receive additional revenues which will support state parks, including off-highway vehicle and boating programs. These funds derive from traditional allocation formulas for gas tax revenues and supplement the existing allocation. The Department is developing an overall spending plan for inclusion in the 2018-19 Governor’s Budget. The Budget includes an initial investment of \$54 million State Parks and Recreation Fund from 2017-18 revenues.

### Significant Adjustments:

- **Fix Our Parks**—An increase of \$31.5 million to repair and maintain the aging infrastructure of the state park system and repair the recent damage sustained from the severe winter storms. These funds will be used to fix roads, bridges, buildings, aging water treatment systems, campgrounds, interpretive signage and archeological sites, as well as to manage forests, native habitats, plant and animal species. These projects will help mitigate future increases to the deferred maintenance backlog. A portion of these funds will provide the state’s matching share to receive Federal Emergency Management Agency funding to address storm-damaged areas, including Big Sur State Park.
- **Establish Partnerships to Improve Access to Parks**—An increase of \$1.5 million to establish a pilot project to provide transportation to Parks from urban areas and schools. This pilot program could be expanded through philanthropic support and new partnerships.
- **Support Off-Highway Vehicle Recreation**—An increase of \$1 million for increased law enforcement, environmental monitoring, and maintenance grants supporting federal off-highway vehicle recreation. While State Parks manages nine State Vehicular Recreation Areas, which provide for off-highway vehicle recreation, nearly 80 percent of the state’s off-highway vehicle recreation occurs on federal lands, supported through the grants program. This increase is in addition to the

## NATURAL RESOURCES

\$4 million Off-Highway Vehicle Fund increase to this program included in the Governor's Budget.

- Reduce Boating Hazards—An increase of \$1 million for the Abandoned Watercraft Abatement grant program to remove abandoned watercraft from California's waterways.
- Establish a Recruitment and Training Program—An increase of \$1 million to establish a recruitment and training program for hard-to-fill classifications, including park rangers, lifeguards, maintenance workers, administrators and managers. The program also will develop strategies to better reach candidates from diverse communities.

# STATEWIDE ISSUES AND VARIOUS DEPARTMENTS

This Chapter describes items in the Budget that are statewide issues or related to various departments.

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## PENSION CONTRIBUTIONS

The Budget includes a one-time \$6 billion supplemental payment to California Public Employees' Retirement System (CalPERS) in 2017-18, on top of the actuarially determined annual contribution. The additional payment will mitigate the impact of increasing pension contributions due to the state's large unfunded liabilities and the CalPERS Board's action to lower its assumed investment rate of return from 7.5 percent to 7 percent.

This supplemental payment will reduce the unfunded liability, and help lower and stabilize the state's annual contributions for the next two decades. Contribution rates, as a percent of payroll, will be about 2.1 percentage points lower, on average, than the currently scheduled rates. For example, peak rates would drop from 38.4 percent to 35.7 percent for State Miscellaneous (non-safety) workers, and peak rates would drop from 69 percent to 63.9 percent for California Highway Patrol officers.

The additional \$6 billion pension payment will be funded through a loan from the Surplus Money Investment Fund. Although the loan will incur interest costs (approximately \$1 billion over the life of the loan), actuarial calculations indicate that the additional pension payment will yield net savings of \$11 billion over the next 20 years.

As the loan will repay state pension plans' unfunded liabilities in excess of the base amounts scheduled, repayment of the loan is eligible for debt payments under Proposition 2. As such, repayment of the loan will be made under Proposition 2 for the General Fund's share and other funds will repay the remainder of the loan.

In addition to the supplemental payment, the Budget includes \$5.2 billion (\$2.7 billion General Fund) for the state's annual pension contribution to CalPERS. The Budget also includes \$660.8 million General Fund for California State University retirement costs.

Finally, the Budget includes \$2.8 billion General Fund for state contributions to the California State Teachers' Retirement System (CalSTRS). This amount reflects the CalSTRS Board's action to adopt new mortality assumption rates, implement a discount rate reduction, and exercise its authority to increase state contributions by 0.5 percent of teacher payroll. This action is consistent with the funding strategy signed into law in 2014 and positions CalSTRS on a sustainable path forward, eliminating the unfunded liability in about 30 years.

Figure SWE-01 provides a historical overview of contributions to CalPERS, CalSTRS, the Judges' Retirement System (JRS), the Judges' Retirement System II (JRS II), and the Legislators' Retirement System (LRS) for pension and health care benefits.

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### **EMPLOYEE COMPENSATION AND COLLECTIVE BARGAINING**

The Budget includes \$1.2 billion (\$623.1 million General Fund) for employee compensation and retiree health care prefunding for active employees. These costs reflect increases in salaries, increased enrollment in health and dental plans, revised pay increases for Judges, and updated costs related to the salary survey estimate for the California Highway Patrol.

