

SENATE

REPUBLICANS

# Highlights and Analysis of the 2018-19 Budget

SENATE REPUBLICAN  
FISCAL OFFICE

*September 11, 2018 Update*



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# Executive Summary

## **Overview: Record Budget Builds Reserves, Though High Spending Remains a Concern.**

The 2018 Budget Act reflects record highs for spending, revenues, and reserves. Prior to lawmakers' decisions on new spending commitments, the budget reflected a \$10 billion surplus. The budget fills the state's Rainy Day Fund to its limit with an extra deposit of \$2.6 billion and makes a number of other large one-time expenditures in areas such as homelessness programs and infrastructure. Senate Republicans applaud the Governor's focus on addressing one-time needs and on filling the Rainy Day Fund, although the infrastructure spending could be better prioritized, such as by upgrading the state's 9-1-1 system. Despite the current surplus, though, continued "baseline" spending growth is projected to outpace revenues over the next several years, giving credence to the Governor's warning that the state is already "overextended" even before considering a possible recession.

**Revenues Continue Rapid Rise.** General Fund tax revenues are budgeted for a new record high of nearly \$138 billion in 2018-19, which is \$10 billion (8 percent) above the enacted 2017-18 budget. Compared to the Governor's January budget estimates, tax revenues are projected to be higher by \$3.5 billion in 2017-18 and by \$2.8 billion in 2018-19. Part of this sharp increase is attributable to the effects of federal tax reform. The record revenues, which do not include the gas and car taxes approved in 2017, indicate that the state did not need to raise taxes further to take care of issues that are a priority for Californians.

**State Spending Tops \$200 Billion.** State spending in the new budget would reach \$201 billion from all state funds in 2018-19, the first time state spending would exceed the \$200 billion threshold. This includes General Fund spending of nearly \$139 billion, an increase of about \$13.6 billion (11 percent) over the enacted 2017-18 budget. Compared to Governor Brown's first budget, in 2011-12, state General Fund spending will increase by more than \$52 billion (nearly 61 percent). Furthermore, General Fund spending is projected to grow by another \$14.3 billion through 2021-22 (\$1 billion more than revenue growth) due to continued increases in baseline spending and major new spending commitments made by Sacramento Democrats in recent years.

**Surpluses Now, Deficits to Follow.** The nonpartisan Legislative Analyst's Office estimated the budget surplus to be more than \$10 billion before lawmakers considered additional spending decisions (compared with the Governor's estimates of nearly \$9 billion). However, despite the current surplus, the rapid growth in spending is projected to return the state budget to an operating deficit of \$2.3 billion in 2021-22. Considering that state tax revenues are at record highs, the fact that deficits are projected to return so soon is cause for concern, particularly in light of a potential recession that could reduce revenues by \$20 billion in a single year.

**Rainy Day Fund Would Reach Constitutional Goal and Record High.** The state's Rainy Day Fund would grow to \$13.8 billion by the end of 2018-19, a balance that reaches 10 percent of General Fund revenues, the maximum level allowed. This includes a \$2.6 billion supplemental payment (in addition to the \$1.7 billion required amount) that the budget authorizes in order to reach the constitutional maximum. Senate Republicans fought for years to create the Rainy Day Fund and applaud the Governor's proposal to fully fund it.

The Governor's budget also includes a discretionary reserve of \$2.4 billion, which would bring total reserves to over \$16 billion when combined with the Rainy Day Fund. At nearly 12 percent of tax revenues, this combined reserve would be a record high.

**Homelessness Efforts.** The 2018-19 budget provides \$830 million to help local agencies combat homelessness across the state, including \$500 million in one-time General Fund for a grant program that provides funds to cities and counties that declare a local shelter crisis and identify city-county

coordination efforts. The funds are available for a variety of purposes such as emergency housing vouchers, rapid rehousing, emergency shelter construction, and use of armories to provide temporary shelters.

**“No Place Like Home” Bond.** The budget package includes a bill (Assembly Bill 1827) to place the \$2 billion “No Place Like Home” bond before the voters at the November 2018 general election. This program seeks to assist the mentally ill homeless population.

**Questionable Priorities for Significant Infrastructure Funding.** The budget provides \$630 million for Sacramento office buildings, prioritizing these regional projects over statewide challenges for a new 9-1-1 system, water storage, high housing costs, forest health and other needs.

**Budget Fails to Prioritize Surplus Money for 9-1-1 Upgrade.** Despite the state’s current budget surplus, the Governor sought a tax increase to pay for an upgrade to the state’s 9-1-1 system. Senate Republicans opposed this tax proposal because the state already has sufficient funds to pay for high priorities like the 9-1-1 system, and the tax proposal amounted to a blank check without accountability.

**Blank Check for Department of Motor Vehicles (DMV).** In response to crisis-level customer waiting times at the DMV, a late budget bill foregoes accountability and instead provides a virtual blank check that allows the DMV to increase its budget by whatever amount the Governor’s administration deems necessary, without another legislative vote.

**Education Spending Reaches Yet Another New High.** The Proposition 98 guarantee of funding for K-14 education grows in 2018-19 to an all-time high of \$78.4 billion, up from \$74.5 billion at the 2017-18 Budget Act. Unfortunately, K-12 school facilities bonds (which are off-budget) remain insufficient to meet facility needs.

**Career Technical Education Finally Stabilizes.** K-12 career technical education funding that was set to fall to zero after 2017-18 continues permanently at \$150 million per year, and another \$150 million expands the regional Strong Workforce program to include K-12 schools.

**New Online Community College Launches.** The 2018-19 budget provides \$120 million to launch a new fully-online community college intended to expand educational options for working learners.

**Community College Funding Formula Broadens.** The budget changes the formula for community college funding to include not only enrollment, but also service to needy students and positive student outcomes. One-time funding is provided to extend protection for colleges that would otherwise lose funding under the new formula.

**UC and CSU Support Rises; Tuition Remains Flat.** Tuition at the University of California and California State University will remain flat, while the state budget provides additional funding of \$347 million to UC and \$359 million to CSU.

**Missed Opportunity to Prevent Gun Violence by Felons and the Mentally Ill.** Despite Senate Republican calls for oversight of the Attorney General’s Armed Prohibited Persons System and a persistent backlog of more than 10,000 felons and mentally ill individuals who continue to own firearms in defiance of the law, the budget fails to provide additional funding for the Attorney General to disarm these potentially dangerous individuals.

**Start-Up Funds for Bail Reform.** A late budget bill provides \$15 million as initial funding for the courts to begin implementing bail reform, following passage of a related policy bill.

**Trial Court Funding Improves, but Need for Judges Continues.** The budget provides funding for the trial courts that exceeds 90 percent of the workload need for the first time in a decade, but more than 180 new judgeships are still needed to fully meet annual demand and provide people with better access to the justice system.

**Some Funding for Forest Health and Water Infrastructure, but More Needed.** The budget contains \$1.4 billion of funding from Cap and Trade revenues for various greenhouse gas reduction programs and projects, which includes \$235 million to support Healthy Forest programs and projects. The budget also includes \$295 million General Fund for urban flood control projects and levees. These are important steps, but more is needed to deal with the flood infrastructure requirements and the threat of wildfires.

**Gas and Car Taxes Spent, but One-Fourth Not for Roads.** The budget allocates \$4.6 billion from the SB 1 gas and car taxes. Of this amount, about 61 percent is allocated to programs directly fixing streets, roads, highways, bridges, and culverts. About 16 percent is slated for programs that have a mixture of road and non-road projects. The remaining 23 percent is planned to be spent on projects unrelated to fixing roads, like transit and commuter rail improvements and operations.

**\$1 Billion in Proposition 56 Tobacco Tax Funds Allocated to Medi-Cal Providers.** The 2018-19 budget allocates more than \$1 billion in Proposition 56 tobacco tax funds for supplemental payments for physician and dental services and a new Medi-Cal provider loan repayment program as well as for rate increases for home health providers and pediatric day health care facilities. Despite these positive allocations, the budget still diverts \$225 million of Proposition 56 funds to replace General Fund spending elsewhere, violating voters' intentions.

**Tax Credits Increased and Extended.** The budget expands the state's Earned Income Tax Credit program to include younger workers, and also continues the Cal Competes Tax Credit program, providing \$180 million in tax credit benefits to California businesses through 2022-23.

**Local Governments Get Relief for Mandates.** The budget includes a one-time General Fund payment of \$254 million to repay local agencies for costs owed for three repealed mandates associated with mental health services for severely emotionally disturbed children.

**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. The 2018 Budget Act includes nearly \$2.2 billion for retiree health care benefits, an amount that is five times what the state paid in 2001, but the state's unfunded retiree health care liability continues to grow, reaching \$91 billion in 2018-19. Overall state debts and obligations now surpass \$300 billion.

**Continued Abuse of Budget Process.** The package of budget "trailer bills" includes several policy changes that actually have no relationship to the budget whatsoever, such as changing union administrative procedures and retroactively amending election requirements in San Diego County. Passing these policies through the budget demonstrates the continuing willingness of majority Democrats to abuse the constitutional budget rules enacted by voters through Proposition 25 (2010).

# Revenues, Expenditures, and Short-Term Surpluses

## Key Points

- **Record Revenues Create Short-Term Surplus.** A sharp increase in revenues drives the surplus to \$10 billion, prior to spending decisions, partly as a result of federal tax reform.
- **Some One-Time Spending Could Be Better Targeted.** The enacted budget appropriately limits most new spending to one-time uses, such as infrastructure, though these funds could have been directed to higher priorities.
- **Deficits Already Set to Return.** Fast-growing “baseline” spending means that the state would see operating deficits return beginning in 2020-21.

## Revenues Drive Short-Term Surplus

**Rise in Revenues Drives Surplus Higher.** The enacted budget reflects total General Fund revenues and transfers of \$137.7 billion in 2018-19, an increase of nearly 8 percent from the 2017 Budget Act. This substantial revenue growth pushes the General Fund surplus up from around \$7 billion in January to more than \$10 billion, according to estimates by the nonpartisan Legislative Analyst’s Office (LAO). The Department of Finance characterized the surplus as nearly \$9 billion using a different method.

These revenues indicate that recent tax increases were not necessary to pay for issues important to Californians. As Los Angeles Times columnist George Skelton observed regarding the Proposition 55 income tax increase, “It’s projected to bring in \$8.3 billion during the next fiscal year. And that accounts for nearly all the surplus. It raises a question about whether the tax extension was really needed.” Though it was clear last year that those voter-approved taxes were pushing up General Fund revenues, Sacramento Democrats insisted upon passing another \$5 billion in gas and car taxes.

**Federal Tax Reform Helps Push Up State Revenues.** The Department of Finance attributes part of the revenue increase to federal tax reform. The corporations tax jumps up by more than \$1 billion compared to 2017-18, due to higher projected corporate profits and \$150 million associated with repatriation. An increase of \$1.3 billion in sales tax is credited partially to capital investment driven by federal reform. Personal income taxes (PIT) shift up by \$3.0 billion since the previous year, which Finance attributes partly to one-time bonuses following federal tax reform. Capital gains within PIT also remain strong at over \$14 billion, accounting for more than 10 percent of overall General Fund revenue. In percentage terms, the corporations tax increase is a massive 9.0 percent jump, while the PIT and sales tax increases represent changes of 3.3 percent and 5.1 percent, respectively, from the prior year.

**Legislative Analyst Projects Higher Revenue.** The LAO had projected that revenues would be higher than the Governor’s estimates by \$3.1 billion General Fund in 2018-19. This is primarily due to higher LAO estimates for capital gains, which are notoriously difficult to forecast. The enacted budget is based on the Governor’s more conservative estimates, which is an appropriately cautious approach, considering the potential for budget shortfalls.

## Fast-Growing Expenditures Mean Deficits Set to Return

**General Fund Expenditures Rise Significantly.** The budget reflects record General Fund spending of nearly \$139 billion in 2018-19, an increase of \$13.6 billion (11 percent) compared to the Budget Act of 2017. This dramatic increase includes about \$4 billion for discretionary one-time spending

proposals. Compared to a low point of \$86.4 billion in 2011-12 following the recession, General Fund expenditures would be higher by over \$52 billion, or 61 percent. Additionally, the budget does not yet reflect higher spending that is almost certain to result from collective bargaining agreements with three unions whose contracts expire in June or July 2018.

