SENATE REPUBLICANS

Highlights and Analysis of the 2016-17 State Budget

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Table of Contents

Executive Summary

Budget Overview. The 2016 Budget Act includes record-high General Fund revenues and spending. The budget shows strong education spending, prudently includes an extra $2 billion deposit to the state Rainy Day Fund, and provides much needed funds for the strained system of community services for the developmentally disabled. Apart from General Fund spending, the budget also adopts a creative $2 billion homelessness program for the mentally ill to be funded using existing mental health funds. Unfortunately, this budget misses opportunities to fix core programs and implement reforms. Instead, the Governor and legislative Democrats have used the state's short-term revenue surge to make massive spending commitments, such as the new minimum wage mandate enacted in March. These spending choices are likely to lead California back to deficits within a few years.

Revenues Hit Record Highs. The budget includes General Fund revenue of $123.6 billion in 2016-17, a record high that exceeds the 2015 Budget Act by $6.7 billion and 5.7 percent. While revenues are still increasing from year to year, the most recent financial data suggest the economic tide may be shifting. Even so, General Fund revenue are projected to grow each year through 2019-20, despite the expiration of the temporary Proposition 30 taxes.

Record Spending and Looming Deficits. Overall General Fund spending reaches a record $122.5 billion in 2016-17, an increase of $7.1 billion and 6.2 percent over the 2015 Budget Act. California has experienced a surge of tax revenues in recent years both because of economic growth in Silicon Valley and because of Proposition 30. However, although spending on core programs like education has increased significantly, ***Democrats have also used these short-term revenues to launch billions of dollars in new long-term spending commitments such as optional Medi-Cal and human services expansions and the new minimum wage mandate.***

Because of the Democrats' spending choices, expenditures will grow faster than revenues through 2019-20 (the last forecasted year), setting the stage for deficits once again. The Administration now projects General Fund operating deficits of $2.1 billion in 2018-19 and $4.3 billion in 2019-20. These looming deficits show that Democrats did not learn the lessons of the past, and underscore the need for more prudent budget choices.

Now, many Democrats are supporting a ballot initiative that would extend the Proposition 30 income tax increases for 12 years. ***It is a highly cynical strategy for the majority party to ramp up spending today, then turn around and claim the only solution to California's deficits is to raise taxes.*** We already live in one of the most expensive states with one of the worst business climates.

Transportation and Infrastructure: Sacramento Offices Instead of Roads for Everyone. While California's infrastructure needs are vast, the budget unfortunately chooses to fund Sacramento offices over starting to fix roads for everyone. The budget authorizes $1.3 billion for construction and renovations to office buildings in Sacramento. Senate Republicans believe that roads around the state should be a higher priority and called for a portion of these funds to be redirected to complete $754 million in local transportation projects that were just cancelled. Instead, Democrats rejected this opportunity to benefit the entire state, and the budget takes no significant actions on transportation.

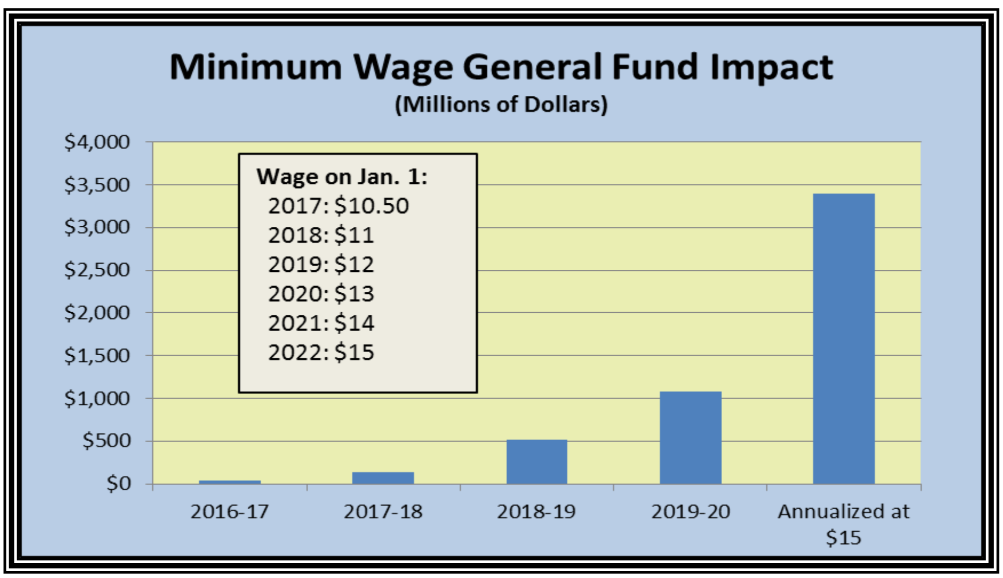
Homelessness Bond Redirects Existing Funds. The budget includes funding for a plan to use about 7 percent of existing Proposition 63 mental health funds for a $2 billion revenue bond to help address the problem of the homeless mentally ill. This new program would spend up to $140 million in bond proceeds annually. Senate Republicans support efforts to address homelessness and believe that the $2 billion homelessness bond is a prudent redirection of existing funds.

Broader Housing Reforms Left Unaddressed. The budget also included the potential for $400 million to expand affordable housing programs more broadly, but these funds were contingent on the Legislature eventually adopting the Governor's proposed "By Right" land use reforms. Under the By Right proposal, developments that meet certain criteria would not be subject to local discretionary review. However, the Legislature did not take any action on the By Right proposal or other significant housing reforms prior to the end of the 2016 legislative session.

Cap and Trade Spending Added at 11th Hour. The budget enacted in June removed most Cap and Trade funding due to major legal questions and doubts about how much revenue upcoming auctions would generate. The recent auctions in May and August 2016 raised only a fraction of the expected funds. However, on August 31, the final day of the legislative session, the majority party added $900 million in Cap and Trade spending to the budget by passing two Cap and Trade bills without a single committee hearing. These funds will be spent on a variety of programs, many of which are of questionable value, though $50 million targeted at dairies and livestock operations and $25 million for healthy forests are commendable.

Rainy Day Reserve Fund. The state's Rainy Day Fund (Proposition 2 of 2014) would grow to reach $6.7 billion by the end of 2016-17, or 5.4 percent of General Fund revenue. Commendably, this balance includes the extra $2 billion deposit into the Rainy Day Fund that the Governor proposed. This additional deposit is an essential component in preparing for anticipated economic downturns given the low level of the reserve as a percent of revenue.

Minimum Wage Will Cost State Billions. The budget reflects the state's minimum wage ramp-up, which adds a 50 cent increase on January 1, 2017, with $39 million in General Fund costs for the 2016-17 fiscal year. These costs will increase rapidly, however. As shown in the chart below, the Administration projects annual General Fund costs will be $1.1 billion by 2019-20, when the minimum wage reaches $13 per hour, and $3.4 billion when the $15 wage is fully implemented. These costs would contribute substantially to the projected state deficits in future years.



New Human Services Spending Commitments. The budget authorizes the repeal of the CalWORKs "Maximum Family Grant" policy, which previously prohibited increasing cash grants for parents who had additional children while enrolled in the program. This action, which launches program costs that will reach $250 million upon full implementation, unfortunately chooses feel-good spending increases over reforms that would address the program's dismal lack of success in encouraging welfare recipients to obtain high school diplomas and take steps toward independence. The budget also increases child care rates by $94 million General Fund without adopting any reforms to make the program function more efficiently.

K-12 Education. The Proposition 98 minimum funding guarantee would rise to $71.9 billion, an increase of $3.5 billion over the prior budget. Senate Republicans applaud this new high that is almost $25 billion or 52 percent more than the post-recession low in 2011-12. The budget also adds a one-time $200 million College Readiness block grant and several other increases to encourage teacher preparation and credentialing. Unfortunately, it reflects legislative Democrats' rejection of the Governor's proposal to reform existing preschool and early education funding.

Higher Education. The Budget Act continues the modest increases to the University of California (UC) and California State University (CSU) budgets of recent years. Student tuition for both systems would remain unchanged. Also included for both UC and CSU are some funds that are contingent on adding students. The CSU also will receive $35 million targeted at improving graduation rates.

Public Safety. The budget modifies the Governor's proposal to spend $250 million up-front for local jail construction and instead authorizes the use of lease-revenue bonds in the amount of $270 million for that construction in future years. Unfortunately, the budget misses an opportunity to fix core problems in the judicial system such as a lack of judges in rural areas and a lack of sufficient legal assistance for foster kids in dependency courts.

Managed Care Organization (MCO) Revenue. The budget reflects net revenue increases of $1.1 billion resulting from the MCO package enacted in February. These revenues free up General Fund from Medi-Cal to be used elsewhere in the budget. In addition to direct MCO spending, the budget also includes $266 million General Fund to continue funding the restoration of a previous 7 percent reduction to the In-Home Supportive Services program and limits this restoration to the three-year duration of the MCO tax.

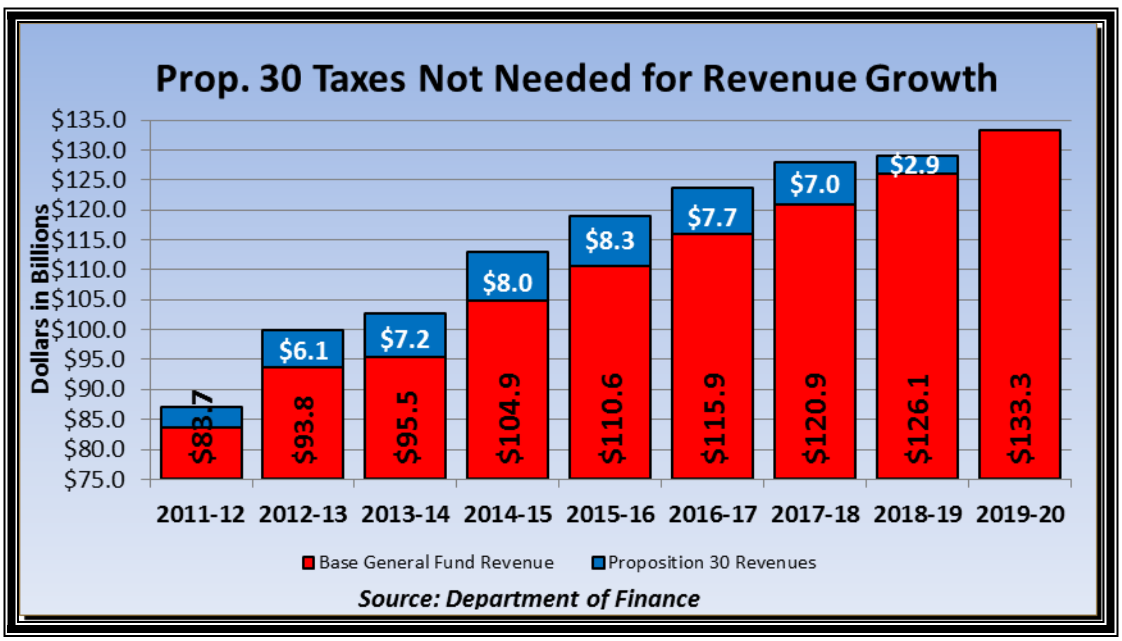
Services for the Developmentally Disabled. The budget reflects additional General Fund spending of $343 million ($559 million total funds) to improve community-based care for the developmentally disabled. Most of these funds were authorized as part of legislation enacted during the recent special session. Senate Republicans applaud this major step toward stabilizing community care for disabled Californians. However, the budget still does not address unfunded mandates such as costs for exempt employees whose pay must be adjusted under minimum wage mandates.

Revenues & Expenditures

2016 Budget Act Shows Revenue Growth Still Strong. General Fund revenues for 2016-17 will grow by 5.7 percent over the 2015 Budget Act and reach $123.6 billion, yet another record high. This would be $36.6 billion higher compared to the depth of the recession in 2011-12. Compared to June 2015 when the previous Budget Act was passed, the state today finds itself with an unanticipated $4.6 billion in revenue over the three-year period. Although Proposition 98 and Proposition 2 automatically direct some of these revenues, the Legislature still has substantial additional resources that were not contemplated a year ago.

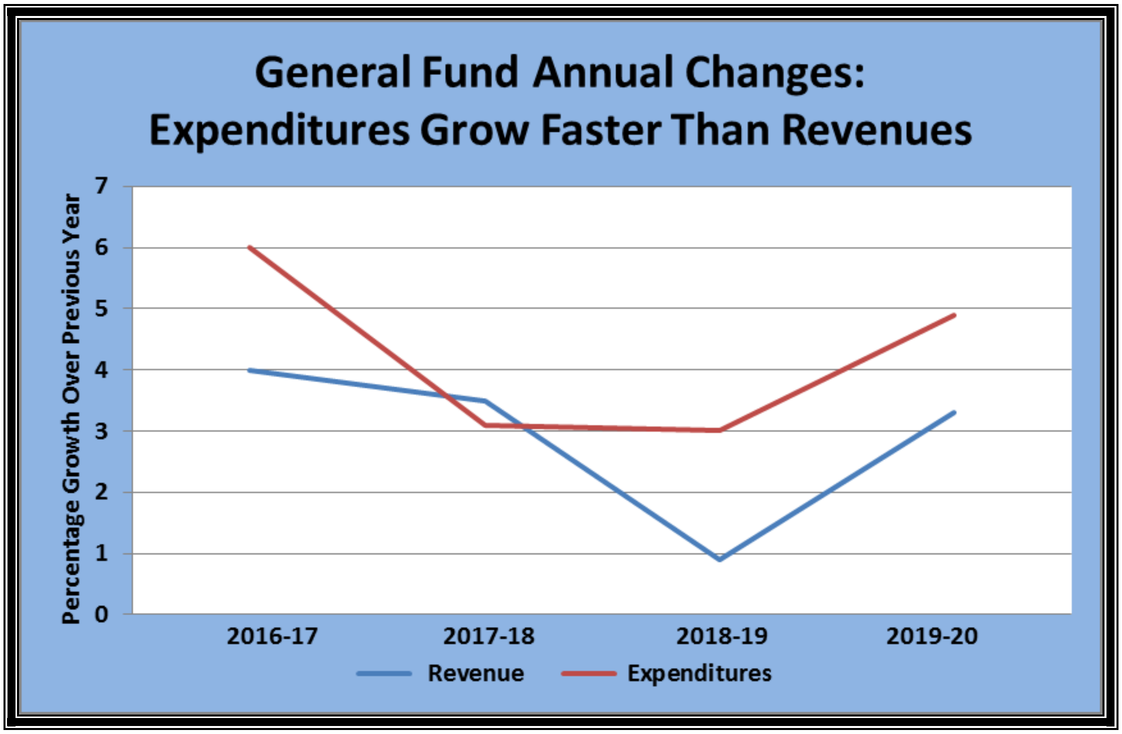
Total Revenues and Transfers	2015 Budget Act	2016 Budget Act	Change	%△
2014-15	$112,913	$113,769	$856	0.8%
2015-16	$116,887	$118,815	$1,928	1.6%
2016-17	$121,791	$123,604	$1,813	1.5%
Change to Estimate over 3-year Window			**$4,597**	

Proposition 30 Taxes Not Needed for Revenue Growth. In 2012 voters approved Proposition 30 as a temporary way to shore up state finances. The quarter cent sales and use tax is scheduled to expire January 1, 2017, and the tax increase on high-income earners is scheduled to expire January 1, 2019. Despite calls to extend the temporary taxes, the revised revenue forecasts show that Proposition 30 is simply not necessary to keep state revenues growing. As shown in the chart below, the Administration projects that even with the expiration of Proposition 30, General Fund revenues would grow every year in the forecast period and would reach $133.3 billion by 2019-20. Revenue growth would average 2.9 percent a year during that time and would grow by 3.3 percent in 2019-20, the first year without any Proposition 30 revenue.