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### **PUBLIC EMPLOYMENT RELATIONS BOARD**

The Public Employment Relations Board administers and enforces California public sector collective bargaining laws and provides a timely and cost-effective method through which employers, employee organizations, and employees can resolve labor relations disputes. The Budget includes \$750,000 General Fund to address the Board's budgetary pressures and provide the appropriate level of funding to support existing permanent positions. This includes increased funding for fact-finding fees and Southern California regional

Figure SWE-01  
**State Retirement and Health Care Contributions**<sup>1/</sup>  
(Dollars in Millions)

	CalPERS <sup>2/</sup>	CSU CalPERS	CalSTRS	JRS	JRS II	LRS	Active Health & Dental <sup>3/</sup>	Retiree Health & Dental	CSU Retiree Health	Employer OPEB Prefunding <sup>4/</sup>
2008-09	\$3,063		\$1,133	\$189	\$40		\$2,146	\$1,183		
2009-10	2,861		1,191	184	32		2,120	1,182		\$3
2010-11	3,230		1,200	166	54		2,277	1,387		2
2011-12	3,174		1,259	195	58		2,439	1,505		0
2012-13	2,948 <sup>5/</sup>	\$449 <sup>5/</sup>	1,303	160	51		2,567	1,365 <sup>5/</sup>	\$222 <sup>5/</sup>	0
2013-14	3,269	474	1,360	188	52	\$1	2,697	1,383	225	22
2014-15	4,042	543	1,486	179	63	1	2,797	1,462	256	38
2015-16	4,338	585	1,935	190	67	1	2,968	1,556	264	61
2016-17	4,754	621	2,473	202	68	1	3,101	1,647	273	339 <sup>6/</sup>
2017-18 <sup>7/</sup>	5,188	661	2,790	197	76	1	3,233	1,774	294	184

<sup>1/</sup> The chart does not include contributions for University of California pension or retiree health care costs, and does not reflect the \$6 billion supplemental pension payment in 2017-18.

<sup>2/</sup> In addition to the Executive Branch, this includes Judicial and Legislative Branch employees. Contributions for judges and elected officials are included in JRS, JRS II, and LRS.

<sup>3/</sup> These amounts include health, dental, and vision contributions for employees within state civil service, the Judicial and Legislative Branches, and CSU.

<sup>4/</sup> Amount reflects the employer contribution to pay down the Other Post-Employment Benefits (OPEB) unfunded liability.

<sup>5/</sup> Beginning in 2012-13, CSU pension and health care costs are displayed separately.

<sup>6/</sup> Amount includes a one-time prefunding contribution of \$240 million pursuant to Chapter 2, Statutes of 2016 (AB 133).

<sup>7/</sup> Estimated as of the 2017-18 Budget Act. 2017-18 General Fund costs are estimated to be \$2,727 million for CalPERS, \$661 million for CSU CalPERS, \$2,063 million for Retiree Health & Dental, \$1,518 million for Active Health & Dental, and \$89 million for OPEB Prefunding. The remaining totals are all General Fund.

office relocation costs to move staff to a building that fully complies with federal and state disability access laws.

## BOARD OF EQUALIZATION

The Department of Finance's Office of State Audits and Evaluations (OSAE) released an evaluation of the Board of Equalization (BOE) in March 2017 that found "certain board member practices have intervened in administrative activities and created inconsistencies in operations, breakdowns in centralized processes, and in certain instances result in activities contrary to state law and budgetary and legislative directives."

Like the State Controller's Office found in an earlier audit, OSAE also identified significant errors in the BOE's allocation of sales and use tax revenue totaling in the hundreds of millions of dollars. The BOE has so far provided 11 different versions of what it purports to be the correct allocations.

Effective July 1, 2017, the Budget reorganizes tax administration in the state. The BOE will retain its constitutional duties, as the new California Department of Tax and Fee Administration (CDTFA) will perform the statutory duties formerly performed by the BOE, excluding the adjudication of tax appeals. The CDTFA will operate under the Government Operations Agency and its Director will be appointed by the Governor and confirmed by the Senate.

The Budget reforms ensure civil servants will not be subjected to political influence as they perform their tax administration duties. The reforms also entrust tax appeals to impartial administrative law judges who are experts in tax law, and who will fairly and uniformly apply the law to all taxpayers.

The BOE will continue to exist, but its authority will be limited to those duties specified in the State Constitution. These are the equalization of county property tax rates, assessing specified inter-county and business property, assessing taxes on insurers, and assessing and collecting alcohol excise taxes. Board Members, Board Members' staff, and the approximately 200 current BOE civil service employees who perform the aforementioned functions will remain part of the BOE. The Board Members will appoint an Executive Director to administer the BOE.