**Overall Spending to Top \$300 Billion.** While the General Fund typically dominates budget discussions, federal and other funds play a much more significant role today than in past decades. As shown in the table below, the General Fund now accounts for only 45 percent of total spending. California’s budget relies heavily on federal funds, which provide 35 percent of the total budget in 2018-19, primarily for health and human services programs. Once federal and other state funds are added, California will spend about \$309 billion in taxpayer funds in 2018-19, topping the \$300 billion level for the first time ever.

| <b>Expenditures by Fund Type</b>         |                               |                       |                            |                       |                            |                       |
|--|-------------------------------|-----------------------|----------------------------|-----------------------|----------------------------|-----------------------|
| <i>Dollars in Billions</i>               |                               |                       |                            |                       |                            |                       |
|  | <b>Budget Act<br/>2017-18</b> | <b>% of<br/>Total</b> | <b>Revised<br/>2017-18</b> | <b>% of<br/>Total</b> | <b>Enacted<br/>2018-19</b> | <b>% of<br/>Total</b> |
| <b>General Fund</b>                      | \$125.1                       | 43%                   | \$127.0                    | 44%                   | \$138.7                    | 45%                   |
| <b>Special Funds</b>                     | 54.9                          | 19%                   | 57.2                       | 20%                   | 58.5                       | 19%                   |
| <b>Bond Funds</b>                        | 3.3                           | 1%                    | 6.3                        | 2%                    | 4.2                        | 1%                    |
| <b>Total, State Funds</b>                | <b>\$183.3</b>                | <b>63%</b>            | <b>\$190.5</b>             | <b>66%</b>            | <b>\$201.3</b>             | <b>65%</b>            |
| <b>Increase from<br/>2017 Budget Act</b> |                               |                       | <b>3.9%</b>                |                       | <b>9.8%</b>                |                       |
| <b>Federal Funds</b>                     | 107.5                         | 37%                   | 98.1                       | 34%                   | 107.5                      | 35%                   |
| <b>Total, All Funds</b>                  | <b>\$290.8</b>                | <b>100%</b>           | <b>288.6</b>               | <b>100%</b>           | <b>\$308.8</b>             | <b>100%</b>           |
| <b>Increase from<br/>2017 Budget Act</b> |                               |                       | <b>-0.8%</b>               |                       | <b>6.2%</b>                |                       |

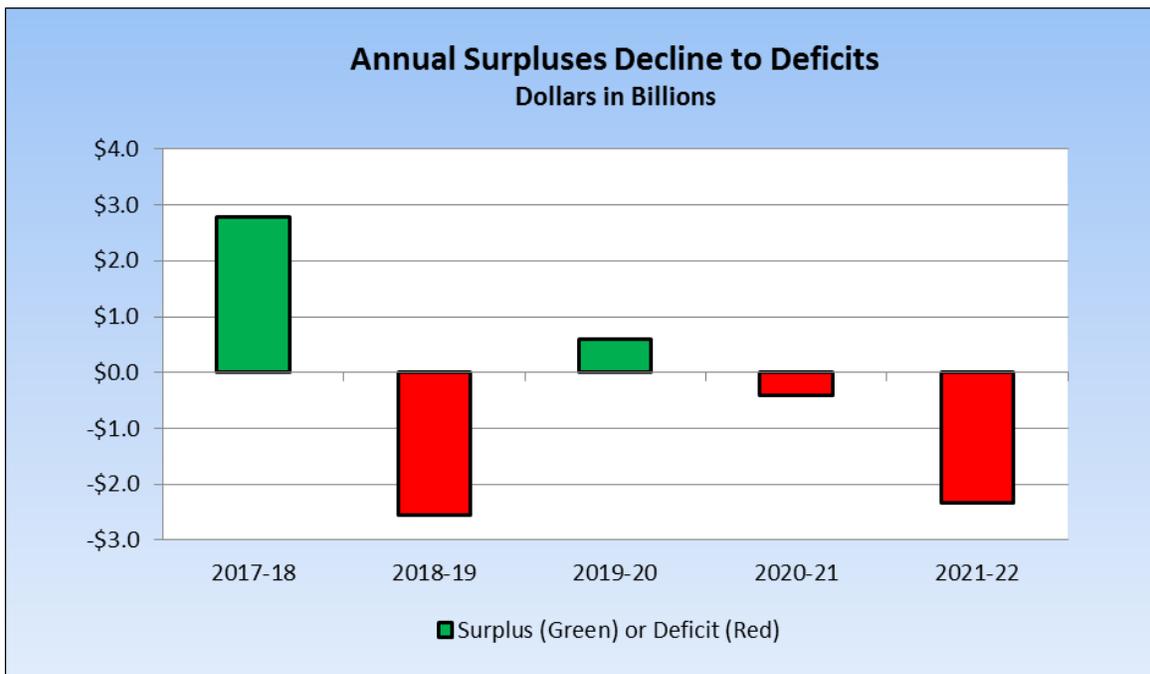
**Some Spending Proposals Could Be Better Targeted.** As noted above, the enacted budget includes about \$4 billion in one-time spending items. These are discussed more fully in the relevant policy areas in this document, and include the following major components:

- **Infrastructure.** Nearly \$1 billion for various infrastructure projects such as courts, universities, and flood protection. Notably, \$100 million included in this amount for levee improvements is overdue, and Senator Nielsen in particular has advocated for these funds recently.
- **Homelessness.** \$830 million to assist local governments in their efforts to address homelessness. With California facing nearly a quarter of the nation’s homeless population (despite having only 12 percent of the nation’s population), funds to assist in this area are commendable. See page 32 for additional details.
- **Mental Health.** \$269 million for mental health would include \$254 million to repay counties for past youth mental health mandates, plus \$15 million for additional training of mental health professionals through the University of California.

Many of these expenditures are worthwhile. However, the largest part of the infrastructure package is \$630 million for state office buildings in Sacramento. With state challenges ranging from widespread tree mortality to rising state and local pension costs, spending so much of the surplus on offices for

state workers is a questionable priority. Instead, resources could be used to upgrade the state's 9-1-1 system and to improve forest health following devastating wildfires. Also, the state has an opportunity to clear out the backlog in the Armed Prohibited Persons System, which tracks individuals who illegally possess firearms. Investments in these areas would be significant improvements in environmental health and public safety.

**Annual Deficits Around the Corner.** Despite record-setting revenues, annual expenditures are projected to grow by 20 percent over the next four years, compared to 14 percent for revenues. This disparity means that operating deficits are set to return in 2020-21 (\$419 million) and 2021-22 (\$2.3 billion) under the Governor's forecast, as shown in the graph below. (Note that the deficit shown for 2018-19 is funded by the surplus from past years, and it does not include discretionary reserve deposits of \$2.8 billion combined to the Rainy Day Fund and Safety Net Reserve Fund.)



Operating deficits show a structural budget problem since each year's revenues do not pay for that year's expenses—the state must use reserves to cover the extra costs. At least \$4.5 billion in discretionary long-term spending commitments made by Sacramento Democrats over the past several years mean that, despite the budget's focus on one-time spending this year, the state budget will be under constant pressure each year in the future.

This precarious outlook is particularly concerning considering that the current economy is producing record-high revenue and relatively low enrollment in state welfare programs. An economic recession would not only reduce revenue by potentially \$20 billion per year, it would also drive up enrollment and costs in welfare programs, thus squeezing the budget on both the revenue and expenditure sides. The state General Fund budget also relies disproportionately on a relative handful of high-income taxpayers: the top 1 percent of income earners provide 46 percent of personal income taxes.

# Budget Reserves

## Key Points

- **Constitutional Cap Reached.** An extra deposit of \$2.6 billion would bring the Rainy Day Fund (RDF) balance to its constitutional maximum of 10 percent of revenues.
- **Unnecessary New Savings Accounts.** The budget establishes two savings accounts which appear to be unnecessary.
- **Budget Allocates Future Proposition 2 Infrastructure Funding.** The budget estimates that required Proposition 2 infrastructure investments would total around \$1 billion per year beginning in 2019-20, and the budget prioritizes state capital outlay projects, housing and high speed rail.

The 2018 Budget demonstrates again that the RDF approved by California voters in 2014 is taking positive steps toward fiscal stability. The 2018 budget would transfer \$1.7 billion to the RDF, provide a supplemental deposit of \$2.6 billion, and allocate \$1.7 billion for debt reduction, as required by Proposition 2. The extra deposit would bring the RDF balance to \$13.8 billion, equal to 10 percent of General Fund revenues, the goal set out in the state constitution. The chart below summarizes the RDF forecast. Notably, about 71 percent or \$8.7 billion of the combined Rainy Day deposits through 2021-22 results from the up-front 1.5 percent set-aside that Republicans negotiated in the development of Proposition 2, a far more stable and consistent fund source than the capital gains portion.

| <b>Rainy Day Fund Forecast</b>   |                 |                 |                 |                 |                 |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|
| <i>Dollars in Millions</i>   |                 |                 |                 |                 |                 |
|  | 2018-19         | 2019-20         | 2020-21         | 2021-22         | Total           |
| Annual 1.5% of General Fund Revenues   | \$2,065         | \$2,148         | \$2,207         | \$2,265         | \$8,685         |
| Capital Gains Taxes in Excess of 8% of General Fund Revenues   | \$1,429         | \$919           | \$730           | \$476           | \$3,554         |
| <b>Rainy Day Amounts Available</b>   | <b>\$3,494</b>  | <b>\$3,067</b>  | <b>\$2,937</b>  | <b>\$2,741</b>  | <b>\$12,239</b> |
| Debt Repayment (50%)   | \$1,747         | \$1,534         | \$1,469         | \$1,371         | \$6,120         |
| Deposit to Rainy Day Fund (50%)  | \$1,747         | \$545           | \$361           | \$372           | \$3,024         |
| Supplemental Deposit   | \$2,611         |                 |                 |                 |                 |
| Amount in excess of 10 percent of GF tax proceeds (for infrastructure)   |                 | \$989           | \$1,109         | \$999           |                 |
| <b>Rainy Day Fund Balance at End of Year <sup>1</sup></b>  | <b>\$13,768</b> | <b>\$14,313</b> | <b>\$14,673</b> | <b>\$15,045</b> |                 |
| <p>1. Includes beginning balance from 2014-15 of \$1.6 billion, \$2.1 billion from 2015-16, \$3 billion from 2016-17 after second true up, and \$1.7 billion from 2017-18 after first true up.</p> <p><b>Note:</b> 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.</p> <p><b>Source:</b> Department of Finance, June 2018</p> |                 |                 |                 |                 |                 |

**Budget Creates Unnecessary Savings Accounts.** Although the state currently has two savings accounts, the Special Fund for Economic Uncertainty (SFEU) and the RDF, and can set aside a significant portion of General Fund revenues to mitigate the economic impact of future recessions, the

2018-19 budget unnecessarily creates two additional accounts: the Budget Deficit Savings Account, intended to facilitate the supplemental payment into the state's RDF, and the Safety Net Reserve Fund, which is created to protect health and welfare programs during the next recession. The budget includes a one-time transfer of \$200 million General Fund in 2018-19 into the Safety Net Reserve Fund, CalWORKs Subaccount to mitigate potential future eligibility or benefit reductions within the CalWORKs program in the next economic downturn.

Senate Republicans are concerned that the creation of an additional flexible savings account could be an attempt by Sacramento Democrats to prevent a potential sales tax reduction that current law would require if the SFEU fund balance reaches a certain level. It is likely a sales tax reduction could be triggered in the near future if state revenues continue to rise, but the Democrats' budget maneuver deprives heavily taxed Californians of this potential tax savings.

**Begins to Fund Infrastructure and Deferred Maintenance in 2019-20.** The state's Rainy Day Fund will reach the required capacity by the end of 2018-19, 10 percent of General Fund revenues. As required by Proposition 2, once the RDF reaches its constitutional target, the balance of deposits will be dedicated for infrastructure projects. The budget estimates that required Proposition 2 infrastructure investments from the General Fund would total around \$1 billion per year. The budget creates several new infrastructure accounts intended to provide specificity on how the state will invest a portion of Proposition 2 infrastructure funds through 2021-22, including capital outlay projects such as the Capitol Annex and state building renovations, as well as new rail modernization projects that could include high-speed rail. Senate Republicans view this action as needlessly restricting future members of the Legislature from prioritizing other projects for funding and would prefer to see infrastructure funds utilized for water projects or flood control before the state spends any more money on the high speed rail project.

# Abusing the Budget Process

## Key Point

- **Budget Process Abused to Enact Unrelated Policies.** The 2018-19 budget package once again demonstrates the majority party's willingness to abuse California's special budget rules to quickly slip unrelated policy changes into law.

**Background.** In 2010, following years of late budgets, California voters enacted Proposition 25 to lower the vote requirement needed to enact the state budget bill from the previous two-thirds majority to a simple majority. Under the terms of the proposition, this simple majority standard also applied to "other bills providing for appropriations related to the budget bill," which are frequently referred to as budget "trailer bills." As a penalty to help prevent future late budgets, Proposition 25 also prohibited legislators from receiving their pay for each day past the June 15 annual deadline that the Legislature did not pass the budget.