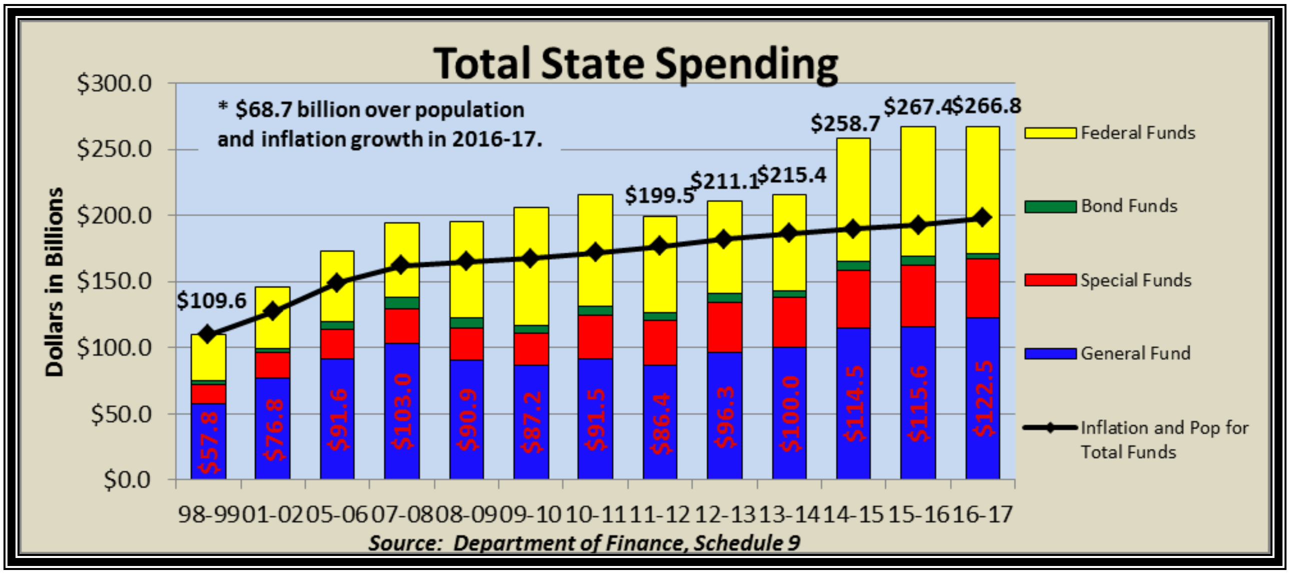


Furthermore, the non-partisan Legislative Analyst Office estimates 2-3 percent higher General Fund revenue growth than the Administration from 2018 through 2020, resulting in an additional $2 billion to $4 billion per year. This steady growth demonstrates that what threatens California's fiscal stability is not a lack of revenue.

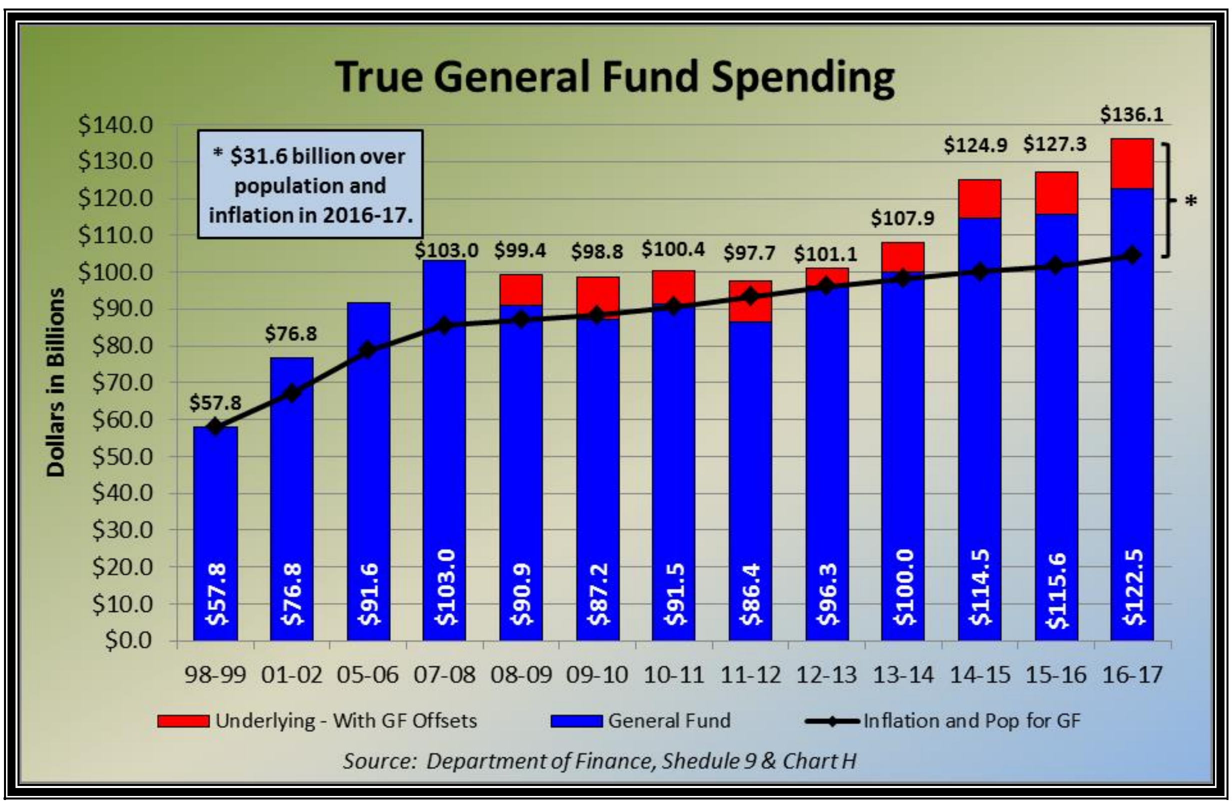
Expenditure Growth Threatens Fiscal Stability. The 2016-17 Budget Act includes revised General Fund expenditures of $115.6 billion in 2015-16 and General Fund expenditures of $122.5 billion in 2016-17. **Overall General Fund expenditures will grow by 6 percent over the 2015 Budget Act and would reach a record high in 2016-17.** According to the Administration, expenditures will continue to increase at a rapid clip through 2019-20. As shown in the chart below, General Fund expenditures will generally grow faster than revenues over that period. Driven by Democrats' spending decisions including the new minimum wage mandate and major expansions of health and human services programs, it is this expenditure growth that threatens the state's financial condition. The Administration forecasts operating deficits of $2.1 billion in 2018-19 and $4.3 billion in 2019-20, along with an overall General Fund deficit in 2019-20 of $3.2 billion (which accounts for reserves apart from the Rainy Day Fund). These looming deficits underscore the need for spending restraint.



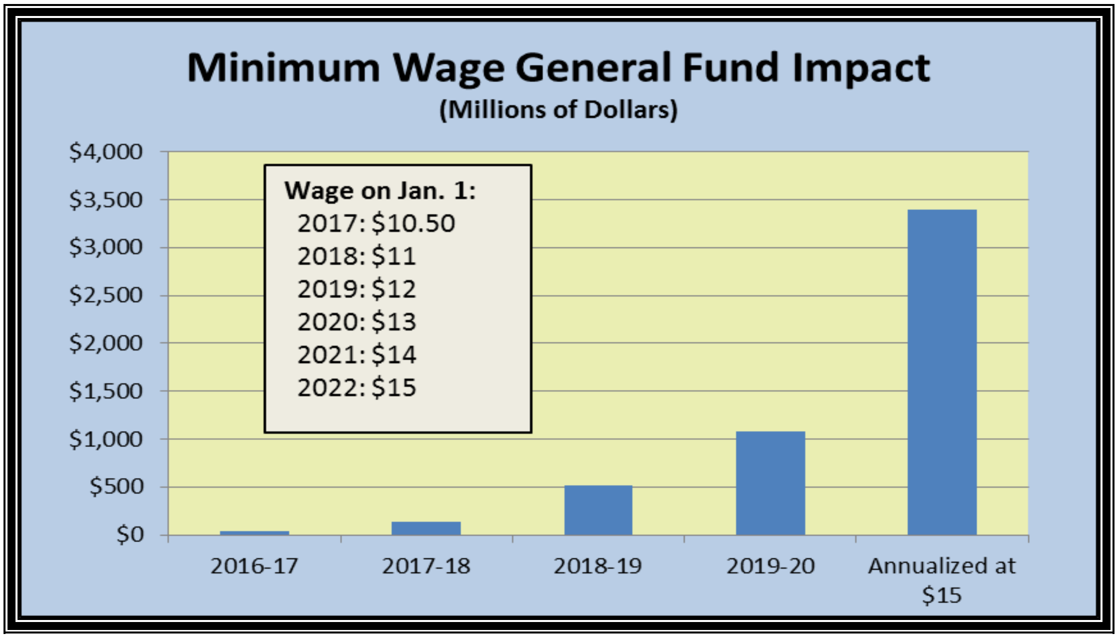
Fund Shifts Mask Real Budget Growth. General Fund spending is only part of state spending. In addition to the $122.5 billion in General Fund, the 2016 Budget Act would spend $44.6 billion in special funds, $3.8 billion in bond funds, and $95.9 billion in federal funds. As shown in the chart on the following page, **the total state spending for 2016-17 is $266.8 billion.**



Since the recession, the legislative Democrats have altered spending to shift many programs off the General Fund and on to special funds. In fact, true General Fund program spending, which includes fund shifts, transfers, and various General Fund offsets, never dropped more than five percent below 2007-08 spending. **When accounting for all of these offsets, true General Fund program spending has increased to $136.1 billion, which is $33.1 billion higher than it was before the great recession.**



Increased Minimum Wage a Big Driver of Future General Fund Spending. The Administration acknowledges that one of the new major spending commitments is the ramp-up to a $15 minimum wage by 2022. According to the Department of Finance, the 2016-17 General Fund cost from the first increase to $10.50 an hour starting on January 1, 2017 will be $39.4 million. As shown in the following chart, those costs dramatically increase to more than $1 billion by 2019-20 (the last fiscal year included in the overall budget forecast). The Administration estimates that once the $15 per hour minimum wage is implemented beginning in 2022, annual General Fund costs will be roughly $3.4 billion higher. (Businesses with fewer than 25 employees have an additional year to adjust wages). Most of these costs will be borne by the In-Home Supportive Services program and developmental services programs, and some reductions in Medi-Cal and CalWORKs caseload are assumed.



Proposition 2 Rainy Day Fund

The 2016 Budget Act demonstrates that the Rainy Day Fund (RDF) approved by California voters in 2014 is taking positive steps toward fiscal stability. As shown in the table below, the budget would transfer $1.3 billion to the RDF and allocate $1.3 billion for debt reduction, as required by Proposition 2. In addition, the up-front 1.5 percent set-aside that Republicans negotiated as part of Proposition 2 will contribute $7.7 billion of the RDF amounts over four years. This is a far more stable contribution than the capital gains portion, which the Governor projects would decline to zero by 2018-19.

Rainy Day Fund Forecast

Dollars in Millions	2016-17	Forecast			
	Enacted	2017-18	2018-19	2019-20	Total
Annual 1.5% of General Fund Revenues	$1,854	$1,919	$1,935	$1,999	**$7,707**
Capital Gains Taxes in Excess of 8% of General Fund Revenues	$733	$356	$0	$0	**$1,089**
Rainy Day Amounts Available	**$2,587**	**$2,275**	**$1,935**	**$1,999**	**$8,796**
Required Debt Repayment (50%)	$1,294	$1,138	$968	$1,000	**$4,398**
Required Deposit to Rainy Day Fund (50%)	$1,294	$1,138	$968	$1,000	**$4,398**
Additional Rainy Day Fund Deposit	$2,000	$0	$0	$0	**$2,000**
Total Rainy Day Fund Deposit	**$3,294**	**$1,138**	**$968**	**$1,000**	
Rainy Day Fund Balance at End of Year [1]	**$6,714**	**$7,852**	**$8,820**	**$9,820**	
Balance as % of General Fund Revenue	**5.4%**	**6.2%**	**6.9%**	**7.4%**	

1. Includes beginning balance of $3.4 billion from previous years' deposits.

Note: Capital gains amounts are net of revenues attributable to Proposition 98. All estimates assume there are no budget shortfalls that would allow other uses of Rainy Day amounts to maintain spending.

Source: Department of Finance, June 2016

Critical Extra Deposit Included. The budget includes a $2 billion deposit beyond the required amount, which would bring the 2016-17 RDF balance to about $6.7 billion, or 5.4 percent of General Fund revenue. Senate Republicans agree that it makes sense to save additional funds beyond the minimum requirement. Without this additional deposit, the RDF balance would be 3.8 percent of revenue, which is likely inadequate considering that California's economic expansion may be nearing its end and that a recession could reduce state revenue by tens of billions of dollars. Even with the extra deposit, the RDF balance would only reach 7.4 percent of revenue by 2019-20, still less than the constitutional limit of 10 percent. The budget also includes an unrestricted, non-RDF reserve of $1.8 billion, for a combined reserve of $8.5 billion.

The budget bill also clarifies that the supplemental $2 billion deposit would be protected by Proposition 2's standard withdrawal limitations. This is an important clarification that should help prevent legislative Democrats from spending these funds except in true fiscal emergencies. Senate Republicans will continue to advocate for strong reserves to protect against economic downturns.

Education

Proposition 98 funding for K-14 education continues to grow. The chart below displays 2016-17 Proposition 98 funding for K-14 education, which is based on the Governor's May Revision revenue estimates and ties to his proposed spending level. Total Proposition 98 education funding reaches an all-time high of $71.9 billion, the Proposition 98 maintenance factor obligation would grow to $908 million[1], and average per pupil spending would reach about $10,657.[2]

2016-17 Proposition 98 Funding

Source: Legislative Analyst's Office

($ in millions)

	2014-15	2015-16	2016-17
K-12 education 1/			
General Fund	**$44,925**	**$44,270**	**$45,440**
Local property tax revenue	**$14,817**	**$16,714**	**$18,057**
K-12 subtotal	**$59,742**	**$60,984**	**$63,496**
California Community Colleges 2/			
General Fund	**$5,025**	**$5,422**	**$5,528**
Local property tax revenue	**$2,306**	**$2,562**	**$2,767**
CCC subtotal	**$7,331**	**$7,983**	**$8,295**
Other Agencies	**$80**	**$82**	**$83**
Total Proposition 98 3/	**$67,153**	**$69,050**	**$71,874**
General Fund	**$50,029**	**$49,773**	**$51,050**
Local property tax revenue	**$17,124**	**$19,276**	**$20,824**

1/ **K-12 education totals include state preschool and related 'wraparound care'**

2/ **2015-16 and 2016-17 CCC display includes $500m for adult ed which can flow to any K-14 provider (not restricted to CCCs)**

3/ **Any discrepancies are due to rounding**

Child care and preschool funding rise, without reforms. The 2016 Budget Act increases ongoing child care and state preschool funding by almost $128 million in 2016-17, growing to $527 million by 2019-20. More specifically, it increases provider reimbursement rates on January 1, 2017, adds almost 3,000 state preschool slots on March 1, 2017, and declares Legislative intent to further increase rates in the future to mitigate the effects of the state's recent minimum wage hikes. Unfortunately, the final budget does *not* enact the Governor's proposed Early Education Block Grant that would have focused on low-income preschoolers (four year olds and young five year olds) by consolidating existing State Preschool and Transitional Kindergarten funding into a single, more flexible and locally-controlled funding stream, nor his January proposal to streamline child care funding rates. Senate Republicans believe that failing to enact these reforms misses an opportunity to improve these programs rather than simply expand them.

Teacher workforce efforts expand. The Budget Act includes $20 million in one-time funds to enable certificated school employees to become teachers, $10 million in one-time grants to postsecondary institutions to develop four-year integrated teacher credential programs (most such programs now run for five years), and $5 million in one-time funds to strengthen statewide teacher recruitment. These

[1] 2016-17 is expected to be a Test 3 year because General Fund growth is expected to be lower than per-capita personal income growth. The state is allowed to fund Proposition 98 at the lower Test 3 level, but must create a maintenance factor obligation equal to the difference between the Test 3 level and the higher Test 2 level.

[2] Per-pupil spending varies widely across the state under the Local Control Funding Formula, which provides substantially more funding to districts with high proportions of low-income students. $10,657 is an LAO estimate.

efforts are intended to help address the growing teacher recruitment challenges reported by school districts across the state.