The Budget creates the Office of Tax Appeals (OTA) effective July 1, 2017, and appropriates \$5 million General Fund for start-up costs. The OTA Director will be appointed by the Governor and confirmed by the Senate. Beginning January 1, 2018, the OTA will adjudicate the tax appeals formerly assigned to the BOE, except for those related to the constitutional duties performed by the realigned BOE. The OTA will adjudicate tax appeals using panels with three administrative law judges selected through the civil service process. Taxpayers unsatisfied with OTA rulings may appeal to the Superior Court. The state may not appeal OTA rulings.

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## **CANNABIS REGULATION**

The Budget integrates the existing Medical Cannabis Regulation and Safety Act with the Adult Use of Marijuana Act (Proposition 64), which voters approved in November 2016.

The Budget provides a single regulatory system that will govern the cannabis industry in California while maximizing public and consumer safety.

To ensure health and safety, licenses to test cannabis will be independent of all other license categories. In addition, quality assurance compliance monitors will conduct random quality assurance audits of distributors including the review of test results and tax payments, to provide for greater public and consumer safety and to ensure appropriate tax remittance. These two processes will ensure that cannabis or cannabis products will undergo quality assurance, inspection, and testing before products may be offered for retail sale, and that the state properly collects the taxes.

The Medicinal and Adult-Use Cannabis Regulation and Safety Act (Act) allows for a vertically integrated licensing structure for both adult use and medicinal cannabis licenses, providing for models that allow small businesses to also thrive while preventing the development of monopolies. The Act provides for an open distribution model, allowing a business to hold multiple licenses, including a distribution license, making it easier for businesses to enter the market, encouraging innovation, and strengthening compliance with state laws. The Act also enhances environmental rules and regulations to provide greater protection against the impacts of cannabis on the environment.

The Budget includes approximately \$100 million to fund cannabis regulatory activities, including the processing of licenses, permits, laboratory services, information technology, quality assurance, environmental protection, and enforcement.

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## JUDICIAL BRANCH

The Judicial Branch consists of the Supreme Court, courts of appeal, trial courts, and the Judicial Council. The trial courts are funded with a combination of funding from the General Fund, county maintenance-of-effort requirements, fines, fees, and other charges. Other levels of the Judicial Branch receive most of their funding from the General Fund. The Budget includes total funding of \$3.6 billion (\$1.7 billion General Fund and \$1.9 billion other funds) in 2017-18 for the Judicial Branch, of which \$2.8 billion is provided to support trial court operations. The Judicial Council is responsible for managing the resources of the Judicial Branch.

Significant Adjustments:

- Dependency Counsel—The Budget includes \$22 million General Fund for court-appointed dependency counsel that represents children and parent clients at

every stage of the dependency proceeding. The additional funding helps reduce attorney caseloads statewide.

- **Equal Access Fund**—The Budget includes \$10 million General Fund per year for two years for local legal aid organizations to provide direct legal services to low-income Californians throughout the state.
- **Investments in Information Technology**—The Budget includes \$8.2 million (\$6.1 million General Fund) to implement a Statewide Electronic Filing Program for the trial courts, replace the Sustain Justice Edition Case Management System in nine small superior courts, deploy a Document Management System for the Appellate Courts, and transition the Judicial Council onto FI\$Cal.
- **Trial Court Judge Reallocation**—The Budget reallocates four vacant superior court judgeships. This will shift judgeships to the areas of the state where workload is highest without increasing the overall number of judges.

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### **DEPARTMENT OF JUSTICE**

The Budget provides \$6.5 million General Fund and 31 positions for the Department of Justice to address new legal workload related to various actions taken at the federal level that impact public safety, health care, the environment, consumer affairs, and general constitutional issues. The Department anticipates a continued level of legal workload to address concerns regarding further actions taken at the federal level. Additionally, the Budget provides \$1 million for the Attorney General to engage in reviews of county, local, or private locked detention facilities in which noncitizens are being housed or detained for purposes of civil immigration proceedings in the state. A comprehensive report outlining the findings is due March 1, 2019.

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### **EARNED INCOME TAX CREDIT**

As part of the 2015 Budget, California adopted its first state Earned Income Tax Credit to help the poorest working families in California. This targeted Earned Income Tax Credit provided a refundable tax credit for wage income only, and focused on the lowest income Californians. The 2017 Budget expands California's Earned Income Tax Credit to support more working families, including self-employed parents, in line with the federal EITC. In addition, it expands income ranges to help families working up to full-time at the newly increased minimum wage to benefit from the program. The expansion

makes more than 1 million additional households eligible to claim the credit. The amount of tax credits provided to low-income working families is expected to grow from \$200 million in 2016 to \$340 million in 2017.

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