The budget bill had long been enacted on an "urgency" basis, meaning it takes effect immediately, rather than on a delayed basis, in order to begin paying for the next fiscal year. Policy bills other than the budget bill typically take effect on January 1 in the year following their enactment, unless they pass the Legislature with a two-thirds majority vote, which allows them to take effect immediately as "urgency" bills. A critical part of Proposition 25 is that it allowed budget trailer bills to also take effect immediately, like the budget bill, with only a simple majority vote.

**Bait-and-Switch to Enact Non-Budget Policies.** Groups supporting Proposition 25 focused on the need for an on-time budget to relieve pressure on schools and small businesses that work with the state government. Unfortunately, Sacramento Democrats have pulled a bait-and-switch on voters by taking advantage of Proposition 25's lower vote requirements to enact, on an expedited basis, policies that are not actually related to the budget. In some cases, Democrats have also used Proposition 25 to force through policies that may have fiscal effects but that previously failed to pass on their own merits when going through the standard policy bill process.

**Abusing the Budget to Help Public Employee Unions.** Non-budget policies jammed into trailer bills this year primarily include new requirements favorable to public employee unions enacted through Senate Bill 866. These changes are likely intended to help those unions reduce the effects of the U.S. Supreme Court's recent *Janus vs. AFSCME* decision, a widely anticipated ruling that protects the free speech of employees by prohibiting unions from forcing them to pay "agency fees." Abuse of the Proposition 25 rules allows the majority party to enact these changes immediately with only a simple majority vote, thus expediting unions' ability to administratively slow down employee requests to stop paying agency fees.

The table on the next page lists several of the policies that should be viewed as violating a common sense interpretation of Proposition 25. None of these policies have anything to do with funds provided through the budget, and they certainly fall outside the reasons that voters were given for Proposition 25. Nonetheless, ***Sacramento Democrats use the special budget rules to bypass the transparency and accountability that should occur through a regular policy bill process***, which would include publishing the contents of bills and holding hearings over a period of weeks or months, not just a few days.

Senate Republicans believe that, in order to keep faith with voters, Proposition 25's rules should be applied for the stated purpose of enacting the budget on time, not to jam unrelated policies through at the eleventh hour to serve special interests. In 2017, Sacramento Democrats twice used Proposition 25 to manipulate state recall election rules in a vain effort to protect a Democrat senator who was in the

midst of a recall process. Two lawsuits filed in response to those efforts may provide the legal means to block future abuses. The first lawsuit was successful in overturning key portions of the first abusive bill (SB 96), and the second lawsuit, *Howard Jarvis v. Padilla*, was still awaiting a trial at the time this report was published.

| <b>Policies with No Budget Effect Enacted Through Budget Process</b> |  |  |
|--|--|--|
| <b>Trailer Bill</b>  | <b>Subject</b>   | <b>Comments</b>  |
| SB 866, SB 846   | Various union-friendly changes to offset U.S. Supreme Court ruling in <i>Janus v. AFSCME</i> | SB 866 makes a variety of changes to give unions more influence, such as placing unions, rather than employers, in charge of cancelling employee auto-deductions for union dues and requiring employees to meet unspecified "terms of authorization." These changes will allow unions to slow down employee requests to opt out of paying fees. SB 846 seeks to protect public employers and unions from lawsuits relating to the fair share dues deductions prior to the <i>Janus</i> ruling. |
| SB 866, SB 869   | San Diego County election retroactive changes  | SB 866 made a retroactive adjustment to the number of signatures needed to qualify an initiative to amend the charter of San Diego County. This change benefits local unions in the November 2018 election. SB 869 then re-enacted these provisions in a single bill in an effort to mitigate lawsuit risk over violating the state constitution's "single subject" requirement.   |
| SB 866, SB 846   | Kern County public hospital employees  | SB 866 Interferes with local county labor relations by forcing new employees of Kern County Hospital Authority to participate in the County Employees' Retirement Association. SB 846 later gave the Association sole discretion to accept or reject public hospital employees into the Association.   |
| SB 857   | Bargaining for In-Home Supportive Services (IHSS) workers in three counties                  | Requires the employer of record in Los Angeles, Orange and Merced counties to reopine their contracts if requested by a union regarding access to provider orientation. Binds counties to agreements in which they did not participate.  |
| SB 872   | Local grocery tax prohibition  | Places a moratorium on locally enacted sales taxes. This bill was enacted as part of an agreement between Democrats and proponents of a political ballot initiative that could have raised the vote threshold for local governments to raise taxes. Unions strongly opposed the potential ballot initiative.   |

# Health

## Key Points

- **Dangerous Mental Health Diversion.** The 2018-19 budget includes funding for new local diversion programs that will permit many felons to avoid prosecution.
- **Pathway to Single Payer.** The budget creates a new state council to push California toward a single payer health care system.
- **Tobacco Tax Funds To Medi-Cal Providers.** The budget allocates \$1 billion in Proposition 56 Tobacco Tax Funds to various Medi-Cal providers.

**Dangerous Diversion Program for Mentally Ill Criminals.** The budget package creates a new pretrial diversion option if a court finds that a defendant accused of a misdemeanor or felony has an identified mental disorder. The diversion can be a temporary or permanent postponement of prosecution at any point of the judicial process. While Senate Republicans have supported narrow diversion programs in the past, this new policy would allow diversion for serious felonies, violent felonies, and sex offenses. Furthermore, the new diversion program does not appropriately consider the person's entire criminal history or the number of times he or she has received diversion. The budget provides \$100 million in General Fund to the counties to implement this new program. A different diversion policy was proceeding through the policy process this year (SB 215, Beall), but jamming this policy through the budget undercut those previous deliberations and ignored concerns raised by police chiefs and district attorneys. In response to these growing concerns, during the last week of the legislative session, SB 215 was "gutted and amended" to slightly narrow the crimes eligible for mental health diversion. Although this step was necessary and supported by most Senate Republicans, the Democrats failed to include other crucial public safety fixes in the bill, leaving in place a program that creates significant risks to Californians.

**Creates a New State Entity to Push Toward Single Payer Health Care.** The budget creates an all-payer claims database and a new Council on Health Delivery Systems that will begin the data collection, claims analysis, and overall research towards the goal of a single payer health care system for all individuals (including the undocumented) in California. Based upon a review of previous legislation, such a system would likely cost the state \$400 billion annually and require the imposition of at least a 15 percent payroll tax to fund. The budget provides \$65 million in General Fund to fund the new council and database.

**Medi-Cal Costs Have Doubled Under Governor Brown.** Since Governor Brown was sworn in as Governor in January 2011, total Medi-Cal spending has more than doubled from \$43.3 billion to \$104.4 billion—roughly one-third of the state's total expenditures. General Fund spending on Medi-Cal has increased from \$14.7 billion to \$23 billion during that time. This dramatic increase in costs is due to the mandatory and optional eligibility expansions under the Affordable Care Act. During Governor Brown's tenure, Medi-Cal caseload has jumped from 8.5 million enrolled Californians (21 percent of total population) to 13.3 million (a staggering 33 percent of California's population).

**Allocates Proposition 56 Tobacco Tax Revenues to Medi-Cal Providers.** The 2018-19 budget appropriates \$821.3 billion in Proposition 56 tobacco tax funds for supplemental payments to various Medi-Cal providers:

- \$500 million for physician services.
- \$210 million for dental services.
- \$49 million for women's services.

- \$34.6 million for rate increases to home health providers for children and adults and for pediatric day health care facilities.
- \$16.3 million for Intermediate Care Facilities for the Developmentally Disabled and freestanding pediatric sub-acute care facilities.
- \$6 million for Program of All-Inclusive Care for the Elderly (PACE) organizations.
- \$3.4 million for AIDS provider services.
- \$2 million for Community Based Adult Services in San Francisco.

The additional payments are necessary to help improve Medi-Cal's abysmal record on actually delivering services. In particular, Senator Ted Gaines (R-El Dorado Hills) requested that the budget include a rate increase for pediatric day health centers. Despite these supportable allocations, the budget still violates the will of the voters by using \$225 million of Proposition 56 funds to supplant other General Fund expenditures.

**New Loan Repayment Program to Attract Physicians and Dentists to Medi-Cal.** The budget creates a new loan repayment program for recent graduate physicians and dentists in exchange for a commitment that they serve a certain percentage of Medi-Cal beneficiaries or locate to areas with great need. The budget provides \$190 million in Proposition 56 tobacco tax funds for physician loan repayments and \$30 million for dentists. While this program may help improve access to care within Medi-Cal, too many program details are left to the department to work out later—the eventual program may be too restrictive to generate results. Also, this program is a poor substitute for addressing Medi-Cal's broader problems of bureaucracy and low payment rates that reduce provider participation.

**Dental Managed Care Pilot Program in San Mateo County.** The budget permits San Mateo's county operated health system to implement a dental integration pilot program for up to six years to test the oral care access, quality, utilization, and medical cost impact of dental managed care versus the current fee-for-service system in the county.

**Breast and Cervical Cancer Treatment Program Limits.** The budget deletes the maximum periods of coverage for the state-funded Breast and Cervical Cancer Treatment Program (8 months for breast cancer and 24 months for cervical cancer) and requires the services to be provided for the duration of the period of treatment for an income-eligible individual with a breast or cervical cancer diagnosis, regardless of citizenship status.

**HIV Drug Assistance Program to Minors and Undocumented.** The budget includes language to permit minors age 12 and up to access HIV drug cost assistance programs without parental consent or notification. Giving teenagers access to subsidized HIV prevention drugs may give them the false impression that they are shielded from HIV and other STDs and could lead to more promiscuous sexual activity. In addition, the bill permits undocumented individuals to access the drug subsidies around the time of potential exposure before any eligibility determination has been made. This will only encourage misuse of the program and could impede drug subsidies to lower-income Californians in need.

**Health Care Workforce Training.** The budget adds \$40 million in General Fund for Graduate Medical Education (GME) residency programs in addition to the \$40 million in Proposition 56 tobacco tax funds allocated to GME. The budget also includes an additional \$15 million General Fund for Psychiatric GME in the UCs and \$10 million in Proposition 63 Mental Health Act funds for the Workforce Education and Training Program for behavioral health professionals. These investments will help close the gap in California's health care workforce shortage.

**Funding for Suicide Hotlines and Increased Mental Health Services.** The budget includes \$4.3 million in ongoing Proposition 63 Mental Health Act funds for suicide hotlines as well as \$10 million

over 3 years to implement a child trauma prevention program and \$2.5 million annually for additional mental health services for veterans, undocumented immigrants, and those in the criminal justice system.

**Black Infant Health.** The budget approves \$8 million General Fund to expand the Black Infant Health Program to improve infant birth outcomes, reduce infant mortality, and to create or expand fatherhood or partnership initiatives in supporting pregnancy and childbearing.

**Whole Genome Sequencing Pilot and Genetic Research Grants.** The budget includes \$12 million for the UC Davis Institute of Regenerative Cures for research related to a genetic mutation which is linked to neurodevelopmental disorders. In addition, the budget includes \$2 million General Fund for a Whole Genome Sequencing pilot program for undiagnosed diseases.

**Valley Fever Research and Outreach.** The budget includes \$2 million for two years of Valley Fever outreach and awareness, \$3 million for research at the Valley Fever Institute at Kern Medical Center and \$3 million for research at the University of California. Senate Republicans applaud this funding, which Senator Jean Fuller (R-Bakersfield) specifically sought to include in this budget.

**New LA County Health Facility Fee.** The budget adopts a new fee on all licensed health facilities in Los Angeles County to cover the county's backlog in licensing, certification, inspection, and investigation of those facilities. The state contracts with LA County to undertake these licensing and certification duties. The new fee is expected to generate several million in revenue annually to address this backlog. While tending to this backlog is important, these costs could have been covered by state General Fund rather than directly burdening the health facilities.

**New \$87 Lead Construction Certification Fee.** The budget levies a new \$87 fee on applications for lead-related construction certification starting July 1, 2018. The new fee is expected to generate hundreds of thousands annually and can be adjusted upward annually in order to cover annual administrative costs. Given that General Fund is available to cover these processing costs, this fee was unnecessary.