Local Control Funding Formula (LCFF) grows to 96 percent of target level. The state's local control funding formula for K-12 schools will enter its fourth year of implementation in 2016-17. Under the formula, local educational agencies (LEAs) receive:

- Per-pupil base grants based on average daily attendance, according to grade span (K-3, 4-6, 7-8, and 9-12), with base rates enhanced for grades K-3 (by 10.4 percent) and grades 9-12 (by 2.6 percent).
- Supplemental grants worth an additional 20 percent of base grant funding for each low-income student,[3] English learner, or foster youth.[4]
- Concentration grants worth an additional 50 percent of base funding for these same students, to the extent that they exceed 55 percent of an LEA's total enrollment.

The 2016 Budget Act provides an augmentation of roughly $3 billion for the LCFF, bringing locally-controlled funding to over $55.6 billion, or about 96% of the statewide target level. Senate Republicans have supported additional LCFF funding based on its enhancement of local control.

Mandate debt reduction continues. The 2016 Budget Act includes almost $1.4 billion to reduce the backlog of unpaid K-14 education mandate claims, which is expected to stand at roughly $1.9 billion by the end of 2016-17. These one-time funds, allocated on a per-student basis, may be used to support implementation of new content standards, technology, teacher induction and professional development programs, deferred maintenance, or any other locally-determined need. This debt reduction effort is consistent with the Senate Republican priority of respecting the voters through responsible government.

Proposition 47 school funding commences. Proposition 47, approved by the voters in 2014, reduced penalties for certain property and drug offenses and required that a portion of any resulting state savings be spent for specified purposes, including K-12 education programs. The 2016-17 budget package assumes $9.9 million in state savings available to fund new programs intended to reduce truancy and support students who are at risk of dropping out of school or are victims of crime (these funds are off-budget). In addition, it provides $18 million in one-time funding for these same purposes. Program specifics will be set forth in pending legislation (presumably AB 1014 and SB 527). Because $27.4 million of the $27.9 million at issue here will be spent directly on students, it is scored in satisfaction of the Proposition 98 guarantee of funding for K-14 education.

Proposition 39 energy efficiency funding rises. The 2016 Budget Act provides $448 million (up from $352 million in 2015-16) for Proposition 39 energy efficiency projects at K-12 schools ($399 million) and community colleges ($49.3 million).

Career technical education (CTE) funding falls as scheduled. In an effort to ensure that K-12 CTE programs continued after a two-year maintenance-of-effort requirement ended in June 2015, the 2015-16 budget included a new transitional CTE incentive grant program funded at $900 million over three years ($400 million in year one, $300 million in year two, $200 million in year three, and nothing thereafter). The 2016 Budget Act funds the second year of this effort as planned, at $300 million. In addition, it provides a $200 million augmentation for community college CTE programs and extends an existing $48 million CTE program for an additional year, as outlined later in this section. Support for career technical education is consistent with the Senate Republican priority of building new career paths for today's economy, though it would be preferable to make the K-12 program funding permanent and grow it in the future along with Proposition 98 resources.

[3] Poverty is measured by eligibility for free or reduced-price lunches.
[4] A student who falls into one of these three categories is funded the same as one who falls into all three.

Charter school startup funding continues. The 2016 Budget Act provides $20 million in one-time Proposition 98 funding for charter school startup costs, backfilling the loss of a federal grant that previously met this need. The Department of Education will continue to administer this program – it will not be shifted to the California School Finance Authority within the State Treasurer's Office, as the Governor proposed.

No school facilities funding. In his January budget proposal, the Governor objected to the $9 billion K-14 education facilities bond initiative that has qualified for the November 2016 statewide ballot, based on its cost, complexity, and lack of flexibility. He proposed to negotiate a less costly alternative that would (1) focus state funding only on districts with exceptional need, (2) enable other districts to raise their own resources by increasing statutory caps on local bond debt by the rate of inflation, (3) restructure developer fees, and (4) expand allowable uses of routine restricted maintenance funding.[5] However, no deal was struck, so the November 2016 ballot initiative stands as the only vehicle for providing future state school facilities bond funds.

In his May Revision to the budget, the Governor proposed $100 million in one-time funding for a revolving loan program to address school facilities with critical health and safety issues. However, this funding was not included in the final budget package.

California Community Colleges (CCCs). The 2016 Budget Act increases the CCCs' share of Proposition 98 funding to $8.3 billion in 2016-17, up from $7.9 billion at the 2015 Budget Act.[6] Some of the more notable augmentations include:

- $200 million for workforce education programs
- $48 million to continue the Career Technical Education Pathways Program, formerly funded through the expired Quality Education Investment Act, which supports collaboration between schools, community colleges, and local employers to improve career pathways and linkages
- $25 million in one-time incentive funding for Innovation Awards focusing on technology and data, transfer pathways, and successful transitions from higher education to the workforce

All of these proposals are consistent with Senate Republicans' priority of building new career paths for today's economy.

In addition to the adjustments shown above and the mandates and energy-efficiency funding discussed earlier in this section, other notable augmentations include:

- $154 million in one-time funding for deferred maintenance and instructional equipment
- $115 million for two percent enrollment growth
- $75 million general purpose apportionment increase
- $20 million in one-time funding to expand student access to online courses
- $15 million for CCC partnerships with K-12 schools, as defined in AB 1741/Rodriguez and O'Donnell
- $12 million ($7 million one-time and $5 million ongoing) for technology infrastructure
- $30 million to expand the Basic Skills Initiative to assist unprepared students to successfully transition to college-level math and English coursework
- $10 million for the Institutional Effectiveness Partnership Program, which assists CCC districts that are struggling with student performance issues, accreditation, fiscal viability, or compliance with state and federal requirements

[5] More detail is provided starting on page 50 here: http://www.ebudget.ca.gov/2016-Infrastructure-Plan.pdf
[6] CCC funding includes $500 million for adult education, which can flow to any K-14 education agency.

- $8.7 million to expand student services to CalWORKS recipients
- $5 million in one-time incentive funding for development of degree programs that impose no costs on students for the use of textbooks
- $3.7 million for part-time faculty office hours
- $5 million in one-time funding for adult education technical assistance
- $3 million for data security
- $3 million for instructional materials for incarcerated adults
- $2.5 million over five years for inmate education coordination efforts
- $2.5 million for targeted student outreach and marketing
- $2.4 million for the Fund for Student Success, including the Mesa and Puente programs
- $2.2 million for supplemental financial aid, due mostly to the addition of Cal Grant C recipients
- $2 million in one-time funds to support best practices in equal employment opportunity
- $1.7 million to increase the state rate paid for apprenticeship programs to match that of for-credit instruction

UC, CSU, and Student Financial Aid

As the chart below shows, the 2016 Budget Act continues the modest increases to the University of California (UC) and California State University (CSU) budgets of recent years.

UC and CSU Funding at 2016-17 Budget Act

(Core funds, in millions)

	Fund	2014-15	2015-16	2016-17
UC	General Fund [1,2,3]	$2,993	$3,259	$3,541
	Tuition and Fees [4]	$3,998	$4,112	$4,300
	Other UC Core Funds [5]	$240	$240	$240
	Lottery	$32	$33	$33
	Total UC	$7,263	$7,644	$8,114
CSU	General Fund [1,2,3,6]	$3,042	$3,297	$3,572
	Tuition and Fees [4]	$2,905	$2,929	$2,968
	Lottery	$55	$51	$51
	Total CSU	$6,002	$6,277	$6,591
	Grand Total	$13,265	$13,921	$14,705

1/ Includes general obligation bond debt service.

2/ 2015-16 includes $25 million in one-time funds each for UC/CSU deferred maintenance, and 2016-17 includes $35 million in one-time funds each for the same purpose

3/ 2014-15 includes Awards for Innovation in Higher Education funding

4/ Includes systemwide fees (before discounts and waivers) and nonresident tuition.

5/ Includes application fees, interest, and a portion of grant overhead and patent royalty income.

6/ Includes funding for CSU retired annuitant health care costs from another budget item.

Source: Legislative Analyst's Office

University of California. Based on actions taken by UC earlier in 2015-16, the Governor in May 2016 released two contingent appropriations authorized in the 2015 Budget Act: (1) a $25 million ongoing augmentation in recognition of UC's admission of 5,000 more resident undergraduates by fall 2016, and (2) a $96 million one-time payment from Proposition 2 funds to the UC Retirement Plan in recognition of the Regents' adoption of reforms that limit UC employees' pensionable income under that plan to amounts consistent with the limits in the Public Employees' Pension Reform Act of 2013 (currently about $117,000). Expanding further on these current-year actions, the 2016 Budget Act includes the following notable augmentations for 2016-17:

- $171 million in Proposition 2 Rainy Day funds for a second deposit to the UC Retirement Plan in recognition of recent pensionable income reforms
- $125 million for an ongoing four percent increase in General Fund support, plus another $18.5 million if UC admits 2,500 more students in 2017-18 than in 2016-17, and caps nonresident enrollment
- $35 million in one-time funding for deferred maintenance
- $22 million for innovation and entrepreneurship activities
- $20 million to support college readiness programs for K-12 students
- $5 million in one-time funding for gun violence research

- $4 million in one-time funding for development of new courses to fulfill UC's A-G subject admission requirements (classes that all applicants must take before enrolling)[7]
- $2 million in one-time funding for best practices in equal employment opportunity
- $2 million in one-time funding for grants to local marine mammal stranding networks

UC resident undergraduate tuition continues unchanged at $11,220 per year. However, its student services (registration) fee will rise by five percent in 2016-17, from $1,020 to $1,074. Senate Republicans support priority enrollment for Californians and a continued freeze on UC tuition.

California State University. The 2016 Budget Act includes the following notable augmentations for CSU:

- $161 million to increase base funding on a permanent basis, with a requirement for enrollment of 5,194 more students in 2017-18 than 2015-16
- $35 million in one-time funding for deferred maintenance
- $35 million in one-time funding contingent on the Trustees' adoption of plans to increase CSU graduation rates to those of comparable institutions and to close the graduation rate gap between low-income students and other students
- $15 million in one-time general-purpose funding from savings generated by changes made to the Middle Class Scholarship program in 2015-16
- $7.9 million for lease-revenue bond debt service
- $2 million in one-time funding for best practices in equal employment opportunity
- $1.1 million in ongoing funding for a Student Success Network intended to improve student outcomes across all campuses

CSU resident undergraduate tuition continues unchanged at $5,472 per year in 2016-17. Senate Republicans support a continued freeze on CSU tuition.

Student financial aid grows. The 2016 Budget Act increases funding for student financial aid to $2.1 billion, including $926 million in federal Temporary Assistance for Needy Families (TANF) funding, which offsets a like amount of General Fund support.

[7] http://www.ucop.edu/agguide/a-g-requirements/

Health

Medi-Cal

The enacted Medi-Cal budget includes $17.8 billion General Fund in 2016-17. Key changes and policies are discussed below.

Health Reform Costs and Enrollment. The expansion of Medi-Cal eligibility associated with the federal Affordable Care Act (ACA) became effective January 1, 2014. Key effects of the ACA on Medi-Cal include enrollment increases of 10 percent in 2015-16 and 4.8 percent in 2016-17. Total enrollment in 2016-17 is expected to average 14.1 million individuals. Overall, Medi-Cal in 2016-17 will expand by 6.2 million enrollees or 78 percent compared to 2012-13, primarily due to the ACA. **Following this enrollment explosion, Medi-Cal would cover nearly 36 percent of the California population in 2016-17.**

In 2016-17 California will be required for the first time to pay a share of the cost for the "optional expansion" to adults under the ACA. The state's initial 5 percent share of this population's costs begins January 1, 2017 and will amount to $820 million General Fund for the half year. The state share will increase to 10 percent by 2020, when it may reach $2 billion or more. (This amount does not include state costs for the mandatory portion of the ACA enrollment expansion, which the Administration no longer tracks separately but likely exceeds $1 billion General Fund). In addition, the botched roll-out of the ACA enrollment IT system, known as CalHEERS, has led to hundreds of millions of dollars in avoidable taxpayer costs due to the need for manual enrollment "work-arounds" by county administrators.

Full-Year Implementation of Undocumented Minor Expansion. The 2015-16 budget expanded eligibility for full Medi-Cal benefits to undocumented minors who meet all other income requirements, and the Administration implemented the expansion effective May 16, 2016. The enacted budget includes $188 million General Fund for 2016-17 (reflecting an increase of $45 million compared to the January estimate) and projects enrollment of 185,000 minors.

Modest Benefit Adjustments. The Medi-Cal budget includes the following modest adjustments to Medi-Cal benefits:

- *Estate Recovery Minimized.* Costs of $5.7 million General Fund in 2016-17 and $29 million annually to limit Medi-Cal estate recovery to the minimum federally required level. This primarily affects the estates of elderly people who used the Medi-Cal nursing home benefit.
- *Acupuncture Benefit Restored.* Costs of $3.6 million General Fund to restore the Medi-Cal acupuncture benefit, which had been eliminated during recession budget cuts.
- *Interpreter Services.* Costs of $3 million General Fund to expand the interpreter service available for Medi-Cal enrollees.

Provider Rates and Benefit Restorations Still Missing. The savings from the previously enacted 10 percent reductions are estimated to be $167 million General Fund in 2016-17. The rate cuts were restored for some provider types, including dentists, but clinics, medical equipment, physicians, and pharmacies are still subject to the reductions. Even with the cuts restored for some providers, access to care for Medi-Cal enrollees remains a significant challenge.

An independent report issued by the Little Hoover Commission in April 2016 criticized the quality and access to care provided by Denti-Cal. Senate Republicans have joined with Assembly Republican colleagues in calling for an additional $200 million targeted at raising Denti-Cal reimbursement rates for common procedures to national averages, as reflected in AB 1051 (Maienschein), but Democrats rejected this fix to a core program.

Additionally, the Administration and legislative Democrats have neglected to restore key benefits in Medi-Cal that were cut in the recent recession, even while they add billions in costs to expand enrollment. Currently, adults enrolled in Medi-Cal can receive an eye exam, but Medi-Cal will not pay for the actual eyeglasses to correct poor vision. Shortcomings like this in core programs should be fixed prior to the state embarking on massive new spending commitments through program expansions. Senator Nielsen authored SB 1361 to restore the eyeglasses benefit at an estimated cost of $20 million annually, but Democrats blocked passage of the bill in the legislative process.

Restoring rates to help improve access to care and restoring essential benefits like eyeglasses for Medi-Cal patients is consistent with Senate Republicans' focus on fixing major problems with existing programs, rather than embarking on costly major expansions before the state honors its current commitments.

"Medi-Cal 2020" Waiver Programs. The budget includes $2.2 billion in additional federal funds associated with the new "Medi-Cal 2020" federal waiver. The waiver provides new incentives and methods of funding services, including Whole Person Care Pilots, the Global Payment Program, Public Hospital Redesign and Incentives, and the Dental Transformation Initiative. While there are many moving pieces, the waiver overall is expected to improve delivery of care, and the federal funds help relieve pressure for additional state spending.

Federal Managed Care Regulations. Newly released federal regulations for Medi-Cal managed care plans are likely to drive costs significantly higher for California in the next several years. The budget includes $5 million just for administrative resources to determine the effects of the regulations, but future costs could reach hundreds of millions of dollars annually.

Managed Care Organization (MCO) Revenues Reflected. The budget reflects a fund shift of $1.1 billion within Medi-Cal from the General Fund to the MCO revenue (SB X2 2, 2016), which effectively frees up that same amount of General Fund to be spent anywhere else in the state budget.

<u>Additional Health Actions</u>

Children's Mental Health Crisis Services. The budget authorizes one-time spending of $30 million ($16 million General Fund and $14 million in Proposition 63 mental health funds) for grants to local governments to increase the number of facilities, crisis services, and triage personnel to assist youth under the age of 21. Senate Republicans supported this use of one-time funds to expand capacity for Californians with the greatest needs.

Community Infrastructure Grants. Also included in the budget is $67.5 million General Fund on a one-time basis for grants to cities or counties to promote public safety diversion by increasing the number of mental health, substance abuse, and trauma-related service facilities. The California Health Facilities Financing Authority would award the grants on a competitive basis.