# Human Services

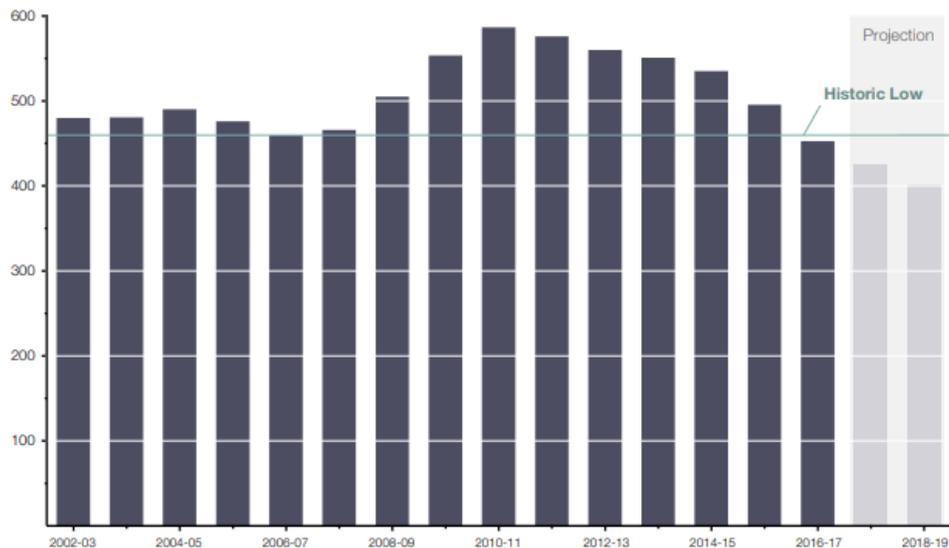
## Key Points

- **CalWORKs Grant Levels Increased.** Provides \$90 million General Fund in 2018-19 and \$360 million ongoing to raise CalWORKs grant levels by 10 percent.
- **Safety Net Reserve for CalWORKs and Medi-Cal.** Creates a new budget reserve specifically for the CalWORKs and Medi-Cal programs.
- **Expanded Eligibility for CalFresh.** Expands CalFresh benefit eligibility to low-income elderly, disabled, and blind Californians receiving Social Security Income (SSI).
- **Funding to Combat Homelessness.** Includes \$47 million to combat homelessness through rental assistance, temporary shelter payments, and a new program targeted at seniors.

**In-Home Supportive Services (IHSS) Costs Continue to Grow.** Despite slightly declining caseload, the 2018-19 Budget includes an additional \$100 million in 2017-18 and \$200 million in 2018-19 for IHSS. Cost per case continues to rise as a result of overtime costs and increased hours per case. The enacted budget includes \$340 million for overtime hours, medical wait times, and travel time. The budget also includes \$8.9 million for locally negotiated salary and benefit increases. Concerns remain about the cost of program growth and the reliance on locally generated tax revenue. The Administration plans on reducing General Fund support for the program by an additional \$130 million in 2019-20, which, if enacted, could force counties to rely further on local revenues.

**CalWORKs Caseload at Historic Low.** At approximately 400,000 households, as shown in the chart below, the CalWORKs caseload is at an all-time low, primarily due to the strengthened economy. Remaining families typically are facing substantial barriers to self-sufficiency such as substance abuse, health challenges, and domestic violence. Although caseload is at a historic low, costs continue to climb (approximately \$5 billion for total program costs) due to the repeal of the maximum family grant and the enacted budget's 10% increase for grant levels.

**CalWORKs Caseload Now at Historic Low**  
*Average Monthly Caseload (In Thousands)*



Note: 2017-18 and 2018-19 data reflect the administration's caseload forecast prepared as part of the 2018-19 Governor's Budget.

LAO

Legislative Analyst Office published this chart in their 2018-19 Governor's Budget Overview.

**Legislature Intends to Raise CalWORKs Grants Incrementally.** The 2018-19 Budget raises CalWORKs grant levels by 10% with intent language to raise grant levels incrementally until they are at or above 50 percent of the federal poverty level, at which point a cost-of-living adjustment would apply annually. The federal poverty level equates to income of \$24,600 for a family of four.

**Safety Net Reserve Transfer.** The 2018-19 Budget transfers \$200 million General Fund into a new budget reserve account specifically for CalWORKs. The budget also states the intent for the Governor's administration and stakeholders to develop a methodology for depositing future programmatic savings into the reserve. Although CalWORKs costs do tend to rise in a recession, there is little justification for establishing a new, separate reserve limited to CalWORKs. See page 8 for a broader discussion of the state's reserves.

**Home Visiting Program for CalWORKs Families.** The 2018-19 Budget sets aside a total of \$158 million in federal funds from the Temporary Assistance for Needy Families (TANF) Program to begin a permanent Home Visiting Initiative within the CalWORKs program. The program is voluntary and priority is given to first-time parents under 25. Home visiting programs have proven positive results, such as improved maternal and child health outcomes, increased educational gains and economic self-sufficiency. Senate Republicans support this smart investment of federal TANF funds.

**Holocaust Survivor Assistance Program.** The 2018-19 Budget Act appropriates \$3.6 million one-time General Fund for the Department of Social Services to contract with non-profits with expertise in providing social services to Holocaust survivors.

**Additional County Funding for CalWORKs Administration.** Due to declining CalWORKs caseload, the Governor's Budget proposed a significant funding cut for county administrative workload. The final budget deal, however, restores the anticipated cuts to counties and reduces what should be state savings. With record low CalWORKs caseload, counties should reduce costs; however, this budget gives counties and their unions a free pass with no incentive to create administrative efficiencies. The Governor and stakeholders plan to further revise the administrative funding methodology as part of the 2019-20 budget process. Republicans will advocate for reasonable county administrative funding that incentivizes counties to spend wisely.

**Additional Funds for the Continuum of Care Reform.** The 2018-19 Budget provides an additional \$6.3 million one-time General Fund for counties to process Resource Family Approval applications and \$4.8 million one-time General Fund for Level of Care assessments for foster youth. The Budget also provides for foster family funding when the child is placed in a foster home, instead of waiting until the county has finished processing the foster family's application. Senate Republicans have long supported providing needed resources to foster youth, and these funds are an important step to improving placement stability and mental health assessments for foster youth.

**Immigration Services.** The 2018-19 Budget provides \$10 million one-time General Fund for legal services for individuals that have current or past Temporary Protected Status or are undocumented, unaccompanied minors. Temporary Protected Status is a temporary legal status given to individuals fleeing designated countries that allows individuals to live and work in the United States for a limited time.

**Long-Term Care Ombudsmen.** The 2018-19 Budget provides a \$2.3 million to augment the base funding for local long-term care ombudsman programs from \$35,000 to \$100,000. Additional funding allows every program to have at least one full-time staff person. Ombudsman programs are an important tool for improving care in nursing facilities, and these funds may help avoid higher costs in programs like Medi-Cal that pay for such care.

# Developmental Services

## Key Points:

- **Temporary Provider Rate Increase Inadequate.** The 2018-19 Budget includes \$25 million for a two-year rate increase for service providers.
- **Lack of Leadership for Investing Developmental Center Closure Savings.** Despite requests from stakeholders, the 2018-19 Budget does not propose any investments for the expected savings generated from developmental center closures.
- **Opportunity Missed to Restore Benefit Cuts.** The 2018-19 Budget did not include funding for social recreation and camp services, despite the modest cost of \$25 million per year.

**Overall Enrollment Growth with Anticipated Decline in Developmental Centers.** The Department of Developmental Services estimates it will serve over 333,000 individuals in community settings and institutional developmental centers (DCs). While the vast majority of these individuals receive community-based services, the final budget estimates that DCs will serve 323 individuals, a decline of 35% from 2017-18 caseload. In contrast, the number of individuals being served in community settings is estimated to grow to 332,738, an increase of 4.5% over 2017-18 caseload.

**Temporary Provider Rate Increase Inadequate.** The 2018-19 Budget includes \$25 million for a temporary, two-year rate increase for service providers. These funds will be allocated by... Although these funds are a step in the right direction, DDS-contracted community service providers still struggle to navigate an illogical rate structure. In addition, Governor Brown and legislative Democrats have consistently refused to provide enough money to compensate providers for the full costs of the state's minimum wage mandate and higher local minimum wage requirements.

In 2016, the budget authorized a comprehensive rate survey to provide recommendations for fixing the broken rate system. With the rate report not expected to be published until March 2019, much-needed rate reform will not happen until July 2019 at the earliest and could potentially be delayed until 2020-21. The Budget's \$25 million is bridge funding to help providers stay open until the Legislature can implement recommendations from the rate study.

**No Plan For Utilizing Savings from Developmental Center Shutdowns.** The 2018-19 Budget Act provides no plan for future savings generated from the closures of the Sonoma, Fairview, and Porterville Developmental Centers. (The secured treatment area of Porterville will remain open.) The nonpartisan Legislative Analyst's Office estimates \$100 million in ongoing savings as a result of closing the developmental centers and unknown, but potentially very major, one-time revenue from the lease or sale of the properties. Advocates pushed for the savings to be reinvested into the community, with supportive housing as their top priority. This is a worthwhile proposal that is consistent with past Senate Republican efforts, such as SB 639 (Stone, 2015), but unfortunately the Brown Administration has refused to commit to keeping these funds reserved for disabled consumers. Since Sonoma Developmental Center is scheduled to close in December this year, time is short to enact a solution that will serve the disabled community.

**Ill-Advised Uniform Holiday Schedule Delayed One Year.** The 2018-19 Budget delays the Uniform Holiday Schedule proposal, which would implement a forced, unpaid holiday schedule on community providers for one year. The Legislature could choose to delay or eliminate the Uniform Holiday Schedule as part of next year's budget negotiations. The holiday schedule was originally proposed in 2009-10 as a budget savings action when the state faced massive deficits. Now that the state budget is in surplus, there is no need to proceed with this requirement, and Senate Republicans called for rejecting the proposal entirely, rather than merely delaying it.

**Opportunity Missed to Restore Benefit Cuts.** Despite the state's significant budget surplus, the 2018-19 budget package fails to restore the critical benefits of camps and social recreation for disabled consumers. These benefits were cut in 2009-10 solely to provide savings during a massive budget deficit at that time, and, with modest costs of \$25 million annually, restoring them is long overdue. A reasonable person might ask why this benefit has still not been restored even as the state budget has grown by more than \$50 billion General Fund since 2011-12. The state has chosen to award hundreds of millions of dollars in new pay increases to state employee unions each year, but Senate Republicans believe that restoring benefits to developmentally disabled consumers should be a higher priority.

**Self-Determination Implementation.** The 2018-19 Budget prioritizes specified Self-Determination funding that maximizes developmentally disabled individuals' ability to choose their own services and supports, rather than requiring regional centers to manage their benefits. This language was introduced and championed by Senator Jeff Stone (R-Riverside) in budget hearings. The state finally received federal approval to implement its Self-Determination program, a process that began with a Senate Republican bill enacted in 2013, Senate Bill 468 (Emmerson).

**Home Health Funding Increase.** The 2018-19 Budget provides \$29.5 million to raise the reimbursement rate by 50% for home health nurses contracting with regional centers, consistent with the Department of Public Health's (DPH) rates. Regulations require parity between DDS' and DPH's reimbursement rates. Although the rate increase is appropriate, it is unclear why one service provider is receiving special treatment when service providers across programs are struggling to keep their doors open.

## Education

### Key Points

- **Proposition 98 Spending Reaches Another New High.** The Proposition 98 guarantee of funding for K-14 education grows in 2018-19 to an all-time high of \$78.4 billion, up from \$74.5 billion at the 2017-18 Budget Act.
- **Flexible One-Time Funds Reduce State’s Mandate Debt.** \$1 billion in one-time flexible funding insulates K-12 schools from a near-turn economic downturn and reduces state mandate debt.
- **Career Technical Education Finally Stabilizes.** K-12 career technical education funding that was set to fall to zero after 2017-18 continues permanently at \$150 million per year, and another \$150 million expands the regional Strong Workforce program to include K-12 schools.

**Proposition 98 Funding Hits a Record High.** The chart below displays Proposition 98 funding for K-14 education, which is expected to reach an all-time high in 2018-19 of \$78.4 billion, roughly \$3.9 billion above the 2017-18 Budget Act level, and \$3.2 billion above the revised 2017-18 level. Average per-pupil spending is expected to be \$11,640,<sup>1</sup> and the Proposition 98 maintenance factor obligation will be fully extinguished.<sup>2</sup> This growth in the guarantee makes it possible to fully fund the local control funding formula for the first time and to increase support for career technical education, child care, and other K-12 programs, as discussed later in this section.

| <b>Proposition 98 Funding at 2018-19 Budget Act</b>  |                 |                 |                 |                          |
|--|-----------------|-----------------|-----------------|--------------------------|
| <i>Source: Legislative Analyst's Office</i>  |                 |                 |                 |                          |
| <i>(\$ in millions)</i>  |                 |                 |                 |                          |
|  | 2016-17         | 2017-18         | 2018-19         | Δ from 17-18<br>to 18-19 |
| <b>K-12 Education <sup>1/</sup></b>  |                 |                 |                 |                          |
| General Fund   | \$44,676        | \$47,530        | \$48,722        | \$1,193                  |
| Local property tax revenue   | \$18,582        | \$19,295        | \$20,414        | \$1,118                  |
| <b>K-12 subtotal</b>   | <b>\$63,258</b> | <b>\$66,825</b> | <b>\$69,136</b> | <b>\$2,311</b>           |
| <b>California Community Colleges <sup>2/</sup></b>   |                 |                 |                 |                          |
| General Fund   | \$5,473         | \$5,757         | \$6,063         | \$306                    |
| Local property tax revenue   | \$2,825         | \$2,941         | \$3,110         | \$168                    |
| <b>CCC subtotal</b>  | <b>\$8,299</b>  | <b>\$8,698</b>  | <b>\$9,173</b>  | <b>\$474</b>             |
| <b>Other Agencies</b>  | <b>\$85</b>     | <b>\$95</b>     | <b>\$85</b>     | <b>-\$10</b>             |
| <b>Total Proposition 98 <sup>3/</sup></b>  | <b>\$71,642</b> | <b>\$75,618</b> | <b>\$78,393</b> | <b>\$2,775</b>           |
| <b>General Fund</b>  | <b>\$50,234</b> | <b>\$53,381</b> | <b>\$54,870</b> | <b>\$1,488</b>           |
| <b>Local property tax revenue</b>  | <b>\$21,407</b> | <b>\$22,236</b> | <b>\$23,523</b> | <b>\$1,287</b>           |
| <sup>1/</sup> K-12 education totals include state preschool and related 'wraparound care'  |                 |                 |                 |                          |
| <sup>2/</sup> CCC display includes funding for adult ed which can flow to any K-14 provider (not restricted to CCCs) and the K-12 component of the Strong Workforce Program. |                 |                 |                 |                          |
| <sup>3/</sup> Any discrepancies are due to rounding  |                 |                 |                 |                          |

<sup>1</sup> 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.

<sup>2</sup> The maintenance factor obligation is a catch-up mechanism that accelerates Proposition 98 spending after years during which it receives lower-than-ideal funding as a result of stalling or falling state revenues. Statutory caps on local school district reserves will not become operative while a maintenance factor obligation exists.

**Local Control Funding Formula (LCFF) Fully Funded for the First Time.** Locally flexible funding within the Proposition 98 guarantee will total about \$61 billion, up from \$57.3 billion at 2017-18 budget enactment. The program's funding targets will be fully met for the first time in 2018-19. In future years, there will likely be tension as members debate whether to use growth in the Proposition 98 guarantee to increase locally-flexible funding even further, or to begin earmarking it for Sacramento's priorities.

**One-time Discretionary Funding Reduces the State's Mandate Debt.** In addition to the ongoing LCFF augmentation referenced above, the 2018-19 budget includes about \$1 billion in locally-flexible one-time funding that will be distributed on an equitable per-student basis to K-12 schools for any local educational priority. To the extent that recipient school districts have unpaid claims for past mandated activities, these funds will be scored in satisfaction of those claims, thereby reducing the state's unpaid education mandate debt to roughly \$1 billion. This is consistent with Senate Republicans' support for extinguishment of the state's debt as a budgetary priority.

**Stability for K-12 Career Technical Education (CTE).** In an effort to ensure that K-12 CTE programs continued after the launch of the LCFF, the 2015-16 budget funded a three-year transitional CTE incentive grant program with \$400 million in year one, \$300 million in year two, \$200 million in year three, and nothing thereafter (2018-19 and beyond). In response to concerns about declining CTE funding from Senate Republicans and others, the 2018-19 budget commits \$150 million in ongoing support to continue the incentive grant program, and adds another \$150 million in ongoing support for K-12 schools to participate in the state's regional Strong Workforce CTE program. Senate Republicans have repeatedly called for additional CTE funding, and applaud the provision of these funds.

**Child Care Funding Grows to a Record High.** The 2018-19 budget completes the multi-year child care expansion negotiated as part of the 2016 Budget Act to increase reimbursement rates and slots for child care and state preschool. In addition, it provides \$100 million in one-time funding to expand kindergarten facilities. Total funding from all sources will exceed \$4.6 billion, up from about \$4 billion at the 2017-18 Budget Act.

**One-time Spending Satisfies Past-year Proposition 98 Guarantees.** In addition to the higher spending required under Proposition 98 for 2018-19, the constitutional formula also requires higher spending for fiscal years 2016-17 and 2017-18. The budget appropriately spends these funds for one-time purposes. The most notable of these one-time allocations include:

- \$1 billion in locally-flexible K-12 funding, as discussed above
- \$300 million for a block grant to support low-performing students
- \$167 million for early education expansion grants (child care)
- \$125 million to address special education teacher shortages
- \$50 million for classified (non-teaching) school employee professional development
- \$50 million in matching funds for classified employee savings accounts
- \$21 million to backfill a shortfall in the charter school facility grant program
- \$22 million to convert a paper-based English language proficiency exam to computer-based
- \$15 million each for a school climate initiative and a Kids Code after school program
- \$13 million for grants to support school/community engagement

**No Expansion of Bond Funding for School Facility Projects.** Proposition 51, approved by the voters in November 2016, provided \$7 billion in bond funding for K-12 school facilities, which are off-budget under the purview of the State Allocation Board. After the Governor stated an intention to sell about \$600 million of these bonds in 2018-19, Senate Republicans and others called for

accelerated bond sales to support additional school construction and modernization projects while the state's construction climate and interest rates remain favorable. Unfortunately, the 2018-19 spending plan leaves expected bond sales unchanged at the \$600 million level.

# Higher Education

## Key Points

- **New Online Community College Launches.** The 2018-19 budget package authorizes a new fully-online community college to expand educational options for working learners.
- **Community College Funding Formula Expands.** The budget expands the basis for community college funding to include not only enrollment, but also service to needy students and positive student outcomes.
- **UC and CSU Support Rise; Tuition Remains Flat.** Tuition at the University of California and California State University will remain flat, while state funding rises by about \$347 million for UC and about \$359 million for CSU.
- **Bait and Switch for UC Medical Education Reversed.** The budget plan reverses the Governor's previous use of \$40 million per year in Proposition 56 tobacco tax funding to replace General Fund support for UC medical education.

**California Community Colleges (CCCs).** As the chart on page 19 shows, the community colleges' share of Proposition 98 funding rises to almost \$9.2 billion in 2018-19, up by over \$600 million from the 2017 Budget Act level.<sup>3</sup>

**New Fully-Online Community College Proceeds.** The budget provides \$120 million to launch a new fully-online community college. This includes \$100 million in one-time funds that will be spent over seven years. The new college will target working adults who are not currently accessing higher education, or would otherwise opt for non-public, non-accredited, or out-of-state institutions which typically charge more than community colleges and have worse student outcomes.<sup>4</sup>

**New Student-focused CCC Funding Formula Starts in 2018-19.** The budget includes about \$523 million for a new funding formula to support for-credit coursework that will move away from a sole focus on attendance and toward more student-focused funding incentives by providing:

- A base grant for each full-time-equivalent student (70% weight in 2018-19, falling to 65% in 2019-20, and to 60% in 2020-21 and beyond).
- Supplemental funding for each low-income student (20% weight).
- Student success incentive funding based on completion of degrees and certificates (10% weight in 2018-19, rising to 15% in 2019-20, and to 20% in 2020-21 and beyond).
- Multi-year hold-harmless protection for districts whose funding would otherwise fall.

While the formula's emphasis on improved student outcomes is laudable, some districts are concerned about potential loss of funding compared to the current formula. The hold-harmless funding should help to provide for a smoother transition period while districts make the changes needed to begin focusing more on student outcomes.

**One-time CCC Spending.** The budget provides several one-time appropriations for the community colleges. Some of the more notable ones<sup>5</sup> include:

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<sup>3</sup> CCC funding includes funding for adult education, which can flow to any K-14 education agency or partner, and for the K-12 component of the Strong Workforce career technical education program.

<sup>4</sup> Specifics are set forth in AB 1809 (Chapter 33, Statutes of 2018).

<sup>5</sup> A more complete list of one-time appropriations is available upon request.

- \$50 million for part-time faculty office hours.
- \$36 million for an apprenticeship programs.
- \$35 million for existing colleges to expand their online course offerings.
- \$10 million each for student hunger, career technical education partnerships, student mental health, and legal services to undocumented immigrants.
- \$5 million each for refugee training program and a re-entry program serving incarcerated and formerly incarcerated students.

**UC and CSU Support Rise; Tuition Remains Flat.** The budget increases core funding for the University of California (UC) by about \$347 million, to over \$9.1 billion, and increases core funding for the California State University (CSU) by about \$359 million, to almost \$7.4 billion. System-wide tuition will remain flat, with UC tuition continuing at \$11,502 and CSU at \$5,742 per year.

For the University of California, notable augmentations include:

- \$105 million in unrestricted one-time funding.
- \$92 million for an ongoing unrestricted base augmentation.
- \$40 million for graduate medical education, reversing the Governor's previous replacement of General Fund support with tobacco tax revenue.
- \$35 million for deferred maintenance.
- \$25 million to address an operating deficit at UC Berkeley.
- \$15 million for psychiatric graduate medical education.
- \$12 million for research into Jordan's Syndrome, a rare human genetic mutation.
- \$4 million for legal services to undocumented immigrant students.
- \$3 million for Valley Fever research (see page 14 for additional discussion).
- \$2.8 million for a UC Davis Aggie Square Project.
- \$2 million to support equal opportunity employment programs.

It is unclear that the Berkeley campus operating deficit should be the taxpayers' responsibility. The UC has constitutional autonomy, and its Office of the President has over a dozen staff who are far better-compensated than the Governor, presumably to ensure that campus budgets are well-managed. This bailout sets a risky precedent for future interventions into situations that UC should address on its own (such as underfunding of the UC Retirement Plan, for which the state has no legal responsibility).

For the California State University, notable augmentations include:

- \$122 million for an unrestricted ongoing base augmentation.
- \$120 million for enrollment growth over a four-year period.
- \$75 million for a Graduation Initiative to move students more quickly to graduation.
- \$35 million for deferred maintenance.
- \$7 million for legal services to undocumented immigrant students.
- \$5 million for wildfire-related research.
- \$3.8 million for shark research at the Long Beach campus.
- \$1.5 million for student hunger programs.

**Student Financial Aid Hits Record High.** The 2018-19 budget increases General Fund support for student financial aid to \$2.4 billion. Notable augmentations include:

- \$127.5 million for growth in Cal Grants.
- \$8.1 million to maintain the maximum Cal Grant award for students attending private non-profit institutions at \$9,084 per year, rather than letting a statutory reduction to \$8,056 take effect. The maximum Cal Grant for students attending accredited for-profit institutions *will* be allowed to fall. This is unfortunate, as it could reduce the number of badly-needed health care professionals educated in California.
- \$5.3 million to expand foster youth eligibility for Cal Grants to age 26 and allow them up to eight years of full-time tuition.

# Public Safety and Judiciary

## Key Points

- **Courts Near Full Funding, but Shortage of Judges Persists.** The trial courts are in the best financial position they have experienced in a decade, but operationally, more judges are still needed to meet caseload demands.
- **Start-Up Bail Reform Funding.** The budget provides \$15 million in start-up funds to begin implementing recently enacted bail reform legislation.
- **Budget Fails to Prioritize Surplus Money for 9-1-1 Upgrade.** Despite a multibillion budget surplus, the budget sought a tax increase to pay for the NextGen 9-1-1 upgrade.
- **Human Trafficking Grants.** An August amendment to the budget added \$10 million for grants to assist victims of human trafficking.
- **Gun Control Hypocrisy Continues Unabated.** Legislative Democrats press forward with ever-increasing restrictions on Second Amendment rights, but the budget they negotiated with the Governor is not serious about enforcing existing prohibitions on gun ownership by felons and the mentally ill.
- **Local Youth Diversion Program Focuses on Wrong Goal.** A new grant program aims to reduce youth involvement with the justice system, instead of focusing on reducing youth crime, which would naturally reduce youth involvement with the justice system.

## Judicial Branch

The budget provides \$3.8 billion (\$1.9 billion General Fund) to support the Judicial Branch, including approximately \$3 billion (\$1.5 billion General Fund) for the trial courts. These spending levels represent a six percent increase for the Branch and an eight percent increase for the trial courts compared to 2017-18 budget levels.