Health Workforce Investment. Concerns about doctor shortages in California generally and certain areas of the state in particular have been raised in recent years. The budget includes $33 million General Fund for the Office of Statewide Planning and Development to pay for new or expanded residency slots for primary care physicians.

Public Health Efforts. The enacted budget includes $12.5 million General Fund to encourage prevention of sexually transmitted diseases and hepatitis C, promote early detection of Alzheimer's disease, and prevent drug overdoses. On-going costs of $3.2 million General Fund are also included for the Children's Dental Disease Prevention Program.

Developmental Services

The 2016-17 budget estimates that the Department of Developmental Services (DDS) will serve over 303,000 developmentally disabled (DD) Californians in 2016-17 in community settings and institutional developmental centers (DCs). Except for 847 residents in DCs, all of these individuals receive services in community settings, where caseload would increase by 4.2 percent in 2016-17 over the prior year. Projected costs would reach $6.7 billion total funds ($4.0 billion General Fund).

New Resources for Community Services. The budget includes the following for community-based services:

- $481 million ($293 million General Fund) authorized by Chapter 3, Statutes of 2016 (AB X2 1), which the Legislature approved in February. These funds provide various rate increases for community providers and additional funding for regional centers.
- $78 million ($50 million General Fund) to adjust residential home rates for four-bed settings ($46 million total funds) and for regional centers ($32 million total funds), as proposed by the Governor in January 2016. These increases will provide badly needed improvements to residential services and are similar to reforms championed by Senate Republicans in bills such as SB 638 (Stone, 2015), which legislative Democrats blocked in the legislative committee process.
- $7.9 million General Fund for various changes, including overseeing cultural programs and integrated employment activities, contracting for a provider rate study, and establishing a research unit at DDS to provide better data on community services.

These are major steps toward fixing community services for these vulnerable Californians. However, Senate Republicans remain concerned that these increases do not fully address the funding and systemic challenges facing DD individuals, providers, and regional centers. In addition, benefit cuts to services enacted during the recession, such as caps on respite services and a prohibition on camps and social recreation services, have not yet been restored. **Senate Republicans continue to call for California to fully reaffirm its commitment to the original vision of the Lanterman Act and ensure that developmentally disabled people can thrive in a sustainable community environment.**

Full Minimum Wage Costs Not Funded. The budget includes $21 million ($12 million General Fund) to reflect the 50 cent increase in the minimum wage, effective January 1, 2017, mandated by SB 3 (Leno). The Administration projects that DDS minimum wage costs would reach $1.7 billion General Fund annually once the $15 hourly wage is fully adopted. However, even these exorbitant costs fail to reflect all the effects of the minimum wage. State law requires businesses to pay “exempt” employees (who are salaried rather than hourly) twice the minimum wage. Providers have no option to pay these employees any less, but the Administration has not committed to cover these costs. In contrast, the Administration did include costs to raise salaries for exempt state employees, as well as cost adjustments to avoid “compaction” of pay among supervisors and staff, when calculating the minimum wage effects on the state. **Senate Republicans believe that providers who care for developmentally disabled individuals deserve to be treated as well as state employees and that the Administration should fund the full cost of state mandates.**

New Loss of Federal Funds. Within hours of the release of the Governor’s May Revision budget proposal, DDS learned that federal regulators will withhold over $24 million in funds for Sonoma Developmental Center, based on its failure to meet health and safety requirements. This loss of federal funds is not reflected in the budget and will likely require General Fund to fill the gap. DDS will track and report on how much General Fund is used to backfill the lost federal funds each month. Fairview DC and Porterville DC are also at risk of losing federal funds for the same reason.

DC Closure Plan Adjustments. The budget provides the following updates to plans begun in 2015-16 to close Sonoma, Fairview, and Porterville DCs (with the exception of the secured area at Porterville DC).

- *Community Placement Plan Funds.* In order to develop additional community-based housing and services for DC residents, and thus expedite the closure process, the budget provides $147 million ($127 million General Fund) in additional community placement plan funds.

- *Additional steps to improve managed care transitions for DC residents moving into community settings.* These “transition requirements” may help ensure that residents move successfully to the specialized services they need in community settings.

- *Retention Bonuses for State Employees.* This provision raises some concern because data from the last DC closure indicated that the number of employees decreased at a far slower pace than the number of residents, suggesting that retention is not a problem.

- *Exemptions for DC employees who wish to become community-based providers.* Families of DC residents have expressed support in the past for assisting DC employees in transitioning to the community to continue working with the same residents they served in the DC. This exemption would assist DC employees in becoming community-based vendors.

In light of the exorbitant DC costs, which now exceed $600,000 per resident, it will be critical to continue monitoring the closure process to ensure that spending is truly focused on resident needs and not simply maintaining outdated infrastructure or unnecessary administration.

Human Services

CalWORKs

The 2016-17 budget spends $5.3 billion for the CalWORKs program, including funding from the state General Fund, as well as county and federal funds. This spending level is basically flat from revised 2015-16 spending even though caseload has been declining for several years (2016-17 caseload is projected to decrease by 3.2 percent). The following are some of the most notable changes in the CalWORKs program:

Repeal of the Maximum Family Grant Rule. The budget repeals the CalWORKs' Maximum Family Grant (MFG) rule. This rule promoted personal responsibility by prohibiting CalWORKs payments from being made on behalf of children who were conceived after a family begins receiving aid. Repeal of the MFG rule will result in additional **costs of more than $250 million annually**.

Provides Grant Increase for Third Year in a Row. The budget provides $35.4 million (growing to $47 million in 2017-18) for a 1.43 percent increase in CalWORKs grants, effective October 1, 2016. Previously, the state provided two five percent grant increases effective March 1, 2014 and April 1, 2015, increasing expenditures by $315 million in 2016-17. Combined with the repeal of the MFG rule as discussed above, CalWORKs families will see significant growth in their monthly cash aid in 2016-17, and yet the number of CalWORKs recipients without a high school education continues to be about half of the population. Senate Republicans support focusing on improving the long-term potential of these vulnerable families above increasing cash aid if self-sufficiency is truly the goal of the program.

Minimum Wage Impact on CalWORKs Recipients. SB 3 (Chapter 4, Statutes of 2016), signed into law on April 4, 2016, provides substantial increases to the state minimum wage up to $15 an hour by January 1, 2022. The first in a series of increases will raise the minimum wage from $10 to $10.50 per hour effective January 1, 2017. CalWORKs cases with increased earnings will have reduced monthly grants and, as a result, the 2016-17 budget assumes $6 million in savings.

Increases Access Within the Housing Assistance Program. The budget eliminates the once-in-a-lifetime restriction for participation in the Housing Assistance Program, which provides payment to meet the reasonable costs of obtaining permanent housing or temporary shelter for CalWORKs families, instead allowing families to access this program once every 12 months. The budget provides an **additional $2.7 million General Fund** annually as a result of eliminating this restriction.

CalWORKs Subsidized Employment Program Consolidation. The budget combines two subsidized employment programs (AB 98 and Expanded Subsidized Employment) within CalWORKs, eliminating the cost neutrality requirement while providing some administrative efficiencies at the county level. Eliminating the cost neutrality of the subsidized employment program benefits counties and employers across the state by providing full reimbursement for wages paid as well as other employment costs (such as worker's compensation) but will increase state costs without improving outcomes for CalWORKs recipients.

Housing Support Program Continues to Expand. The budget includes $12 million General Fund for the Housing Support Program, increasing available funds to $47 million General Fund annually. The program is intended to provide CalWORKs recipients that may be facing homelessness a chance for stable housing that could support their efforts to reach self-sufficiency. The 2015 Budget Act augmented the program by $15 million General Fund, increasing annual expenditures to $35 million and enabling 44 of California's 58 counties to participate in the program. With the 2016 budget, annual expenditures will be $47 million General Fund, providing funding for all 58 counties to participate.

Child Care Reimbursement Rate Increase. The 2016 budget includes $20 million for additional expenditures within CalWORKs' stage one child care as a result of increases to the regional market rate (RMR) beginning January 1, 2017. The budget increases the RMR to the 75th percentile of the 2014 survey (currently the RMR is at the 85^{th} percentile of the 2009 survey) and also increases reimbursements to license-exempt providers from 65 percent to 70 percent of the new RMR.

In-Home Supportive Services

The 2016-17 budget spends $11.2 billion ($3.4 billion General Fund) for the In-Home Supportive Services (IHSS) program. Expenditures in one of the state's fastest growing programs are up 13 percent from revised 2015-16 spending. Caseload continues to grow faster than most human services programs as well, increasing five percent in 2016-17 (490,797 recipients) from revised 2015-16 caseload (467,099). Increased expenditures reflect a higher caseload, higher cost per case (increased provider wages), and higher hours per case (restoration of the seven percent reduction). The following are some of the most notable changes in the IHSS program:

Restoration of IHSS Hours Tied MCO Tax. The budget includes **$571.8 million ($265.8 million General Fund)** to restore the seven percent IHSS service hours reduction until July 1, 2019 consistent with the duration of the MCO provider tax**.** Counties will not share in any additional program costs due to the misguided maintenance-of-effort policy implemented in 2011-12 that capped the counties' IHSS costs at the 2011-12 level.

Minimum Wage Increases Boost IHSS Costs Even Higher. As discussed above, SB 3 (Chapter 4, Statutes of 2016) provides incremental increases to the state minimum wage up to $15 an hour by 2022. The impact of SB 3 on IHSS expenditures will be staggering, with **increased costs reaching $1.8 billion** upon full implementation. For 2016-17, the budget includes $39.5 million ($18.4 million General Fund) as a result of increasing IHSS provider wages to $10.50 an hour on January 1, 2017. Additionally, SB 3 authorizes IHSS providers to be paid for three sick days (the program has about 400,000 providers), at a cost of about $230 million upon full implementation. Considering numerous policy changes within IHSS in the past couple of years, including overtime (see information below) and restoration of the seven percent reduction, in addition to the minimum wage increase, it appears the legislative Democrats are prioritizing "organized labor," at the expense of education, public safety and the state's vulnerable disabled population.

IHSS Overtime Exemptions Begin. The budget includes $879.1 million ($413 million General Fund) in 2016-17 to implement federal requirement regarding overtime payments to IHSS providers working more than 40 hours a week. The budget also increases expenditures by nearly $23 million General Fund for additional costs associated with exempting certain providers from the 66 hour a week work restriction, allowing them to work up to 90 hours a week. The budget would allow county social workers flexibility to determine which providers meet this exemption, and as such, costs could be higher than the budget projects. While trying to carve out exemptions for high-needs recipients may be meritorious, including an exemption for recipients with "extraordinary circumstances" that is open to interpretation leaves the program ripe for abuse. With counties no longer having any fiscal incentive to control IHSS costs (the misguided maintenance-of-effort policy again), this could lead to less consistency statewide and significant fiscal risk in a program that is already one of the fastest growing in the state.

Supplemental Security Income/State Supplementary Payment (SSI/SSP)

The 2016-17 budget spends $10 billion ($2.8 billion General Fund) for the SSI/SSP program. Spending in 2016-17 is up about one percent from revised 2015-16 spending, with caseload about even from 2015-16 at 1.3 million average monthly cases. The following are some of the most notable changes in the SSI/SSP program:

SSI/SSP Modest Increase for Cost of Living Adjustment. The budget provides a 2.76 percent increase to the state portion of the SSI/SSP grant effective January 1, 2017, increasing **costs by $37 million General Fund in 2016-17 and $73 million General Fund annually thereafter**. The state COLA would increase the SSP portion of the maximum grant by $4.63 per month for individuals and $11.73 per month for couples. Together with the estimated federal COLA, this proposal would raise individual grants by $17.09 per month, and couples' grants by $30.43 per month.

Housing and Disability Income Advocacy Program. The budget provides one-time funding of $45 million General Fund for the newly created Housing and Disability Income Advocacy program (program requires a county match and is intended to supplement current county outreach efforts). The state/county advocacy program will be targeted towards homeless Californians with disabilities, with the focus on increasing participation among individuals who may be eligible for disability benefit programs, including SSI/SSP and veterans benefits.

<u>CalFresh and Other Food Assistance</u>

The 2016-17 budget spends $2 billion ($693.1 million General Fund) for CalFresh administration, basically flat with revised spending for 2015-16. CalFresh benefits are 100 percent federally funded, but costs for CalFresh administration are 50 percent federal funds, 35 percent General Fund, and 15 percent funds. The CalFresh caseload is projected to reach an average of 2.2 million households in 2016-17, up 3.2 percent from revised 2015-16. Additionally, the state-only California Food Assistance Program (CFAP), which provides food benefits to non-federally eligible immigrants, is funded with 100 percent state General Fund ($85 million in 2016-17). Following are some of the most notable changes in the state's food assistance programs:

Drought Food Assistance Program. The Drought Food Assistance Program (DFAP) is a temporary program intended to mitigate the adverse impact the drought has had on the Central Valley and Southern California. The 2016 budget includes $18.4 million General Fund to operate the program based on the current projected level of need.

Statewide Emergency Food Assistance Program. The 2016 budget includes a one-time augmentation of $2 million General Fund (there has not been any funding provided for this program in several years). This state-only program works in conjunction with the federal Emergency Food Assistance Program ($10.8 million federal funds in 2016-17) that works with food banks for distribution of federal commodities to eligible individuals and households.

<u>Child Welfare Services</u>

Child welfare services programs, including the state's foster care system, were realigned to counties in 2011. Total child welfare expenditures in 2016-17 are projected to be $5 billion. There has been a significant decline in the foster care caseload over the last 15 years. Caseload has declined more than 47 percent from 108,159 in 2000 to 57,266 in 2015. The Department of Social Services (DSS) attributes part of the caseload decline to prevention efforts for out-of-home care and additional efforts for permanency placements. As a result of realignment, any new programs created after 2011 become a state/federal responsibility. The following are some of the most notable changes within the state's child welfare services programs, including an update on the state's major foster care reform efforts known as Continuum of Care:

Continuum of Care Reform Update. The budget includes $150 million ($127.3 million General Fund) for continued efforts to reform the state's foster care system, also known as Continuum of Care Reform (CCR). The budget most notably includes a new rate structure for out-of-home placements that will be based on a four-tier level of care and will be known as the Home-Based Family Care rate structure ($36 million provided in 2016-17). The budget also includes the following ongoing components of CCR:

- Foster parent recruitment, retention and support- $54.7 million
- Child and family teams for case planning and ongoing assessment of foster youths' needs- $27.4 million
- Resource family approval process- $12 million
- County Behavioral Health- $11 million
- Training for county mental health staff, social workers and probation officers- $4.6 million
- Rate increases for social workers within Foster Family Agencies- $3.8 million
- Case planning assessment tool- $3.5 million
- Outcomes, accountability and automation- $6 million General Fund
- Accreditation of all short-term residential therapeutic programs and foster family agencies- $2.8 million
- Second level administration review of all cases in short-term residential therapeutic programs- $300,000
- Administrative oversight within DSS (staff and resources)- $5 million

Bringing Families Home. The budget includes $10 million General Fund for a new grant program that could help to reduce homelessness among families that are part of the child welfare services programs. The program requires counties to match these funds dollar for dollar, supplementing existing county funding for this purpose and creating a greater network of coordination for homeless services for at-risk families.

Expanded Educational Opportunities for Foster Youth. The budget includes $3 million General Fund to expand the Chafee Education and Training Voucher grants to all eligible foster youth. According to the California Student Aid Commission, a total of 4,609 students applied and were eligible for the Chafee grant in 2015-16, but due to insufficient funds, only one in four received a grant. This funding would allow all projected eligible youth to receive a grant.

Foster Youth Infant Supplement. The budget provides $4 million General Fund to increase, and provide earlier in a pregnancy, the infant supplement grant for minor foster parents. The funding allows pregnant foster youth to begin receiving the infant supplement six months before the expected date of birth and would increase the supplement from $411 a month to $688 a month, which is the current basic rate for a child under age five.