**Risky Bail Reform Imposes New Costs, Could Jeopardize Public Safety.** The budget appropriates \$15 million from the Trial Court Trust Fund (to be repaid by a future General Fund appropriation) for the trial courts to begin implementation of Chapter 244, Statutes of 2018 (SB 10, Hertzberg). Effective October 1, 2019, SB 10 completely eliminates the existing money bail system and replaces it with a complex system of risk evaluations, judicial determinations, and "least restrictive" conditions. The administration estimates that the system will cost the state approximately \$200 million per year. Other estimates place the costs in the low billions of dollars annually.

Whatever the ultimate costs, the state and impacted local agencies will have just over a year to stand up a system capable of processing hundreds of thousands of criminal defendants each year, tracking those defendants, and ensuring that they show up for court. This allows very little time for validating risk assessment tools or evaluating the effectiveness of conditions of release, leaving law abiding citizens facing the specter of a deeply flawed pre-trial system that could leave dangerous criminals at large to commit more crime and create new victims.

**Trial Court Funding Nears Target Levels.** For the first time since the Great Recession, the budget provides trial court funding at a level that exceeds 90 percent of the estimated need. This is due in part to a continuing decline in the number of court filings statewide, and in part to increased support for the trial courts totaling \$258 million. The bulk of this increase is made up of the following:

- Higher discretionary funding to be allocated to the trial courts by the Judicial Council (\$75 million General Fund).
- An augmentation to equalize funding among trial courts (\$48 million General Fund).
- Additional funding for retirement and health benefit cost increases (\$25 million General Fund).
- Replacement of dwindling special fund revenues via a direct General Fund backfill (\$64 million) and a five-year extension of temporary court user fee increases (\$37 million Trial Court Trust Fund).

While individual courts may still face challenges, this is the healthiest the trial courts have been as a whole in the last decade.

**Judge Shortage Improving, but More Work Needed.** The enacted budget includes \$3.2 million General Fund to establish two new trial court judgeships in Riverside County and one new appellate court justice to serve the Riverside/San Bernardino area. The unmet statewide need for judgeships has decreased since 2001, when the Judicial Council identified a need for more than 360 new judgeships to meet caseload demands. The decrease is due primarily to a decrease in filings, but also to the establishment and funding of 50 new judgeships in 2006 and the conversion of a few dozen subordinate judicial officer positions to judgeships since 2007. The most recent judicial needs assessment, updated in March 2017, identified a statewide need for 189 trial court judgeships, with about 47 of those needed in Riverside County. While the budget at least makes some progress in addressing the most acute need for judicial officers, Senate Republicans recognize that adequate judicial staffing is critical to ensure access to justice for all Californians. More must be done to address the persistent shortage of judges.

**Ten Court Construction Projects Move Forward.** The budget authorizes \$1.3 billion in lease-revenue bonds to move forward on ten of the most critical court construction projects in the Counties of Glenn, Imperial, Riverside (two projects), Sacramento, Shasta, Siskiyou, Sonoma, Stanislaus, and Tuolumne. These are from the 2008 list of 41 prioritized projects approved by the Judicial Council that year. After these ten projects are complete, 17 of the original 41 will remain. The enacted budget package requires the Judicial Council to reevaluate and reprioritize the remaining projects in the context of all 139 projects that have been identified for the courts. While this requirement should maximize the benefit to the state of the dollars spent on courthouse construction, it could also result in serious discontent from counties that have been promised new or renovated courthouses if their projects move down the list and are not funded.

### **Office of Emergency Services (OES)**

**Next Generation 9-1-1 System Funding Unresolved.** The Governor proposed to upgrade the state's 9-1-1 system to handle text and data, improve redundancy and caller location accuracy, and better integrate with the national system. Senate Republicans support the project, but the source of funding to complete it and operate the new system – potentially \$320 million over five years – has not yet been agreed upon. The Governor proposed a new flat tax on virtually all phone-based voice and data lines in California, which would have replaced the existing tax on intra-state voice call revenues. Senate Republicans opposed the new tax based on the following:

- The state has a multi-billion budget surplus and does not need new taxes to pay for the 9-1-1 system upgrade.
- The proposal would have given the Governor a “blank check” to raise taxes each year in the future without an additional two-thirds vote that is required for tax increases.
- The proposed ceiling on the tax rate would have allowed the Governor's administration to potentially collect annual revenues in excess of \$400 million per year, which is \$260 million

more than needed in the costliest year of the project. This amount would also be nearly six times higher than the current 9-1-1 tax revenue.

- The Office of Emergency Services did not provide essential supporting information needed to explain the level of costs and revenues projected to build out the 9-1-1 upgrade.
- The state has a long history of cost overruns and failed information technology projects, and the proposal failed to include sufficient accountability or preventative measures to mitigate these possibilities.

The 2018-19 budget spent hundreds of millions of dollars on new projects or programs that should be lower priorities than the 9-1-1 upgrade, such as \$630 million for Sacramento state offices and buildings. It is clear that the budget could have addressed the crucial 9-1-1 project without reaching deeper into taxpayers' bank accounts. The Office of Emergency Services has sufficient funds already to continue implementing the 9-1-1 upgrade through early next year, and Senate Republicans stand ready to address this issue as soon as possible once the Legislature reconvenes in January 2019.

**Late Amendment Adds Human Trafficking Grant Funds.** An August amendment to the budget provides funds for human trafficking that should have been provided earlier. Senate Republicans proposed several times that the budget include ongoing funding for human trafficking grants, but legislative Democrats blocked all attempts to include this funding in the original budget. Fortunately, this pressure finally resulted in a late budget amendment to provide \$10 million for grants to local organizations that provide services to victims of human trafficking, a key service that government should offer.

**Earthquake Early Warning System Set to Go Live in 2018-19.** The budget includes \$15 million one-time General Fund in 2018-19 (plus \$750,000 ongoing) to complete the California Earthquake Early Warning System (EWS), as authorized by Chapter 342, Statutes of 2013 (SB 135) and Chapter 803, Statutes of 2016 (SB 438), both of which received unanimous support from Senate Republicans. SB 438 was coauthored by Senators Anderson and Cannella and by then-Assembly Member Wilk. The EWS is intended to provide California residents and public sector service providers with critical seconds in which to prepare before an earthquake's most damaging shaking strikes.

### **Department of Justice (DOJ)**

**Rape Kit Funding Could Help Solve Cold Cases.** The enacted budget provides \$7.5 million General Fund to address a backlog of untested sexual assault evidence kits (rape kits) among local law enforcement agencies. Of the \$7.5 million, \$1 million will pay for a statewide audit to determine exactly how many untested rape kits there are, and \$6.5 million will support local agencies in an effort to test all untested kits. As evidenced by the recent arrest in the decades-old case of the East Area Rapist/Golden State Killer, DNA evidence can be critical in closing cases that would certainly go unsolved without it. Testing the local backlog of untested rape kits will add to the state's repository of DNA evidence and could very well result in justice for many victims of crime who could otherwise be denied resolution.

**Ruling Party Fails to Prioritize Removing Guns from Criminals.** Legislative Democrats would have us believe that the mere existence of guns causes people to kill others and the only way to reduce the senseless killing is to reduce the number of guns in circulation or eliminate them altogether. Bills working their way through the California State Legislature include one making it a crime to sell firearms or ammunition at the Cow Palace (SB 221, Weiner), another prohibiting the purchase of more than one firearm in a 30-day period (SB 1177, Portantino), a measure to authorize a person's coworker, teacher, or employer to seek a restraining order prohibiting the individual from possessing a firearm (AB 2888, Ting), and a host of other gun-grabbing legislation. Meanwhile, the budget negotiated between the Governor and legislative Democrats fails to provide any additional funding for the Attorney

General or local law enforcement agencies to eliminate a backlog of more than 10,000 felons and seriously mentally ill individuals on the Department of Justice's Armed Prohibited Persons System (APPS) list. These individuals violate the law and pose an ongoing threat to our communities and schools by continuing to possess firearms, despite being legally prohibited from doing so.

In 2017, the Attorney General only managed to reduce the APPS backlog by 408 subjects, compared to the previous two years during which his predecessor managed to reduce it by 4,769 (2015) and 2,057 (2016). Senate Republicans have repeatedly called for oversight of this program and have asked the Attorney General to identify the resources needed to disarm these dangerous individuals expeditiously. He has not provided this information to date.

If the ruling party were serious about stopping gun violence, it would prioritize funding to enforce the laws already on the books that seek to keep guns out of the hands of dangerous people instead of legislating policies that criminalize law-abiding citizens for exercising their Second Amendment rights.

### **Department of Corrections and Rehabilitation (CDCR)**

The enacted budget sets 2018-19 General Fund spending for CDCR at \$11.9 billion – a record high that is approximately \$725 million above Budget Act of 2017 spending levels. The spending increase is comprised mostly of the following:

- Employee compensation and benefit cost increases (\$423 million).
- Hepatitis C treatment expansion (\$106 million).
- Funding for roof replacement and mold remediation at prisons damaged by the 2017 winter storms (\$72 million).
- Funding to replace public safety radio system infrastructure and subscriber equipment at nine institutions (\$33 million).
- Funding to address mental health treatment bed capacity issues (\$20 million).
- Funding to replace high priority health care vehicles (\$18 million).
- Population-related changes (\$11 million).

**Plan to End Out-of-State Prison Contracts Moves Forward.** As the prison population continues to decline following the California Parole for Non-Violent Criminals and Juvenile Court Trial Requirements Initiative (Proposition 57, 2016), the enacted budget includes a reduction of \$59 million, which reflects the Governor's plan to eliminate the remaining out-of-state prison contracts by the end of January 2019. These contracts provided a critical safety-valve that prevented the release of tens of thousands of unrehabilitated felons following the federal court order limiting CDCR's adult population to 137.5 percent of design capacity. Given current population trends and projections, these contracts are likely no longer necessary. If additional capacity is needed in the future, an Indian tribe has proposed building one or more prisons on tribal lands for lease to the state, with construction costs financed by the tribe.

### **Local Public Safety**

In addition to roughly \$2.6 billion in anticipated state funding for local law enforcement services (this includes all the programs that were realigned to local law enforcement agencies via the 2011 Public Safety Realignment), the enacted budget provides \$87 million in new General Fund spending for local programs, including the following:

- \$50 million over three years for community-based organizations to provide reentry housing and wraparound services for ex-offenders reentering the community.
- \$27 million for trauma-informed diversion programs to reduce contact between at-risk youth and the criminal justice system.
- \$10 million to fund social workers in public defender offices to provide increased stability for justice-involved youth.

While these types of programs are generally well supported by evidence suggesting that they could be effective in reducing criminal behavior, their level of success will ultimately depend on the degree of fidelity to established best practices with which they are implemented. With respect to the youth diversion programs, reducing youth involvement with the criminal justice system could be a double-edged sword. For some, it could be an opportunity to avoid problems associated with having a criminal record, like difficulty finding employment, disqualification from many types of licensure and certifications, and general distrust by the community. For others though, it could mean significant delays in getting help, which could lead to more serious problems down the road. Allowing youth to avoid the consequences of their actions could produce more of the same criminal behavior. Unfortunately, the funding provided in the budget has as a stated goal reducing youth incarceration and involvement with the justice system, not necessarily reducing criminal behavior. If the focus were on reducing criminal behavior, reducing contact with the justice system would naturally follow.

# Transportation

## Key Points

- **Gas and Car Taxes Allocated—Billions Do Not Repair Roads.** The budget allocates \$4.6 billion from SB 1 gas and car taxes. Up to 77 percent of the funding could be used for roads and highways, and at least 23 percent is planned for non-road purposes (largely transit). Motorists will continue to pay about \$2.3 billion each year in taxes that do not repair roads.
- **No Borrowing for CHP Offices.** Legislature rejects proposal to borrow funds for CHP offices but approves \$178 million on a pay-as-you-go basis.
- **High-Speed Rail Deficit Grows Even More.** The budget includes \$1.1 billion to continue to build the high-speed rail system, despite a funding shortfall that could be as much as \$77.6 billion.
- **Department of Motor Vehicles (DMV) Extended Wait Times.** The budget throws money at the waiting time crisis with little additional oversight.

**Gas and Car Taxes Allocated.** The budget allocates \$4.6 billion from the SB 1 gas and car taxes. Of this amount, about 61 percent is allocated to programs directly fixing streets, roads, highways, bridges, and culverts. An additional 16 percent is slated for programs that have a mixture of projects. Some projects will fix roads and some projects will address other transportation issues, such as purchasing new transit buses, installing or widening bike paths and sidewalks, and making commuter rail and station improvements. Finally, about 23 percent is planned to be spent on projects unrelated to fixing roads. This funding will largely be spent on transit and commuter rail improvements and operation expenses. Please see the chart on the next page for the allocation of SB 1 revenues.

**Gas Tax Revenues Increase—Billions Still Not for Roads.** The gas and diesel tax increases imposed by SB 1 are bringing in more revenue than initially anticipated. Revenue projections have increased by \$108 million since January. This brings the total SB 1 tax and fee revenue to \$7.5 billion by the end of 2018-19. About 60 percent of this growth is attributed to the diesel sales tax rate increase included in SB 1. Unfortunately, the money collected from the sales tax on diesel does not fix roads. All diesel sales tax revenue is directed to mass transit purposes and is largely used to subsidize transit operations. In fact, ***motorists will continue pay about \$2.3 billion each year in fees and taxes that do not repair roads.***

**California Gas Prices Among Highest in the Country.** According to Gas Buddy as of July 6, 2018, California's gas prices are the second highest in the country at an average price of \$3.66 for a regular gallon of gas. Hawaii edges out California to take the top spot with the most expensive gasoline at \$3.68 per gallon. Within the contiguous U.S., Washington is the next closest at \$3.43 per gallon, while the national average is 28 percent less than California at \$2.85 per gallon. California's high gas prices continue to be driven up by high taxes on gasoline and state environmental policies that attempt to modify behavior, like the state's summer gasoline blend requirement, the Cap and Trade program, and the Low Carbon Fuel Standard.

**Caltrans Bureaucracy Continues to Grow.** The budget includes an additional \$167 million to fund nearly 900 new state and contracted architects and engineers for Caltrans' Capital Outlay Support (COS) Program. The total budget for the COS Program is now \$2 billion annually. While SB 1 requires Caltrans to perform more work, it is likely the department could absorb much of the workload with existing positions. In a 2014 report, the nonpartisan Legislative Analyst's Office (LAO) found the COS Program to be overstaffed by about 3,500 positions. With minimal subsequent program reductions, in May of 2016 the LAO indicated the COS program remained overstaffed by at least 1,000 positions but could be overstaffed by more than 2,000 positions. Last year, Caltrans retained 243 positions that

should have been eliminated. Inflating this program year after year means several hundred million dollars wasted on unnecessary administration rather than actual road projects.

| <b>New Gas and Car Tax Spending</b>  |  |                                  |                                  |
|--------------------------------------|--|----------------------------------|----------------------------------|
| (Dollars in Millions)                |  |                                  |                                  |
|                                      | <i>Program</i>                             | <i>2017-18<br/>Appropriation</i> | <i>2018-19<br/>Appropriation</i> |
| Local Allocations                    | Local Streets and Roads                    | \$461                            | \$1,202                          |
|                                      | Transit and Intercity Rail Capital Program | \$330                            | \$330                            |
|                                      | State Transit Assistance                   | \$286                            | \$405                            |
|                                      | Local Partnership Program                  | \$200                            | \$200                            |
|                                      | Active Transportation Program              | \$100                            | \$100                            |
|                                      | Commuter Rail and Intercity Rail           | \$26                             | \$43                             |
|                                      | Local Planning Grants                      | \$25                             | \$25                             |
|                                      | Total:                                     | <b>\$1,427</b>                   | <b>\$2,305</b>                   |
| State Allocations                    | SHOPP/Maintenance                          | \$461                            | \$1,219                          |
|                                      | Bridges and Culverts                       | \$400                            | \$400                            |
|                                      | Congested Corridors                        | \$250                            | \$250                            |
|                                      | Trade Corridor Enhancement                 | \$158                            | \$308                            |
|                                      | Department of Parks and Recreation         | \$53                             | \$79                             |
|                                      | Air Resources Board Clean Freight          | \$50                             | \$0                              |
|                                      | Freeway Service Patrol                     | \$25                             | \$25                             |
|                                      | Department of Food and Agriculture         | \$17                             | \$26                             |
|                                      | Transportation-Related CSU and UC Research | \$7                              | \$7                              |
|                                      | Transportation Workforce Development Board | \$5                              | \$5                              |
|                                      | Total:                                     | <b>\$1,426</b>                   | <b>\$2,319</b>                   |
| Administration                       | Department of Motor Vehicles               | \$4                              | \$8                              |
|                                      | Total:                                     | <b>\$4</b>                       | <b>\$8</b>                       |
| Revenue                              | Transportation Improvement Fee             | \$737                            | \$1,510                          |
|                                      | Gasoline Excise Tax                        | \$1,263                          | \$1,867                          |
|                                      | Diesel Excise Tax                          | \$415                            | \$678                            |
|                                      | Diesel Sales Tax                           | \$207                            | \$343                            |
|                                      | General Fund Loan Repayment                | \$235                            | \$235                            |
|                                      | Total:                                     | <b>\$2,858</b>                   | <b>\$4,633</b>                   |
| <i>Source: Department of Finance</i> |  |                                  |                                  |

### **California Highway Patrol**

**Legislature Rejects Proposal to Borrow Funds for New Offices.** The budget includes an additional \$178 million for construction of California Highway Patrol (CHP) offices across California. The Governor had proposed to finance these projects rather than pay for them on a pay-as-you-go basis. Doing so would have increased project costs by about 75 percent. Fortunately, the Legislature realized that it made little sense to further burden motorists with this additional cost in a year with a \$10 billion

General Fund surplus and rejected the plan to finance these projects. Instead, the Legislature approved funding on a pay-as-you-go basis.

### **Department of Motor Vehicles**

**DMV Wait Times Reach Crisis Levels.** Customer wait times at DMV offices across California reached unacceptable levels this year, with some customers waiting more than five hours to conduct business with the DMV. Many customers found themselves in lines wrapped around DMV buildings in temperatures reaching over 100 degrees. According to DMV, extended wait times are being driven by additional workload related to issuing new federally compliant REAL ID driver's licenses and identification (ID) cards. However, the nonpartisan Legislative Analyst's Office indicated that wait times are likely driven by other issues as well. Additionally, despite intense media scrutiny, the DMV has been unable to provide accurate data on how long the wait times are. The official data provided by DMV only measure wait times from the point a customer receives a service number, but this data fails to account for the substantial amount of time that customers must wait just to get a service number in the first place. Thus, the true wait times are unknown but are longer than indicated by the DMV.

**More Dollars But Little Oversight.** In response to these major problems, Sacramento Democrats are throwing money at the DMV with little additional oversight. The DMV received \$23 million and 166 positions in the 2017-18 fiscal year to implement REAL ID, and began issuing the new driver's licenses and IDs on January 22, 2018. These resources were supposed to provide extended service hours on weekdays and Saturdays, but the DMV eliminated extended hours after a few Saturdays produced low customer turnout. Extended service hours only resumed in June at a few locations after the media reported on lengthy wait times. The DMV budget was increased again on July 1, 2018 by \$47 million and another 332 positions in anticipation of this workload.

However, the DMV determined that the \$70 million already provided would not be sufficient to address wait times. In another bill (SB 856) passed just a couple weeks after the 2018 Budget Act, the Legislature authorized the Department of Finance to increase DMV's budget by an additional \$16.6 million and 230 positions. Legislative Republicans proposed that the State Auditor conduct a formal audit to assist in determining the cause of extended wait times and help direct resources to reduce those wait times, but the request was blocked by Legislative Democrats.

Instead of auditing the DMV, Sacramento Democrats approved a provision in yet another bill, SB 862, at the end of August that allows the Department of Finance to **further adjust DMV's budget by any amount justified**. These haphazard increases to the DMV budget suggest that the Governor's administration still has little idea what is needed to fix the problem.

Senate Republicans remain concerned about the lack of accountability at the DMV and the majority party's willingness to hand the DMV a blank check to spend more money. Throwing resources at a problem without knowing the cause may not actually result in reduced wait times. California motorists pay nearly \$4 billion annually for DMV services, and they deserve better.

## High-Speed Rail

**High-Speed Rail Continues Despite Lack of Funding.** The budget includes \$1.1 billion (Proposition 1A bond funds and Cap & Trade funds) to continue to build the high-speed rail system. Specifically, \$190 million is for the local/regional components of the system, \$897 million is for capital outlay, and the remaining \$45 million is for administration and contracts.

The California High-Speed Rail Authority (Authority) released the 2018 Business Plan on June 1, 2018, which reflects increased costs yet again. The cost of the line from San Francisco to Los Angeles is now projected to be between \$77.3 and \$98.1 billion. This represents a cost increase of 134 percent to 200 percent compared to the initial estimate of \$33 billion that was sold to voters in 2008. Additionally, the Authority does not have sufficient funding to complete the initial operating segment connecting San Francisco to Bakersfield, with a shortfall of up to \$9 billion. The funding gap for the line connecting San Francisco to Los Angeles is between \$49.1 and \$77.6 billion, depending on the project cost scenario used.

One detail of the project that is almost hidden in the Business Plan is that ***without a large lump sum of funding, project escalation costs will outpace the available stream of funding and, absent other changes, sufficient funding will never exist to finish the project.*** As a result, the Business Plan assumes the ability to finance \$3.9 to \$11.1 billion in future Cap and Trade Revenues by 2021. It is likely that in order to finance these costs, California voters would need to approve the use of future Cap and Trade tax revenues to pay the debt service on the borrowed share.

Additionally, since the publishing of the Business Plan, the Legislature passed and the Governor signed AB 1831 (Committee on Budget, 2018). AB 1831 was a budget trailer bill which included provisions creating a new Rail Modernization Improvement Program funded by Proposition 2 infrastructure money. (For more information on Proposition 2, see page 9.) If current Proposition 2 projections materialize, this program would receive about \$300 million in 2019-20. Additional funds would continue to flow to this program as long as the Proposition 2 rainy day fund is at the statutory maximum. While the high-speed rail project is not specifically identified as a recipient of funding, the project would certainly qualify for funds based on the broad program criteria. Furthermore, the California Transportation Agency, which oversees the project, will decide how this money is spent. No further legislative approval is needed to spend this money, potentially providing yet another blank check to the high-speed rail project.

It is long past time for the Legislature to re-evaluate this project and determine if additional investment and continuation of the project is practical. If the ultimate goal is to move people through the state more quickly and efficiently, investments in existing commuter rail lines or other emerging technologies may be able to do so at a fraction of the cost of high-speed rail.

# Housing and Homelessness

## Key Points

- **Bond and Tax Spending.** The budget includes \$532 million from an as-yet-approved housing bond and a new tax on real estate documents.
- **“No Place Like Home” Initiative.** The No Place Like Home program will go before the voters at the November 2018 statewide general election.
- **Homelessness Package.** The 2018-19 budget provides \$830 million in new spending to help combat homelessness.

The high cost of housing is one of California’s greatest challenges. Middle class and low income residents struggle to find housing they can afford across the state. Excessive regulations and restrictions on building have raised the costs of building and slowed down the production of housing units, thus creating a classic supply-and-demand problem. Unfortunately, the 2018-19 budget does little to address California’s continuing housing crisis, though it does provide one-time funding for local governments to develop a pathway out of homelessness for thousands across the state.

**Budget Reflects 2017 Housing Legislation.** The 2018-19 budget includes \$532 million for the Department of Housing and Community Development (HCD) to implement 2017 housing legislation including:

- **\$277 million from the Veterans and Affordable Housing Bond Act of 2018.** SB 3 (Beall, 2017) authorizes a ballot measure in November 2018 (Proposition 1) to seek approval for \$4 billion in general obligation bonds for affordable housing programs and a veteran's home ownership program. SB 3 also provides that programs funded with bond proceeds must give preference to projects where all construction workers will be paid at least the general prevailing wage rate, as determined by the Director of the Department of Industrial Relations.
- **\$255 million in real estate transaction tax revenue.** In 2017, SB 2 (Atkins), the Building Homes and Jobs Act, established a tax for affordable housing through a \$75 tax on real estate transaction documents. The 2018-19 budget includes \$255 million in SB 2 tax revenue, 50 percent of which is allocated to homelessness programs and 50 percent for local governments to update planning documents and zoning ordinances in order to streamline housing production. Homelessness funding is split between the Housing for a Healthy California Program (\$63 million) and the California Emergency Solutions Grant Program (\$63 million).

**No Place Like Home.** The 2018-19 budget package includes a bill (AB 1827) that will place the “No Place Like Home” program before the voters at the November 2018 statewide general election. Legislation enacted in 2016 authorized this program, a \$2 billion bond for homelessness and housing to be funded with Proposition 63 (2004) Mental Health Services Act dollars. However, the program is currently blocked due to ongoing litigation. The bill would give the voters of California the opportunity to verify that No Place Like Home is consistent with the intent of Proposition 63 and avoid further court delays. Additionally, the budget includes \$1.2 million for HCD to release a notice of funding availability in November 2018, with the intent to award funding from the bond before year end.