Additional Monitoring of Psychotropic Medications for Foster Youth. The budget provides $1.7 million General Fund for additional staffing at the county level to ensure appropriate medication case management within the Health Care Program for Children in Foster Care. Overuse of psychotropic medications in foster youth residing in group homes has been a growing concern among advocates for several years. Increased staffing and enhanced reporting requirements will allow DSS and the counties to communicate more effectively while providing the Legislature with an opportunity for more robust oversight of the program.

Commercial Sexual Exploitation of Children (CSEC) Program. The budget provides $19 million General Fund for the CSEC program. SB 855 (Budget and Fiscal Review Committee, Chapter 29, Statutes of 2014), established the state CSEC program to enable county child welfare agencies to provide services to child victims of commercial sexual exploitation. The state has provided $26.7 million General Fund to date, but neither DSS nor county advocates have been able to provide information on what level of services have been provided to this vulnerable population or how much of the funding has gone to the counties for administration activities.

Other Programs

Adult Protective Services-Training and Staff Development. The budget provides one-time funds of $3 million General Fund to augment the current training and staff development program for Adult Protective Services (APS) and affiliated staff. Ongoing funding for these purposes would be $176,000 ($88,000 General Fund). APS was part of the 2011 Realignment but statewide training efforts remain a state responsibility. It is unclear what the one-time funds will be used for and how they can be utilized effectively to support ongoing training efforts.

Immigration Services Expansion. The budget provides $30 million General Fund for the Immigration Services Program. The Immigration Services Program was established in the 2015 Budget Act (including $15 million General Fund) to provide education, outreach and application assistance services to California's immigrant communities that may be eligible for deferred action protection programs or citizenship. The 2016 budget includes an additional $15 million in one-time General Fund for the program.

Long-Term Care Ombudsman Program. The 2016-17 budget provides $10.5 million ($1.6 million General Fund) for the Long-Term Care Ombudsman Program, of which $1 million in special funds is one-time only and $9.5 million ($1.6 million General Fund) is ongoing. All General Fund for the Ombudsman program ($3.8 million) was eliminated during 2008-09 due to severe budget constraints. Between 2009-10 and 2011-12, several one-time appropriations and funding solutions were utilized to partially backfill lost General Fund.

One-Time Increase for Senior Nutrition Programs. The budget provides $2 million in one-time General Fund for Senior Nutrition programs across the state (such as congregate meal sites and home delivered meals). Currently, funding available for these programs is $78.7 million, including federal, state and county funds.

Public Safety & Judiciary

Local Jail Construction Bonds

The 2011 Public Safety Realignment (Realignment) shifted tens of thousands of dangerous felons from the state to counties. Counties generally lacked the infrastructure, including adequate programming and treatment space within jail facilities, to handle the massive population influx. To assist counties in managing this new population, the state has provided three rounds of lease-revenue bond (LRB) funding, totaling $2.2 billion, for the construction of local criminal justice facilities. The 2016-17 budget authorizes a fourth round of LRBs ($270 million) for jail construction, including $250 million specifically for counties that have not yet received an award, or have only received a partial award (see table below), plus $20 million for the County of Napa. The Governor has made it clear that he intends this to be the last round of state funding for local jail construction.

No Previous Award					
Alpine	El Dorado	Lassen	Mendocino	Nevada	San Mateo
Contra Costa	Glenn	Marin	Modoc	Plumas	Sierra
Del Norte	Inyo	Mariposa	Mono	San Francisco*	
Partial Previous Award					
Placer					
San Joaquin					
* San Francisco relinquished its previous award.					

While Senate Republicans have supported state funding for local jail construction projects in recent years, the LRB authorization included in the budget replaces the Governor's January proposal to appropriate a similar amount of General Fund in 2016-17 for this purpose, allowing legislative Democrats to redirect $250 million to other priorities. Additionally, using LRBs adds to the wall of debt and may be seen as overly similar to issuing general obligation bonds. In short, providing LRB funding for local jail construction is better than providing no funding, but Senate Republicans would have preferred the Governor’s original plan to use the General Fund.

Proposition 47

Proposition 47 (2014) reduced certain drug and property crimes from felonies to misdemeanors and required the resulting state savings to be transferred from the General Fund to the Safe Neighborhoods and Schools Fund (SNSF) and used as follows:

- 65 percent for grant programs administered by the Board of State and Community Corrections (BSCC) to support mental health and drug treatment services designed to reduce recidivism.
- 25 percent for a grant program administered by the California Department of Education (CDE) aimed at improving outcomes for K-12 public school students by reducing truancy and supporting students who are at risk of dropping out of school or are victims of crime.
- 10 percent for a grant program administered by the Victim Compensation and Government Claims Board (VCGCB) to support trauma recovery centers that provide services to crime victims.

The Department of Finance scored first-year savings of $39.5 million for allocation in 2016-17, which is just over $10 million more than its January estimate. However, the Legislature augmented the funding for BSCC programs by $10 million and CDE programs by $18 million, bringing the totals to $35.6 million for BSCC, $27.9 million for CDE, and $3.9 million for trauma recovery centers. To the extent BSCC and CDE Proposition 47 programs are effective at reducing criminal activity, this funding could provide some relief to the state's criminal justice system. However, in the context of the hundreds of millions of dollars already spent each year at the state and local levels to reduce recidivism, this modest amount of additional funding is much less than the $150 million to $200 million promised to the voters by Proposition 47, and is not likely to have a significant impact.

Department of Corrections and Rehabilitation (CDCR)

The 2016-17 Budget includes General Fund spending for CDCR of $10.5 billion, which is approximately $430 million above the Budget Act spending level for 2015-16. The most notable of the adjustments comprising the increase in spending includes the following:

- Employee compensation and benefit cost increases ($161 million)
- Increased health care costs not related to changes in the inmate population ($62 million)
- Expansion of rehabilitative and drug treatment programs ($55 million)
- Increased debt service costs associated with recent prison construction projects ($38 million)
- Increased alternative custody and reentry programs ($38 million)

Prison Population Cap Compliance. The federal three-judge panel (3JP) overseeing the state's prison overcrowding problem ordered CDCR to bring its institutional population below 137.5 percent of design capacity by February 28, 2016. Furthermore, the court made clear its expectation that the state maintain compliance with the cap thereafter. If the state fails to maintain compliance, a court-appointed monitor will order CDCR to immediately release as many felons as needed to restore compliance, regardless of whether they have been rehabilitated and without concern for any risk they may pose of reoffending.

As discussed above, Proposition 47 reduced the penalties for various drug and property crimes. Following its enactment, the inmate population in state prisons dropped off sharply, falling below the February 2016 cap in January 2015, and bottoming out in July 2015 at 110,973 inmates (134.2 percent of design capacity). However, since that time, it has been increasing steadily by about 200 inmates per month, on average. As of June 22, 2016, the prison population subject to the cap was 113,458 (134.5 percent of design capacity).

While the population remains below the cap, it has clearly been trending upward. Moreover, the population-reducing effects of Proposition 47 appear to have largely run their course. To maintain adequate capacity for the current population, the 2016-17 Budget includes $6 million General Fund for critical repairs and deferred maintenance to keep the California Rehabilitation Center (CRC) in Norco open. It also includes funding to maintain in-state and out-of-state contract beds at current levels. Two of three new infill facility projects that were supposed to be completed in 2016 have been activated, and the third is expected to be done later this year. When it is activated, it will bring the total prison capacity expansion in 2016 to 2,376 beds, providing some additional capacity that should help to address projected population increases in the near term. However, if the population continues to grow, compliance with the 3JP cap could be in jeopardy again within the next year or two. *Keeping our communities safe has been a long-standing Senate Republican priority. The early release of thousands of dangerous felons into our communities would jeopardize public safety. Therefore, it will be important to closely monitor emerging prison population trends and respond effectively to ensure this does not happen.*

Rehabilitative Programming Could Help Ease Pressure, but Budget Misses the Mark. The enacted budget expands on the Governor's plan to increase rehabilitative programming and services for inmates. It provides an additional $8 million General Fund (on top of the Governor's January proposal), bringing the total funding increase for these purposes to $55 million.

If implemented well, these program expansions could help to reduce recidivism, thereby reducing the prison population and helping CDCR to maintain compliance with the 3JP population order. However, the menu of rehabilitative programming approved by the majority party lacks cohesiveness and is not likely to achieve the desired results. For example, $16 million of the new funding is for increased programming opportunities for long-term and life-term offenders, which, according to the Legislative Analyst's Office, has not been shown to be a cost effective means to reduce recidivism. Another $2.5 million of the $55 million was added by legislative Democrats for CDCR to develop a medically-based substance use disorder treatment model. While medical treatment shows promise in combating chronic drug abuse, legislative Democrats simultaneously rejected the Governor's proposal to expand CDCR's drug interdiction program. Until the flow of illicit drugs into the state's prisons is curtailed, funds spent on medical treatment for substance use disorder may not be a good investment, as the potential for relapse increases with the prevalence and availability of commonly abused substances.

Office of Emergency Services (OES)

Fire Engine Fleet Replacement. The budget includes $10 million General Fund (one time) for OES to replace fire engines in its existing fleet that have exceeded their life expectancy. OES' fleet is disbursed among local fire agencies to be used during mutual aid response. In exchange, these agencies agree to staff the engines and respond to mutual aid requests throughout the state. These resources provide important surge capacity to local response capabilities that are often overwhelmed during wildfires and other large-scale catastrophes.

Human Trafficking Grant Program. In 2014, the state provided $10 million in one-time funding through OES' Victim Services Grant Program for organizations providing direct services to victims of human trafficking. Earlier this year, Senators Bates, Fuller, Nguyen, and Runner signed a letter to the Chair of the Senate Budget Subcommittee on Corrections, Public Safety, and the Judiciary requesting continuation of this funding. The 2016-17 budget includes a $10 million General Fund appropriation (one time) for this purpose. *This funding is consistent with the Senate Republican priorities of keeping our communities safe and keeping our promise to those with the greatest need.*

Homeless Youth Program Expansion. The budget includes a $10 million General Fund augmentation, which is part of the "No Place Like Home" initiative (discussed in the Housing section, beginning on p. 32), to expand the existing Homeless Youth Emergency Service Pilot Projects funded through OES. The projects currently serve the Counties of Los Angeles, San Diego, and Santa Clara and the City and County of San Francisco. The additional funding would expand the projects to also serve the Counties of Orange, Fresno, San Bernardino, and El Dorado. *This funding is consistent with the Senate Republican priority of keeping our promise to those with the greatest needs.*

Funding for Local Public Safety

In addition to the estimated $1.3 billion the state will provide to counties in 2016-17 for Realignment, the budget includes more than $1.8 billion in 2016-17 for local law enforcement agencies. Most significantly, this includes the following augmentations:

- $270 million in lease-revenue bonds for local jail construction projects (as described at the beginning of the Public Safety & Judiciary section).

- $15 million General Fund for a pre-arrest pilot program to divert offenders to treatment or services who would otherwise be arrested for drug use or prostitution. This would provide funding for the law enforcement assisted diversion program in SB 1110, which is coauthored by Senator Anderson.
- $10.2 million General Fund to help cities replace uninhabitable police department facilities. Funding includes:
    - $4 million for the City of Huron
    - $4 million for the City of Selma
    - $1.2 million for the City of Firebaugh
    - $950,000 for the City of Mendota
- $10 million General Fund for Regional Crime Task Force grants, including $4.6 million for the City of Merced's Violence Interruption/Prevention Emergency Program and $1.1 million for public safety equipment for the University of Merced.
- $5.5 million General Fund for the City of Salinas for counter-violence and gang activity prevention.

This funding is a welcome addition to the assistance that local agencies need to meet Senate Republicans' priority of keeping our communities safe. Other approved items, which continue past programs, are as follows:

- $624.2 million from the Enhancing Law Enforcement Activities Subaccount for Citizens' Option for Public Safety and Juvenile Justice Crime Prevention Act grants, the rural and small county sheriffs program, and other long-standing public safety grants.
- $557.5 million from the Trial Court Security Subaccount and $7 million General Fund for county sheriffs to provide security for the trial courts.
- $159.9 million from the Juvenile Justice Subaccount for the Youthful Offender Block Grant Program and the Juvenile Reentry Grant Program.
- $125.3 million General Fund to continue the Community Corrections Performance Incentive Grant Program (SB 678, 2009).
- $36.8 million ($28.1 million General Fund) for local agencies to implement recently enacted legislation, including:
    - $26.8 million ($18.1 million General Fund) for juvenile probation departments to improve the continuum of care for foster youth pursuant to Chapter 773, Statutes of 2015 (AB 403).
    - $10 million General Fund to reimburse local law enforcement agencies for the costs of reporting data on all stops conducted by sworn personnel, including time, date, location, and reason for the stop, pursuant to Chapter 466, Statutes of 2015 (AB 953).
- $20 million General Fund for city law enforcement to improve outcomes and relationships in the communities they serve.

Notably, the budget fails to include funding or a requirement to measure the outcomes of Realignment. Senator Nielsen previously introduced bills in 2014 (SB 1097) and 2015 (SB 753) to provide funding to counties for a comprehensive data collection program that would allow for thorough analysis of the programs provided to realigned offenders. Senator Nguyen introduced similar legislation this year (SB 1327). *Senate Republicans believe that responsible government shows respect for the voters when it applies rigorous analysis to ensure that the programs it provides deliver the intended results in* *a cost-effective manner*. To date, the elected Democrats who foisted Realignment on the people of California have shown disdain for the voters by obstructing Republican efforts to collect the data necessary to measure the effectiveness of programming provided to realigned offenders.

Judicial Branch

The 2016-17 budget provides $3.6 billion ($1.7 billion General Fund) to support the Judicial Branch, including approximately $2.8 billion ($1.3 billion General Fund) for the trial courts. Relative to the Governor's January budget proposal, the enacted budget includes the following adjustments:

- $25 million General Fund augmentation (one time) for court innovation grants intended to encourage courts to develop innovative business practices that have measurable results and positive impacts on the court and the public it serves. This is $5 million less than the Governor proposed, but it still provides a significant incentive for trial courts to improve their operations.
- $10 million General Fund augmentation (one time) for the Equal Access Program, which supports roughly 100 nonprofit legal aid providers serving the civil legal needs of low-income, elderly, and disabled litigants.
- Deletion of the sunset on 18 court user fee increases that were included in the Budget Act of 2009. These fees support the Sargent Shriver Civil Counsel Act which often funds legal organizations that engage in questionable tactics to drag landlords into extended court proceedings as a way to coerce settlement agreements favoring their clients. Senate Republicans believe more accountability should have been brought to bear on this program before its funding was permanently extended.

No Funding to Reduce Caseloads in Dependency Proceedings. *Senate Republicans believe it is important for the state to keep its promise to those with the greatest need. This includes children in the foster care system.* Caseloads for attorneys who represent foster youth in dependency proceedings are chronically high. Both the Senate and Assembly approved a $29 million General Fund augmentation to reduce dependency caseloads, but the Governor insisted on its removal during the Budget Conference Committee process. The funding was deleted from the budget over Senate Republican protests.

Transportation

Transportation Infrastructure

Transportation Infrastructure Not a Democrat Budget Priority. The budget lacks any additional funding to fix California's crumbling transportation network and continues to await possible action through the 2015 Transportation 1st Extraordinary Session. Although revenues increased by $4.8 billion over last fiscal year, to a record high of more than $123 billion, no additional funding is directed to repair transportation infrastructure. Instead the Governor offered, and the Legislature rejected, his 2015 transportation infrastructure plan that proposed increased gas and diesel taxes and a new road user fee to raise $3 billion annually. The Governor's plan, which is still under consideration in the special session, would continue to divert approximately $1 billion annually of existing weight fee revenue to pay debt service. That debt was previously a General Fund responsibility and should be again, especially now that General Fund revenues have increased significantly.

Furthermore, the Governor and legislative Democrats prioritized state office buildings over California's local roads by budgeting $1.3 billion to renovate Sacramento area state office buildings. Senate Republicans argued that the state should use a portion of this money to backfill $754 million in cuts recently adopted. Those cuts will result in project reductions or eliminations affecting more than 100 projects statewide. In addition to these cuts, another $755 million in funding was delayed, impacting 88 more projects statewide.

Californians Burdened with High Fuel Taxes. California has the nation's fifth highest gas taxes (or the highest if the hidden gas tax from Cap and Trade is included) and the highest gas prices in the nation. In fact, California's fuel taxes and other requirements, including a unique summer blend of gasoline, can add over 50 cents per gallon to the price at the pump. These extra costs can easily drive up the gas bill for a two-car family by an additional $700 per year or more.

High-Speed Rail

The budget includes $1.7 billion to continue to build the high-speed rail system. Specifically, $1.1 billion is for the local/regional components of the system, $511 million is for construction of the state system, and the remaining $42 million is for administration and contracts. In addition to the budgeted amount, the High-Speed Rail Authority has access to another $1.9 billion for construction of the state system. This funding was budgeted in prior years but not yet spent, and it could carry over into future years if unspent in 2016-17.

Department of Motor Vehicles

Increased Vehicle Registration Fees. The budget includes a 23 percent increase to the vehicle registration fee, changing the fee from $43 to $53 annually, and generating about $330 million each year. Per the Administration, this will help relieve, though not fix, a structural imbalance of $500 million annually in the Motor Vehicle Account (MVA), which supports the Department of Motor Vehicles (DMV) and the California Highway Patrol (CHP). The Administration provided no detail on the cause of the deficit though increased salaries for CHP employees and increased funding for new facilities for both CHP and DMV certainly contribute.

Additionally, as noted in our 2014-15 *Highlights and Analysis*, the cost to issue licenses to undocumented residents (AB 60, Chapter 524, Statutes of 2013) was not fully funded by the amount of fees levied. AB 60 specifically provides authority allowing for an additional fee to be charged to applicants until June 30, 2017 to offset reasonable administrative costs. The Administration opted not to charge this additional fee, resulting in approximately $95 million of costs being absorbed by the MVA.

Furthermore, annual transfers of $70 million to $80 million from the MVA to the General Fund have occurred since 2009-10, with nearly $500 million total transferred. This budget includes another transfer of $78.6 million. This revenue is primarily generated by the sale of information, such as driver or vehicle records purchased by businesses, insurance companies, toll authorities and the general public, and is meant to cover the cost of compiling and distributing the information but instead is syphoned to the General Fund to subsidize other programs.

Correcting these two instances of fiscal mismanagement would not fix the entire structural deficit, but the gap would be smaller. It may be time for this fund to be audited to identify other imprudent uses of these monies. *Senate Republicans believe in respecting the voters through responsible government and will continue to oppose unfair fee increases and to fight against wasteful spending.*

Housing

The lack of affordable housing is one of California's greatest challenges. According to the Legislative Analyst's Office, "About 1.7 million California households spend more than half their income on housing." Also, although California comprises 12 percent of the nation's population, it has 21 percent of the nation's homeless population, and an even greater share of the chronically homeless, with over one-third of the nation's total. The 2016-17 budget takes a step toward addressing part of these problems within the No Place Like Home Initiative, but broader policy changes also are needed to deal with the underlying causes of expensive housing, including ill-advised government policies at the state and local levels.

Homelessness Assistance. The budget enacts the new No Place Like Home Initiative, which includes the following:

- $2 billion revenue bond program to provide affordable housing to the chronically homeless, mentally ill population (see more discussion below).
- $45 million one-time for short-term types of homelessness assistance through the Emergency Solutions Grant Program, including $10 million for the Homeless Youth Emergency Service Pilot Projects (see more discussion below).
- $45 million one-time General Fund for the Housing and Disability Income Program (see page 22).
- $12 million ongoing General Fund for the CalWORKs Housing Support Program (see page 20).
- $10 million ongoing General Fund for the Bringing Families Home Program (see page 23).
- $6.2 million one-time to counties for technical application assistance.

Emergency Solutions Grant Program. The budget includes $45 million in one-time General Fund to implement a state Emergency Solutions Grant Program administered by the Department of Housing and Community Development, supplementing a similar federal program. Of this amount, $10 million is allocated to expand services to homeless youth as noted above, while the remaining $35 million is to engage homeless individuals and families living on the street, operate homeless shelters and provide essential services to shelter residents, rapidly rehouse homeless individuals and families, and prevent families and individuals from becoming homeless. Due to Republican advocacy, four additional counties (Orange County, Fresno County, San Bernardino County, and El Dorado County) will be able to participate in the pilot projects.

Bond for the Mentally Ill Homeless. An August 2016 budget trailer bill, AB 1628, authorized the California Health Facilities Financing Authority to issue up to $2 billion in revenue bonds pursuant to the No Place Like Home Program. The bill authorizes the use of up to $140 million annually of Proposition 63 tax revenue (approximately 7 percent) to cover the annual debt service for the bonds. The bond program will provide permanent supportive housing units for the homeless mentally ill, with a focus on helping the chronically homeless population, and includes the following:

- $1.8 billion for the competitive grant program awarded among four size-based groupings, with a set-aside of 8 percent for small counties of less than 200,000 people.
- $200 million for an "over the counter" program to be granted to counties based on their percent of the overall homeless count, with a minimum grant of $500,000 to each county.
- An alternative process allows for direct allocation of funds to counties with at least 5 percent of the state's homeless population. Acceptance of funds through the alternative process would replace a county's portion of competitive funding.

Notably, Proposition 63 has suffered from a lack of data, accountability, and transparency, and it appears that some counties may have excess reserves of these funds. As a result, reporting requirements to improve accountability for Proposition 63 programs were added to the bond at the request of Republicans. Republicans were also able to secure $10 million for transitional housing and emergency shelters for veterans.

Broader Policy Changes Needed for Housing Affordability. According to the study *California's High Housing Costs: Causes and Consequences*, released by the Legislative Analyst's Office (LAO) last year, California needs to increase its supply of housing dramatically to make a dent in the need for homes and to reduce the cost of housing. The state plans to spend $3.6 billion in 2016-17 on affordable housing and homelessness as summarized on the following page. However, even with the No Place Like Home Initiative, government will not be able to subsidize itself out of the housing affordability problem. According to a supplemental report from the LAO, Perspectives on *Helping Low-Income Californians Afford Housing* released earlier this year, expanding housing assistance to low-income Californians who do not currently receive it would require an annual funding commitment in the low tens of billions of dollars, which the state simply cannot afford.

The homeless bond alone will not solve California's housing woes. Bond-funded units would be limited to mentally ill individuals, leaving out many homeless or rent burdened families. California does not have an affordable housing problem but rather a housing affordability problem. According to the LAO, "Housing built for low-income households in California's coastal urban areas requires a public subsidy of around $165,000 per unit." California simply cannot subsidize its way out of this problem.

The Governor proposed legislation seeking to restrain development costs by requiring "By Right" land use entitlements for multifamily infill housing developments that include affordable housing. This policy would encourage building of affordable housing units and lessen local hurdles for market rate housing builds by exempting qualified developments from specified local permitting and review processes, as long as the development is consistent with the local general plan and zoning standards. The 2016-17 budget, as enacted in June 2016, included $400 million General Fund for various existing affordable housing programs that would be made available only if the Legislature enacted the Governor's By Right reforms. However, legislative Democrats did not pass By Right legislation (or even hold a committee hearing) prior to the end of the 2016 legislative session. Significant reforms continue to be necessary to increase housing affordability and this type of policy change is worthy of consideration. The needs and concerns of local governments must be considered as well, but without real reforms, California will have few options other than ever-increasing subsidies.

Figure SLA-01

2016-17 Affordable Housing and Homelessness Funding

(Dollars in Millions)

Department	*Program*	*Amount*
Department of Housing and Community Development	Affordable Housing Construction, Contingent on By-Right	$400
	Mental Health Services Act Programs	$267
	Federal Funds	$112
	Housing for Veterans Funds	$75
	State Emergency Solutions Grant Program	$45
	Regional Planning, Housing, and Infill Incentive Account	$22
	Mental Health Services Act Technical Assistance	$6
	Office of Migrant Services	$6
	Various	$19
California Housing Finance Agency (CalHFA)[1/]	Single Family 1st Mortgage Lending	$1,012
	Multifamily Conduit Lending	$300
	Multifamily Lending	$190
	Mortgage Credit Certificates	$130
	Single Family Down Payment Assistance	$48
	Special Needs Housing Program	$55 [2/]
Strategic Growth Council	Affordable Housing and Sustainable Communities	$400 [3/]
Tax Credit Allocation Committee	Low Income Housing Tax Credits (Federal)	$225 [4/]
	Low Income Housing Tax Credits (State)	$63
	Farmworker Housing Assistance Tax Credits	$5
Department of Veterans Affairs	CalVet Farm and Home Loan Program	$66
Department of Social Services	CalWORKS Housing Support Program	$47
	SSI/SSP Outreach to Homeless Individuals with Disabilities	$45
	CalWORKS Homeless Assistance Program	$32 [5/]
	Bringing Families Home Program	$10
Department of Finance	Community-Based Transitional Housing Program	$25
Department of Public Health	Housing Opportunities for Persons with AIDS (Federal)	$3
Office of Emergency Services	Homeless Youth and Exploitation Program	$2
California Department of Corrections and Rehabilitation (CDCR)	Integrated Services for Mentally-Ill Parolees	$2
	Specialized Treatment of Optimized Programming, Parole Service Center, Day Reporting Center, Female Offender Treatment and Employment Program	N/A [6/]
Total		**$3,612**

[1/] Amounts are the estimated lending activities from CalHFA's 2016-17 business plan.

[2/] This amount represents a voluntary allocation of Proposition 63 funds from 11 participating counties.

[3/] Of the amount appropriated, statute requires at least 50 percent be committed to affordable housing. This program may also fund transportation, infrastructure, and other related uses for projects reducing greenhouse gas emissions.

[4/] This amount represents the 9 percent tax credits available in 2016 and an estimated figure for 4 percent credit awards based on 2015. This figure does not include the $3.9 billion of tax-exempt bond debt allocation that is available for award from the California Debt Limit Allocation Committee.

[5/] This amount is an estimated figure based on actual assistance provided in 2015.

[6/] The state provides a number of wrap-around supportive services through these four programs, including housing support, which cannot be separated from CDCR's general budget.

Source: Department of Finance

Resources, Environmental Protection, and Energy

Spending Most of the Remaining Cap and Trade Revenues. On the final day of the legislative session, the majority party added $900 million in Cap and Trade spending to the budget through two trailer bills, AB 1613 and SB 859, with virtually no public process. AB 1613 authorizes the $900 million, as summarized in the table below. This funding is from the nearly $1.4 billion in unallocated funds remaining from prior auctions that are currently available for spending in 2016-17 and/or future years. Notably, the measure contains funding for healthy forests ($25 million) and methane emission reductions from dairies and livestock operations ($50 million) which will help with the removal of dead and dying trees and offset the costs of methane emissions reductions for the state's diary industry. Disadvantaged communities also benefit as 25 percent of these funds will be directed to those areas. SB 859 further directs spending for green infrastructure, clean vehicle rebates, methane emission reductions, healthy forest programs, and requires energy utilities and large publicly owned electric utilities to procure their proportionate share of 125 MW of generating capacity from existing in-state biomass projects.

Figure EPA-01

2016-17 Cap and Trade Expenditure Plan
(Dollars in Millions)

Investment Category	*Department*	*Program*	*Amount*
	Annually Appropriated Programs		
50 Percent Reduction in Petroleum Use	Transportation Agency	Transit and Intercity Rail Capital Program	$135
	Caltrans	Active Transportation	$10
	Air Resources Board	Low Carbon Transportation & Fuels	$363
Local Climate Action	Strategic Growth Council	Transformational Climate Communities	$140
Short-Lived Climate Pollutants	Air Resources Board	Black Carbon Woodsmoke	$5
	Cal Recycle	Waste Diversion	$40
	Department of Food and Agriculture	Climate Smart Agriculture - Healthy Soils and Dairy Digesters	$58
Safeguarding California/ Water Action Plan	Departments of Food and Agriculture	Water and Energy Efficiency	$8
Safeguarding California/ Carbon Sequestration	CAL FIRE	Healthy Forests	$25
		Urban Forestry	$15
	Natural Resources Agency	Urban Greening	$80
Energy Efficiency/Renewable Energy	Department of Community Services and Development	Energy Efficiency Upgrades/ Weatherization	$20
Other		Community Outreach to Disadvantaged Communities	$2
Total			**$900**

Unfortunately, the contents of both of these trailer bills were never heard or voted upon in a budget or policy committee, thus eliminating the opportunity for public input and discussion. These bills raise the following issues:

Shortchanges Desperately Needed Programs. Out of the $900 million appropriated in AB 1613, Legislative Democrats and the Governor only dedicated $25 million for vegetation management projects and other actions that will improve forest health and reduce the risk and intensity of catastrophic wildfires. Wildfires are one of the state's largest sources of greenhouse gas emissions and the largest source of black carbon. Yet despite the desperate need to effectively manage our forests to prevent catastrophic wildfire, Legislative Democrats instead chooses to spend $15 million on urban forestry projects and $80 million on "urban greening" projects. Indeed, AB 1613 focused far more attention on how to spend the $80 million on urban greening projects to create new or revitalize existing urban parks and recreational opportunities.

Adequately managing the forests to reduce the risk and intensity of catastrophic wildfire is the greatest, and one of the most cost-effective, ways to avoid significant greenhouse gas (GHG) emissions. Yet the Legislative Democrats and the Governor don't seem to be worried about this huge threat to both public safety and the environment. This further proves that the Legislative Democrats and the Governor are only using Cap and Trade revenues for social and environmental programs for which General Fund is not a priority. They don't support real GHG emission reductions and instead use the Cap and Trade revenues as a slush fund for their pet projects.

Fiscally Irresponsible and Inefficient. While this bill devotes a paltry $25 million for healthy forests, which cost about $4 per ton of GHG emission reductions, the bill dedicates $15 million to urban forestry, which the nonpartisan Legislative Analyst's Office (LAO) determined cost $116 per ton of reductions. To make matters worse, the bill appropriates $80 million for the Enhanced Fleet Modernization Program/Plus-Up Project, which the LAO determined costs $414 for each ton of emissions reductions. This is at a time when the state has been unable to sell its GHG allowances for $12.73 per ton. This fiscal mismanagement is indefensible.

Spends Illegal Tax Dollars. The majority of programs in this measure have no clear nexus to GHG reductions, which supports the argument that the Cap and Trade fee is actually an illegal tax. To date, the Air Resources Board has not provided any information on actual GHG emission reductions from the billions of dollars spent. California Chamber of Commerce has sued the state over this program on the grounds that the fee is actually a tax, even though it was approved with only a majority vote. The litigation is currently at the 3rd District Court of Appeals, which is expected to rule sometime in 2016.

Both SB 859 and AB 1613 Harm Families and Jobs by Expanding GHG Reduction Programs. A recent study prepared by NERA Economic Consulting has forecasted that under the ARB's most recent update to the Scoping Plan, pursuant to the Governor's 2030 emission target of 40% below 1990 levels or SB 32 (Pavley) of 2016:

- The average California household would experience a loss of $1,200 per year in the near-term (2020) and $3,100 per year in the long-term (2030).
- California will experience losses in gross state product (GSP) amounting to nearly $110 billion per year by 2030 under the ARB Scoping Plan.
- Expected job losses will be around 1.6 million by 2030 under the ARB's Scoping Plan.

Provides Some Help to Avoid Catastrophic Wildfires by Supporting Biomass Energy Generation. SB 859 requires a 125 MW bioenergy purchasing mandate on energy utilities and large publicly owned electric utilities which will help California meet its mandated greenhouse gas emission reductions, and will help avoid catastrophic wildfires such as the 2013 Rim Fire. Furthermore, it will help prevent the widespread closure of numerous biomass energy facilities in rural areas, which would have a devastating economic impact on those small communities. However, it would unfairly create a technology-specific mandate for utilities to purchase bioenergy generation, without regard to the financial impact on customers. Such technology-specific carve-outs prevent fair competition in the market and can have a negative impact on customer rates by requiring utilities to sign more expensive contracts for less efficient technologies.

Significant Concerns Remain for Cap and Trade Revenues. Under current law, 60 percent of auction revenue is continuously appropriated to four programs: (1) high-speed rail, (2) affordable housing and sustainable communities, (3) transit and intercity rail capital, and (4) transit operations. However, the 2016-17 amounts for these categories are unknown at this time and difficult to estimate given the poor results of the last two Cap and Trade auctions which have only generated $18 million dollars for these state programs (May 2016, $10 million and August 2016, $8 million). This is substantially less than the amounts that were generated from the prior several auctions (over $500 million each). Only one percent of the available allowances that generate revenue for the state were purchase at the August 2016 auction. And even though SB 32 (Pavley) of 2016 codified the post-2020 goals and thus partially addressed legal concerns previously raised by Legislative Counsel (in a response to a Senate Republican request), SB 32 did not extend the Cap and Trade program past 2020, so that legal concern still remains.

Emergency Drought Response Funding Changes. The final budget includes total funding of $254.7 million ($223.8 million General Fund) for drought response activities within various departments for the protection of water supplies, water conservation, and emergency response. The updated funding is summarized in the chart on the next page.

About $52 million of these funds would provide direct water and food assistance to individuals, while the rest of the funds provide enhanced fire protection, tree mortality assistance, administration of water curtailment activities, water conservation and drinking water projects, rebates for appliances, and fish and wildlife protection projects.

Senate Republicans applaud the Governor’s attention to the huge tree mortality problem plaguing California’s forests and the support of biomass facilities that dispose of these materials while generating renewable energy. To achieve healthy forests throughout California, the state will need to contribute even greater funding to continue the removal of dead and diseased trees and reduce the chances that catastrophic wildfires will destroy forests, homes, and habitat.

Figure RES-01
Emergency Drought Response
(Dollars in Millions)

Investment Category	*Department*	*Program*	*Final Budget*
Water Supplies	Department of Water Resources	Local Assistance for Small Communities	$10.0
	Water Board	Water Curtailment	$5.4
	Water Board	Emergency Drinking Water Projects	$16.0
Water Conservation	Department of Water Resources	Save Our Water Campaign	$2.0
	Department of Food and Agriculture	Economic Impact of Drought on Agriculture	$0.2
Emergency Response	Department of Forestry and Fire Protection	Enhanced Fire Protection	$87.8
	Department of Forestry and Fire Protection	Tree Mortality	$11.0
	Department of Forestry and Fire Protection	Local Fire Prevention Grants	$10.0
	Department of Water Resources	Drought Management and Response	$12.0
	Department of Fish and Wildlife	Protection of Fish and Wildlife	$13.5
	Department of Fish and Wildlife	Delta Smelt Management Strategy	$4.2
	Department of Social Services	Drought Food Assistance	$18.4
	Office of Emergency Services	California Disaster Assistance Act	$52.7
	Office of Emergency Services	State Operations Center	$4.0
	Department of Community Services and Development	Farmworker Assistance	$7.5
Total			**$254.7**

To date, the Legislature has appropriated $4 billion in drought funding to assist drought-impacted communities, though most of the funding has gone towards long-term infrastructure projects. This funding does not include surface water storage projects since the California Water Commission will not allocate project funding from the $2.7 billion of continuous appropriation bond funds until December 2016, pursuant to Proposition 1.

Stealing Off-Highway Vehicle (OHV) Funds to Backfill State Parks' Deficits. The Budget Act repeats an unfortunate recent pattern in which the Administration punishes a State Parks program that is self-sufficient but rewards programs that continue to fail. Specifically, the budget contains a transfer of $31 million in fuel tax revenues meant for the OHV program to the State Parks and Recreation Fund to be dispersed statewide among non-OHV parks and programs to support its base operating budget. These operations were supposed to be more self-sufficient at this time as the Legislature had required the department to develop revenue generating projects and partnerships for the operation and maintenance of its park units. This will be the third consecutive year of providing additional funding to keep the department solvent. The only good news for the OHV program is that the Administration is finally repaying $112 million in General Fund loans made from the Off-Highway Vehicle Trust Fund in 2008 and 2009. Unlike these loans, the $31 million in fuel tax revenues will never be repaid.

Another Year, Another Cost Increase to California Families to Fund Free Cell Phones with Unlimited Voice, Texting, and Data Plans. The 2016-17 Budget Act includes funding of $483 million from ratepayer fees to fund wireless service plans for California Lifeline participants. Enrollment is projected to reach 3.7 million. The individuals who qualify for free cell phone service are adults and emancipated minors with income at or less than 200 percent of the federal poverty level (about $23,500 annually for an individual). The 2016-17 fee increase for the program was $140 million. The additional funding allows eligible households to subscribe to discounted wireless service plans that include voice, text, and internet access. This program also had deficits of $96 million in 2014-15 and $280 million in 2015-16 due to increased subscribership numbers.

The Lifeline program was meant to provide essential phone service, not texting and internet access. Families who pay for their own cell phone plans are really funding two plans: their own and one for Lifeline participants. These families may not be able to afford their own texting plans, yet they are required to fund it for someone else. Pursuant to Prop 26, these ratepayer fees are really a tax because the ratepayer is receiving no direct benefit.

Marijuana Growers Receive Exemptions from Streambed Alteration Requirements and Priority Treatment on Water Rights. In establishing a new regulatory scheme for marijuana growers (also discussed on page 47), SB 837 (a general government trailer bill) in some cases significantly advantages licensed medical marijuana growers over other agricultural operations. For example, **the bill provides an exemption for licensed individual marijuana growers from the requirement to obtain an agreement with the Department of Fish and Wildlife (DFW) for streambed alterations under some circumstances.** This exemption is not available to other growers, and, ironically, just last year, an appellate court decision determined that anyone who diverts water from a stream must enter into a streambed alteration agreement with Fish and Wildlife, even if the streambed is not actually altered. It is unreasonable to apply this law to one class of farmer, but not another based solely on the crop being grown. This measure also provides, though the language is vague, for marijuana growers to get their water rights approved through a separate process that puts them before others who have been waiting for many years in a backlogged SWRCB application process. And, to add insult to injury, those same water rights holders who are waiting to have their applications approved, will be hit with a water right fee increase in the 2016-17 budget amounting to $851,000 overall.

Another Year of Inapropriate Use of the State Responsibility Area (SRA) Fee Revenue. Once again, the budget spends $86 million in SRA fees for fire prevention activities and programs that do not provide a direct benefit to the homeowners paying the fee. Most of these projects provide a general purpose benefit and should be General Funded. Targeting these funds to programs that do not provide a direct benefit to each homeowner paying the fee is inconsistent with Proposition 26 (2010) requirements. A lawsuit by the Howard Jarvis Taxpayer's Association alleges that the fee is actually a tax, even though it was approved with only a majority vote.

Biomass Feed in Tariff Interconnection Requirements. The Energy Omnibus Trailer Bill (SB 840) allows biomass projects that meet specified requirements to participate in the biomass feed in tariff program without having an interconnection agreement. A feed in tariff is a process for small renewable electric generators to sell power to the utilities under predetermined terms and conditions. The utilities must take this power. This bill makes it easier for generators to participate since they usually have financing concerns and this bill would ensure they have a contract to sell the power as they are working on obtaining an interconnection agreement. This could also help address the tree mortality issue since more biomass facilities are needed. ***While this is a positive step, it should be noted that this program is capped at 50 MW, so the impact is minimal. Additionally, new facilities are several years out, so the provision would not have an immediate impact.***

Elimination of Flat Fee for Hazardous Waste Facility Permits Will Increase Costs Dramatically. SB 839 (Resources Omnibus Trailer Bill) of 2016 authorizes the elimination of the hazardous waste permit application flat fee in favor of a fee-for-service reimbursement process which would leave permittees with a five-fold, uncapped increase, based upon conservative estimates by the Department of Toxic Substances Control (DTSC). Currently, flat fees range from $5,332 to $381,602. Stakeholders are concerned that the elimination of the flat fee could result in further delays as a result of potentially exorbitant fees being disputed, thereby adding to delays in the permitting process. Furthermore, the department is currently in the process of streamlining the permitting process, and it's unclear whether this level of resources is justified.

New Fee for California Endangered Species Act Incidental Take Permits. The Department of Fish and Wildlife is authorized, pursuant to SB 839, to collect a permit application fee for processing applications for permits to take a species listed as candidate, threatened, or endangered. The new fee could range from $7,500 to $35,000 depending on the total cost of the project not the complexity of the project. The fees could be imposed on a wide range of public and private projects and could result in the deferral of important projects due to cost issues. This new fee is meant to backfill $2.5 million in current funding from the Environmental License Plate Fund, which has an ongoing structural imbalance.

More Fee Increases on Water Agencies. SB 839 authorizes a fee increase of $8.5 million (54 percent) on public water agencies in order to fund costs for the State Water Resources Control Board (SWRCB) to administer the Safe Drinking Water Program. Senate Republicans were right to be concerned about the transfer of the Safe Drinking Water Program from the Department of Public Health to the SWRCB. Last year, the SWRCB increased the cap on safe drinking water fees from $15.9 million to $30.4 million and was authorized to pursue emergency regulations that allow the Board to administratively adopt an annual fee schedule each year. This is similar to Water Rights and Water Quality Fee programs, which have seen millions of dollars in annual increases without any legislative oversight. Starting in 2017-18, the Board can administratively increase fees up to 5 percent, plus any changes to salary, benefit, and retirement adjustments.

Pay Increases for Regional Water Quality Control Board Volunteer Members. The Resources Trailer bill (SB 839) also increases per diem from $100 to $250 per day of official business and expand this pay to one day of preparation work to review agenda materials. Statewide regional board per diem is currently set at $121,500 but would increase to $378,250 per fiscal year, all to be paid for by fee payers including water rights and waste discharge permit holders. This measure would not impose a pay cap per board member and would eliminate the cap per regional board. Volunteer members could be paid for such activities as organized tours of agricultural operations or environmental justice communities at the discretion of the State Water Resources Control Board. The Administration's only justification was that it would encourage more members from the environmental justice community to participate. Most state boards pay a $100 per day per diem, and this language will set a new precedent for state board pay.

Fee Increases for the Environmental Laboratory Accreditation Program. Within two years of the SWRCB takeover of the Safe Drinking Water program from the Department of Public Health, the environmental laboratory accreditation program will see its fees increase by 83 percent. In 2015-16, the fee increased 58 percent or approximately $1 million, and in 2016-17 the fees will increase 25 percent or approximately $700,000 pursuant to SB 839. In contrast, the Department of Public Health had not increased fees for 5 to 7 years prior to this program being transferred to the SWRCB. With this proposal, the Water Board will receive administrative authority to adjust the fee schedule every year and raise fees as it wishes, similar to the water rights, waste discharge, and safe drinking water programs.

Lake and Streambed Alterations Agreement Fee Increases. Pursuant to SB 839, the fees for lake and streambed alterations will now be assessed per single project instead of per agreement, resulting in increased fee revenues for the DFW. This allows the department to impose fee increases without lifting the existing $5,000 fee cap, although DFW has indicated that it can already impose these fees through existing regulations. ***Furthermore, these fees will now be annually adjusted per the Consumer Price Index, which would likely result in more fee increases.*** It should be noted that the department is currently in the process of imposing a 129 percent fee increase on lake and streambed alteration agreements through a proposed rulemaking. This increase will affect all fees within the fee schedule, which range from $245 to $5,000.

Public Water System Forced Consolidation. The Resources budget trailer bill (SB 839) authorizes the expansion of the SWRCB's authority over local public water systems pursuant to SB 88 (2015) by allowing them to force a consolidation when a disadvantaged community lies within a city and is served by a small failing system. SB 88 ignored constitutional questions relating to the cost of service, let alone requiring forced consolidations, and didn't answer fundamental questions of government organization, including pension obligation and other management issues. SB 88 also was the opposite of local control and realignment as it puts the SWRCB in the position of dictating consolidation terms to local agencies.

Authorizes the California Air Resources Board (CARB) to Use Oil and Gas Fee Revenues. SB 840 authorizes CARB and the Office of Health Hazard Assessment to access oil and gas fee revenues for activities related to oil and gas operations that affect air quality, public health, or public safety statewide under the guise of public safety related to the Aliso Canyon gas leak. Historically, these revenues have only been used by the Department of Conservation, who is charged with the supervision of oil and gas operations. SB 83 (Committee on Budget) of 2015 allowed the SWRCB and regional water quality control boards to use the oil and gas fee revenues for their activities related to gas operations affecting water resources. This bill would expand use of these revenues to oil and gas operations that may affect air quality, public health, or public safety. **This action would take advantage of a true crisis by implementing a much broader new funding source for environmental programs and likely violates Proposition 26.**

Self-Generation Incentive Program (SGIP) Fee Increase. SB 1637 (Low) of 2016 imposes a $290 million fee increase on ratepayers to subsidize "innovative" technologies such as batteries and fuel cells for SGIP. This measure doubles the current surcharge of $83 million annually for the next three and one-half years until the program expires in December of 2019. This program has been criticized in recent years because it has failed in its stated purpose as a peak-load demand reduction and carbon reduction program. The SGIP was originally enacted as a <u>temporary</u>, emergency measure to get California through the 2000-01 energy crisis. SGIP has produced very little electricity in return for it's $83-$125 million annual cost, and has failed in its stated goal of significantly decreasing peak demand for electricity. Nevertheless, the program has been repeatedly extended since its first sunset date in 2004. A June 1, 2014 Sacramento Bee article questioned the cost effectiveness of this program and cited a Democrat staff committee analysis that did the same.

Expansion of Net Energy Metering Program. SB 1637 also expands the net energy meeting program for fuel cell electrical generating facilities and allows this industry to benefit from greater ratepayer subsidy while excluding others. This measure would allow fuel cell facilities to be eligible to interconnect as much as 5 megawatts of renewable energy generation through the net metering tariff program, which could allow them to shift some costs to other commercial customers. *These costs will be passed onto California families through higher goods costs.*

Energy Retrofit Contracts. SB 840 also includes language allowing any state agency to enter into energy retrofit project contracts, but with labor from union-only shops. This unfairly excludes merit-shops and increases the costs of these taxpayer-funded projects.

Funding for Local Water Supply Project. SB 831 (Budget Trailer Bill) of 2016 appropriated $10 million from the General Fund to the Department of Water Resources for construction of a water conveyance tunnel connecting Lake Nacimiento and Lake San Antonio.

Employee Compensation and Pension Benefits

Employee Compensation Costs will Continue to Rise. The 2016-17 budget includes $582.4 million ($340.7 million General Fund) for employee pay raises and increases in health and dental benefits, bringing the **total cost of state employee salaries and benefits to about $25 billion**. Since 2006-07, base employee compensation costs have increased $3.8 billion ($1.7 billion General Fund), and cumulatively, employee compensation increases have resulted in an additional $25.2 billion ($12.4 billion General Fund) of state expenditures at the same time taxes and fees have been increased by tens of billions.

Recently approved bargaining unit agreements have generously included annual salary increases ranging from three to four percent annually for the next several years. While the agreements include shared responsibility for future normal costs of retiree health care, increasing salaries now as an offset to the additional contributions ends up costing the state more in long-term pension costs. It may make more financial sense for the state to fully fund retiree health care on its own while maintaining current salary levels. This strategy would reduce overall pension obligations in the long run which could save the state hundreds of millions in pension benefit costs.

California Public Employees Retirement System (CalPERS). The budget includes $5.4 billion ($3.1 billion General Fund) in contributions to CalPERS for pension benefit obligations, an increase of nine percent from 2015-16. The pension fund continues to be underfunded, with outstanding unfunded liabilities currently around $43 billion. State contributions are projected to increase about six percent annually for the next few years, but these projected contributions assume investment returns of 7.5 percent, the assumed rate of return used to determine contribution levels for state and local governments. Many believe this return rate is unachievable (year end June 30, 2015 return rate was 2.4 percent) and as investment returns fail to meet expectations, state General Fund costs will increase even higher than projected.

Following are state contribution rates by category of employee, comparing the rates from the 2004 Budget Act with those from the 2010 Budget Act and the 2016-17 budget. The table shows the significant growth in state contributions over the past few years, with increases ranging from flat (Safety) to up 76 percent (Peace Officer/Firefighter). As these percentages increase, state General Fund contributions to CalPERS increase as well. As a result, the state loses the ability to prioritize other vital areas of need, including public safety, education, and the state's safety net programs that assist vulnerable Californians.

Employee Category	2004-05 Contribution Percent	2010-11 Contribution Percent	2016-17 Contribution Percent
Misc 1	17%	19.9%	26.7%
Misc 2	13.2%	19.6%	27%
Industrial	16.3%	18.1%	19.2%
Safety	20.7%	20.6%	19.9%
Peace Officer/Firefighter	23.8%	28.9%	41.9%
Highway Patrol	34.4%	32.6%	50%

California State Teachers' Retirement System (CalSTRS). The budget includes $2.5 billion General Fund for CalSTRS' pension benefits, an increase of 28 percent from 2015-16. The teachers' pension fund continues to be underfunded, with outstanding unfunded liabilities about $73 billion The 2014 Budget Act included a plan to fully fund CalSTRS in 30 years by increasing contributions from the state, districts, and teachers.

The state's increased contributions are fully phased in as of 2016-17, with total state contribution percentages reaching 8.8 percent of employee compensation. General Fund contributions are projected to grow by three percent annually over the next few years, mainly as a result of additional employee compensation increases. For school districts, contribution increases will continue to be phased in through 2020-2021, when total contributions will reach 19.1 percent for school districts. For school teachers, additional contributions are fully phased in as of 2016-17, and range from 9.2 percent to 10.25 percent depending on when they were first hired. While fully funding CalSTRS will mean that taxpayers and teachers will contribute billions more in the next few decades, the plan will lower long-term costs and put CalSTRS on a sustainable path. There have been concerns however, that the significant growth in contributions required from school districts could result in less flexibility at the local level to provide vital educational programs as more and more funding will be needed to pay for the retirement system.

Retiree Health Care. Recently approved bargaining agreements (for bargaining units 2, 6, 7, 9, 10 and 12 so far) have included significant reforms to the state's retiree health care program, beginning the process of addressing one of the state's largest outstanding liabilities (latest estimate is $74 billion in unfunded retiree health care liabilities) but giving away significant concessions at the bargaining table in the process. Concessions such as multi-year wage increases and special salary adjustments will increase long-term pension benefit costs, negating any savings to the state as a result of the shared prefunding plan. As Senate Republicans warned last year, the critical changes necessary to address the spiraling liability have not been achieved without providing new salary increases, driving higher long-term costs elsewhere in the budget.

Some of the more notable reforms include the following;

- **Prefunds Normal Cost of Retiree Health Care. Employees and the state will begin contributing between 2-4 percent annually, with the goal of each reaching 50 percent cost sharing of the normal costs by 2019-20.**
- **Reduces State Contribution for Future Retirees.** Reduces the state's contribution for retirees consistent with contribution levels during their working years, usually 80 percent of average premium costs for both the retired employee and their eligible family members.
- **Increases Vesting Time for Health Care.** New employees would fully vest for lifetime health care benefits only after 25 years of service, compared to 20 years for current state employees hired before 2016.

In addition to the state costs for prefunding retiree health care, the state will continue paying these benefits on a "pay-as-you-go" approach for the next couple of decades for currently retired employees. The 2016 budget includes $2 billion General Fund for these pay-as-you-go retiree health care expenses.

Local Government

New Election Mandate Funding

The 2016 Budget Act includes $626,000 to cover the costs of a newly recognized state reimbursable mandate to manually tally post-election ballots in contests in which the margin of victory was very narrow. In 2008, counties were required to conduct manual tallies in ten percent of precincts for the affected contests. This request follows Senator Janet Nguyen's successful bipartisan effort in the budget subcommittee process to approve $77 million to reimburse counties for six previously suspended elections mandates to verify provisional ballot signatures and validate absentee voter lists. **Despite Senate Republicans' efforts urging the Governor and legislative Democrats to include these funds in the final budget, they were not. Senate Republicans continue to push for funding these mandates and a reactivation of these important laws that would help make sure every vote counts in future elections.**

Siting Incentive Grants

The Governor's budget included $25 million to provide incentives to cities and counties that approve, between January 1, 2016 and June 30, 2017, new long-term permits for hard-to-site offender rehabilitation facilities that improve public safety and support the criminal justice system by providing service such as substance use disorder treatment, mental health, and reentry programs. The 2016 Budget Act provides "grants" rather than "incentive payments" and eliminates the narrow timeframe for local governments to approve permits. This is an improvement to the Governor's January proposal as it will likely encourage more participation in the program by local governments. **Senate Republicans have worked hard to ensure that local governments have the tools and resources necessary to protect their communities.**

Wildfire Relief

The 2016 Budget Act implements the Governor's January proposals to aid Lake and Calaveras counties in their recovery from two devastating wildfires that burned more than 145,000 acres and destroyed more than 2,000 homes and other structures. The budget provides:

- $1.9 million to backfill lost property tax, sales and use tax, and transient occupancy tax revenues in 2016-17.
- CalFIRE fire protection contract relief for the South Lake County Fire District and Calaveras County (totaling nearly $2.9 million in 2016-17).

Statewide Debts and Liabilities

The 2016 Budget Act includes nearly $8.3 billion to pay the state's current debts and liabilities, including the following components:

- About $5.4 billion to pay debt service costs for the state's outstanding and planned General Obligation (GO) and Lease Revenue (LR) bonds in 2016-17, as required by the California Constitution and respective debt issuance documents. According to the State Treasurer, the state currently has outstanding bonds totaling some $87 billion and has authorization to issue $34 billion more.
- Nearly $1.3 billion to pay a variety of debts and liabilities as mandated by Proposition 2, which was passed by the voters in November 2014. The Budget Act differs from the Governor's May Revision in that $240 million of state retiree healthcare prefunding approved with the managed care tax package is now counted within the $1.3 billion of Proposition 2 debt repayments, thereby delaying $240 million in special fund loan repayments.
- $1.4 billion to reduce a portion of the state's mandate obligations to K-12 schools and community colleges.

Proposition 2 Liabilities. The 2016-17 budget identifies $232.2 billion of debts and liabilities facing the state in the coming years, including outstanding budgetary borrowing and state retirement liabilities. The following table represents only those liabilities that are eligible for repayment from General Fund revenues pursuant to Proposition 2.

Debts and Liabilities Eligible for Accelerated Payments Under Proposition 2 (2016-17 Budget Act)						
(Dollars in Millions)	At Start of 2016-17	Proposed Use of Proposition 2 Funds				Remaining Liabilities Following 2019-20
		2016-17	2017-18	2018-19	2019-20	
Budgetary Borrowing						
Loan from Special Funds*	**1,822**	454	252	392	483	241
Underfunding of Proposition 98 - Settle-Up	**1,232**	218	347	156	1	510
Pre-Proposition 42 Transportation Loans	**879**	173	220	220	266	0
State retirement Liabilities					0	
State Retiree Health	**74,103**	278	150	200	250	N/A
State Employee Pensions	**49,592**	0	0	0	0	N/A
Teachers' Pensions (state portion = 13.939 billion)	**72,626**	0	0	0	0	N/A
Judges' Pensions	**3,279**	0	0	0	0	N/A
Deferred payments to CalPERS	**570**	0	0	0	0	N/A
University of California Retirement Liabilities						
University of California Employee Pensions	**10,786**	171	169	0	0	10,446
University of California Retiree Health	**17,270**	0	0	0	0	N/A
Unallocated					0	0
Totals	**$232,156**	**$1,292**	**$1,138**	**$968**	**$1,000**	

Total Obligations Approach $330 Billion. Debts and liabilities identified by Proposition 2, however, do not represent the universe of debt facing the state. Significant debts that are not identified in Proposition 2 include GO and LR bonds as well as other debts and obligations. As shown in the following table, adding all these obligations brings the state's potential total to $329 billion.

Total Statewide Debts and Liabilities (Dollars in Millions)					
	At Start of 2016-17	Proposed Debt Payments			
		2016-17	2017-18	2018-19	2019-20
Debts & Liabilities Identified in Proposition 2	**$232,156**	$1,292	$1,138	$968	$1,000
Long-Term Infrastructure Debts (GO & LR Bonds)	**$87,475**	$5,461	$5,377	$5,571	$5,563
Unemployment Insurance Debt	**$5,000**	$0	$0	$0	$0
Suspended Mandate Debt	**$1,038**	$0	$0	$0	$0
Education Mandate Debts	**$3,312**	$1,386	$0	$0	$0
Totals	**$328,981**	**$8,139**	**$6,515**	**$6,539**	**$6,563**

Unemployment Insurance Loan Debt Repayment. The 2016 Budget Act includes $110.7 million General Fund to pay interest costs to the federal government on loans taken out during the Great Recession to pay for unemployment benefits. The Employment Development Department estimates that outstanding debt to the federal government will decrease to about $4 billion by the end of 2016, resulting from increased UI taxes on employers imposed by the federal government. The legislative Democrats could have chosen to use additional General Fund to pay down this debt and expedite the date in which UI taxes on employers would decrease (when the debt is fully paid off). This option, however, is opposed by various labor groups that seek to increase state UI taxes on employers to support the UI program in the long run.

Missed Opportunity to Pay Down More Debt. Though this budget does meet constitutional requirements for debt payments, it only pays off a small portion of the state's debts and liabilities. With its current windfall revenues, the budget misses an opportunity to pay down additional debts and avoid future costs. For instance, the Democrats continued to suspend dozens of local mandates in the 2016 Budget Act. These annual suspensions have resulted in more than $1 billion in accumulated mandate reimbursement debt owed to the counties. ***Senate Republicans led the effort to end the suspension of critical election-related mandates by providing $77 million to the counties.*** Unfortunately, the Democrats removed this funding from the final budget. Paying down these state debts is important given that debt could rise further if the voters approve $9 billion in new school facilities bonds on the November 2016 ballot.

Statewide Issues and Various Departments

Statewide Infrastructure

Sacramento Office Buildings Prioritized Over Roads for Everyone. The 2016 budget begins a plan to spend $1.3 billion over two fiscal years ($1 billion in 2016-17; $300 million in 2017-18) to build three new projects in downtown Sacramento: the Natural Resources building, a new O Street building, and a new or renovated State Capitol Annex. The Annex project will be exempted from the State Contract Act, which pertains to bidding preferences and other obligations on contractors and subcontractors and will also benefit from an expedited environmental (CEQA) review.

While the majority party prioritizes Sacramento office buildings, Senate Republicans advocate for funding road and highway projects that benefit all Californians. In fact, the California Transportation Commission announced in May that local transportation projects totaling $754 million would be eliminated and that another $755 million in projects would be delayed. **Senate Republicans also believe that broad CEQA reforms are needed, not just exemptions for pet projects in Sacramento.**

Medical Cannabis Regulation

The budget includes a total of $33.1 million ($13.4 million General Fund, $19.7 million special funds) to begin regulating medical marijuana as required by the Medical Marijuana Regulation and Safety Act of 2015 (Act) (AB 243, AB 266, and SB 643). The budget also allows authorizes a loan of $19 million from the General Fund. Below is the detail for each department receiving funding and staff positions. Given the extensive requirements of the regulatory program and the distribution of responsibilities across six departments, concerns remain about the ability to implement the program in a coordinated and efficient manner by the January 1, 2018 deadline. Although many Senate Republicans did not support the Act, monitoring the implementation to ensure state resources are used efficiently is consistent with the priority of promoting responsible government and accountability.

Department	Funding (Millions)	Staff Positions	Responsibilities
Department of Consumer Affairs, Bureau of Medical Cannabis Regulation	$9.7	33	Regulate the transportation, storage, distribution, and sale of medical marijuana within the state; licensing, investigation, enforcement, and coordination with local governments.
Department of Fish and Wildlife	$7.7	31	Establish a permanent statewide multi-agency task force and address environmental issues related to cultivation.
State Water Resources Control Board	$5.7	35	Develop and implement a regulatory program to address the environmental impacts of medical marijuana cultivation.
Department of Food and Agriculture	$5.4	18	Provide program oversight, promulgate regulations, issue medical marijuana cultivation licenses, and perform an Environmental Impact Report.
Department of Public Health	$3.9	14	Licensing and regulation of medical marijuana product manufacturers.
Department of Pesticide Regulation	$0.7	3	Draft guidelines for the use of pesticides in the cultivation of medical marijuana.

In addition to the budget resources, a budget trailer bill (SB 837) made significant policy changes, including making the Bureau of Medical Cannabis Regulation responsible for licensing testing facilities rather than the Department of Public Health. Regarding water use, the bill makes various changes that allow the state to more carefully regulate and account for water use by cannabis cultivators and ensure these growers are in compliance with water rights laws. However, the bill also gives licensed medical cannabis cultivators advantages over other agricultural operations. For example, this bill **provides an exemption for licensed individual cannabis cultivators from the requirement to obtain an agreement with the Department of Fish and Wildlife for streambed alterations under some circumstances.** Additionally, the bill establishes a new procedure for the issuance of a general streambed alteration agreement in a geographic area in lieu of individual agreements, but only for "a category or categories of activities related to cannabis cultivation." Given the significant policy implications of this budget trailer bill, it would have been more appropriate to vet these changes through the policy process. The Democrats' circumvention of the appropriate policy process will create problems that are likely to result in the need for additional future "clean-up" legislation.

Deferred Maintenance

The 2016 Budget Act allocates $688 million ($485 million General Fund; $185 Million Prop 98 General Fund and $18 million Motor Vehicle Account) to various state departments, to address the state's deferred maintenance needs. The largest projects include:

- $60 million for levee repair projects in the Central Valley.
- $55 million for a roof and HVAC project at the Atascadero State Hospital.
- $10.3 million for an escalator renovation at the Stanley Mosk Courthouse in Los Angeles.
- $10.1 million for a boiler replacement at the Porterville Developmental Center.

November 2016 Voter Information Guide Costs

The 2016 Budget Act adds $7.3 million to the Secretary of State's office to cover additional printing costs for the potentially sizable Voter Information Guide for the November 2016 General Election. There looks to be at least 15 measures headed to the November ballot. In an April 4, 2016 letter to the Governor, Secretary Padilla requested funding assistance for county elections officials to verify signatures on initiative petitions for the November election, as well as higher printing costs for additional voter information guides.

Expansion of Farm to Food Bank Tax Credit

The 2016 budget increases the tax credit for donations from crop growers to food banks from 10% of the qualified value of the fresh fruits and vegetables to 15% of the value. It also extends the current sunset date for the tax credit for donations to a food bank to 2022. This expansion is estimated to result in General Fund revenue losses of $600,000 in 2016-17, $1.2 million in 2017-18, $1.6 million in 2018-19, and $1.6 million in 2019-20.

Sale of Low Income Housing Tax Credits (LIHTC)

The 2016 budget includes trailer bill language to amend the LIHTC program to allow a taxpayer to make an irrevocable election to sell all or any portion of LIHTC to another taxpayer as part of its application to California Tax Credit Allocation Committee. This change will increase the impact of the state's existing LIHTC by structuring the credits in a way that is not subject to federal taxation, thereby potentially creating more than 1,000 new apartments in California with little impact to the state budget. The Administration estimates a one-time $300,000 increase in General Fund revenue in 2016-17, followed by reductions in revenue of $100,000 in 2017-18, $700,000 in 2018-19, and $1.2 million in 2019-20. **Senate Republicans are committed to increasing all types of housing in California.**

Earned Income Tax Credit (EITC) Outreach

The 2016 Budget Act adds $2 million to the Franchise Tax Board to provide outreach to increase participation in the state's EITC, which was enacted in 2015. The EITC provides a refundable credit for wage income for households with incomes of less than $6,580 with no dependents or $13,870 if there are three or more dependents. According to the Administration, the state will grant $295 million in earned income credits in 2016-17, up from $255 in 2015-16. **The creation of this tax credit was spurred on by the introduction of SB 152 by Senator Vidak in 2015.**

Arts Funding

The 2016 Budget Act appropriated $6.8 million additional one-time General Fund to the California Arts Council to support arts grant programs in underserved communities in 2016-17 and to establish a reentry/bridging grant program to facilitate inmate transition from prison back to their communities. The budget also adds $4.5 Million from the California Cultural and Historical Endowment will fund capital needs at the Pasadena Playhouse, the Excelsior Auditorium, the Lark Musical Society, and the Armenian Museum.

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