**Homelessness.** The 2018-19 budget provides \$830 million to help local agencies combat homelessness across the state, as detailed in the chart below. Additional information on programs included in the homelessness package is provided thereafter.

| <b>2018-19 Homelessness Funding (Dollars in Millions)</b> |              |
|---|--------------|
| <b>Long-Term Homelessness</b>                             |              |
| Housing for a Healthy California (SB 2 dollars)           | \$63         |
| <b>Short Term Homelessness</b>                            |              |
| Homeless Emergency Aid Block Grant (one-time)             | \$500        |
| California Emergency Solutions (SB 2 dollars )            | \$63         |
| Homeless Youth and Exploitation Program                   | \$2          |
| Domestic Violence Shelters, Services, Housing             | \$23         |
| CalWorks Housing Support Program                          | \$71         |
| CalWorks Homeless Assistance Program                      | \$43         |
| HomeSafe Program for Homeless Seniors                     | \$15         |
| Homeless Mental Illness Outreach                          | \$50         |
| <b>TOTAL</b>  | <b>\$830</b> |

- **Housing for a Healthy California.** Provides \$63 million in funding from SB 2 tax revenue for the Housing for a Healthy California program. The housing program is for Medi-Cal recipients experiencing homelessness and would fund rental assistance tied to services.
- **Homeless Emergency Aid Block Grant.** Provides \$500 million in one-time General Fund to be used for a block grant program that will provide funding to cities and counties that declare a local shelter crisis and identify city-county coordination efforts. The funds are available for a variety of purposes such as, emergency housing vouchers, rapid rehousing, emergency shelter construction, and use of armories to provide temporary shelters.
- **California Emergency Solutions Grant (ESG) Program.** Provides \$63 million in funding from SB 2 tax revenue for the California ESG program to complement the federal ESG program, providing grant funding to engage homeless individuals and provide services in emergency shelters.
- **Homeless Youth and Exploitation Program.** Provides \$2 million to establish and expand access to a range of housing options that meet the needs of homeless youth, including crisis intervention and stabilization services.
- **Domestic Violence Shelters, Services, Housing.** The grant program provides \$23 million to entities for supportive services, crisis management and housing stability for victims of domestic violence.
- **CalWorks Housing Support Program.** \$71 million to assist homeless families in obtaining permanent housing through housing identification, rent and moving subsidies, and case management.
- **CalWorks Homeless Assistance Program.** \$43 million to provide a once-every-12 months payment to meet the costs of temporary shelter while seeking permanent housing. The 2018-19 Budget provides a typical family with up to \$85 per night for 16 consecutive days of temporary shelter.
- **HomeSafe Program for Homeless Seniors.** Provides one-time funding of \$15 million for counties to establish a pilot program to demonstrate how case management and housing assistance can aid vulnerable seniors at risk for losing their housing.

- **Homeless Mental Illness Outreach.** The budget includes a one-time \$50 million General Fund allocation to the counties to support intensive outreach and health care treatment for homeless persons with mental illness. Funding allocations would consider county incidence of homeless individuals with serious mental illnesses and are intended to result in earlier identification of mental health needs, prevention of criminal justice involvement, and improved coordination of health care.

**Missed Opportunity to Lower Cost of Housing.** While providing \$500 million in one-time block grant funding to local governments may have merit, the budget misses an opportunity to use the surplus to help address the housing crisis currently afflicting the middle and working class in California. The 2018-19 budget does not include any reforms that would reduce the cost of housing in California. No dollars are allocated to incentivize local governments to lower fees for housing construction in their communities, which account for up to 30 percent of the cost of a new home. The median home value reached \$539,000 in California as of May 31, 2018.

The Department of Finance projects that annual construction of housing units will barely rise to 115,000 units in the next several years, far below the 180,000 unit production level that would be needed to begin addressing California's housing shortage. The budget does not include reforms that could improve housing production across the state with less restrictive environmental reviews, modifications to the cost-prohibitive zoning restrictions, or by reducing a host of excessive fees. Instead of addressing root causes, the budget tries to spend its way out of the problem, including billions of dollars in an attempt to offset Californians' exorbitant housing costs and mitigate increasing levels of homelessness that result from the state's lack of housing. Including the new spending of \$830 million added by the 2018-19 budget, the table below provides information on \$5 billion in total spending across the state for housing and homelessness programs:

| <b>2018-19 Affordable Housing and Homelessness Funding</b> |   |                |
|--|---|----------------|
| (Dollars in Millions)                                      |   |                |
| <i>Department</i>  | <i>Program</i>  | <i>Amount</i>  |
| Department of Housing and Community Development            | Veterans and Affordable Housing Bond Act Programs (SB 3)  | \$277          |
|  | No Place Like Home Program  | \$262          |
|  | Building Homes and Jobs Fund Programs (SB 2)  | \$255          |
|  | Federal Funds   | \$122          |
|  | Housing for Veterans Funds  | \$75           |
|  | Infill Infrastructure Grant Program   | \$51           |
|  | Multifamily Housing Program - Supportive Housing  | \$39           |
|  | Office of Migrant Services  | \$6            |
|  | Housing Related Parks Program   | \$2            |
|  | Various Programs  | \$15           |
| California Housing Finance Agency <sup>1/</sup>            | Single Family 1st Mortgage Lending  | \$1,500        |
|  | Multifamily Conduit Lending   | \$300          |
|  | Multifamily Lending   | \$200          |
|  | Single Family Down Payment Assistance   | \$108          |
|  | Special Needs Housing Program   | \$30           |
| Homeless Coordinating and Financing Council                | Emergency Homeless Aid Block Grants   | \$500          |
| Strategic Growth Council <sup>3/</sup>                     | Affordable Housing and Sustainable Communities  | \$455          |
| Tax Credit Allocation Committee                            | Low Income Housing Tax Credits (Federal)  | \$259          |
|  | Low Income Housing Tax Credits (State)  | \$97           |
|  | Farmworker Housing Assistance Tax Credits   | \$3            |
| Department of Veterans Affairs                             | CalVet Farm and Home Loan Program   | \$264          |
| Department of Social Services                              | CalWORKS Housing Support Program  | \$71           |
|  | CalWORKS Homeless Assistance Program  | \$43           |
|  | Senior Home Safe Program  | \$15           |
|  | CalWORKS Family Stabilization, Housing Component  | \$3            |
| Department of Health Care Services                         | Homeless and Mental Illness Program   | \$50           |
|  | Whole-Person Care Pilot Program, Health Homes Program, Mental Health Services Act Community Services and Supports, California Community Transitions Program | N/A            |
| Office of Emergency Services                               | Domestic Violence Housing First Program   | \$13           |
|  | Transitional Housing Program  | \$10           |
|  | Domestic Violence Shelters and Services   | \$10           |
|  | Specialized Emergency Housing   | \$5            |
|  | Homeless Youth and Exploitation Program   | \$2            |
| Department of Public Health                                | Housing Opportunities for Persons with AIDS (HOPWA)   | \$3            |
|  | Housing Plus Program  | \$2            |
| California Department of Corrections and Rehabilitation    | Integrated Services for Mentally-Ill Parolees   | \$3            |
|  | Specialized Treatment of Optimized Programming, Parole Service Center, Day Reporting Center, Female Offender Treatment and Employment Program               | N/A            |
| <b>Total</b>   |   | <b>\$5,050</b> |

# Resources, Environmental Protection, and Energy

## Key Points

- **Cap and Trade Spending.** Provides \$1.4 billion from Cap and Trade revenues for various greenhouse gas reduction programs with \$235 million going to support Healthy Forests programs and projects.
- **Proposition 68 Bond Funding.** Funds \$1.3 billion of various water and park programs from the California Drought, Water, Parks, Climate, Coastal Protection, and Outdoor Access for All Bond (Prop 68).
- **Flood Control Funds.** Provides \$295 million for critical flood control infrastructure projects.
- **Legally Questionable Use of Fees.** Uses Tire Recycling fees to fund the Department of Fish and Wildlife programs and to reduce greenhouse gas emissions (GHG).
- **Zero-Emission Vehicle Subsidies.** The budget includes \$334.5 million to begin an eight year program totaling \$2.4 billion to accelerate sales of zero-emission vehicles.

## Cap and Trade

**Cap and Trade Revenues to be Spent on Another \$1.4 billion of State Program.** The “Budget Bill Junior” (SB 856 of 2018) contains \$1.4 billion of funding from Cap and Trade revenues for various greenhouse gas (GHG) reduction programs and projects. The table on the following page summarizes how these funds are allocated by program.

Although the majority of overall Cap and Trade spending for 2018-19 (\$2.9 billion) continues to be directed at programs that have no clear nexus to GHG reductions (High Speed Rail, sustainable communities, and transit), \$510 million is being directed towards sustainable forests and agricultural programs that will help reduce greenhouse gas emissions in California. Specifically, the measure contains funding for (1) \$235 million for healthy forests, fire prevention programs within the State Responsibility Area, and prescribed burns and thinning projects, (2) \$211 million for methane emission reduction and grants, rebates, and loans for engine replacements and upgrades that benefit agriculture, and (3) \$64 million for food processors to fund energy efficiency upgrades. This funding will help with the removal of dead and dying trees in the forests, biomass energy generation, local assistance grants that benefit habitable structures in the State Responsibility Area, public education, fire severity mapping, dairy digester research and development.

Unfortunately, the Cap and Trade program continues to remove billions of dollars out of California’s economy, and these costs are passed onto hardworking families in the form of higher prices for gas, food, electricity, and other goods and services. Given the General Fund surplus of \$10 billion for fiscal year 2018-19, the programs and projects that provide a public safety and health benefit to the people of California should be funded with that surplus.

The \$1.4 billion makes up the 40 percent of discretionary spending that is annually appropriated in the budget. Under current law, the remaining 60 percent of Cap and Trade revenues (\$1.5 billion for fiscal year 2018-19) is continuously appropriated for transit, affordable housing, sustainable communities, and High Speed Rail. The 60/40 split does not include reserve funds of \$470 million, the backfill of the State Responsibility Area fire fee (\$30 million), or payment of the manufacturer’s sales tax exemption (\$88 million). To date, the state has appropriated approximately \$6.9 billion in Cap and Trade revenues.

Figure RES-01  
**2018-19 Cap and Trade Expenditure Plan**  
(Dollars in Millions)

| Investment Category                                | Department                         | Program  | Amount         |
|--|------------------------------------|--|----------------|
| Air Toxic and Criteria Air Pollutants              | Air Resources Board                | AB 617 - Community Air Protection  | \$245          |
|  |                                    | AB 617 - Local Air District Implementation (\$50 million total, including other funds)         | \$20           |
|  |                                    | Technical Assistance to Community Groups   | \$10           |
| Low Carbon Transportation                          | Air Resources Board                | Clean Vehicle Rebate Project   | \$175          |
|  |                                    | Clean Trucks, Buses, & Off-Road Freight Equipment  | \$180          |
|  |                                    | Enhanced Fleet Modernization Program, School Buses & Transportation Equity Projects            | \$100          |
|  | Energy Commission                  | Low Carbon Fuel Production   | \$12           |
| Climate Smart Agriculture                          | Air Resources Board                | Agricultural Diesel Engine Replacement & Upgrades (\$132 million total, including other funds) | \$112          |
|  | Energy Commission                  | Energy Efficiency  | \$64           |
|  | Department of Food and Agriculture | Healthy Soils  | \$5            |
|  | Energy Commission                  | Renew able Energy  | \$4            |
| Healthy Forests                                    | CAL FIRE                           | Healthy & Resilient Forests  | \$160          |
|  | CAL FIRE                           | Forest Carbon Plan: Prescribed Fire & Fuel Reduction   | \$30           |
|  | Natural Resources Agency           | Forest Carbon Plan: Northern, Coastal, and Southern California Regional Forest Health Projects | \$20           |
|  | CAL FIRE                           | Urban Forestry   | \$5            |
|  | CalOES                             | Local Fire Response  | \$25           |
| Short-Lived Climate Pollutants                     | Department of Food and Agriculture | Methane Reduction  | \$99           |
|  | Air Resources Board                | Woodstoves   | \$3            |
|  | CalRecycle                         | Waste Diversion  | \$25           |
| Integrated Climate Action: Mitigation & Resilience | Strategic Growth Council           | Transformative Climate Communities   | \$40           |
|  | Natural Resources Agency           | Urban Greening   | \$20           |
|  | Multiple Departments               | Coastal Resilience   | \$5            |
|  | Department of Fish and Wildlife    | Wetlands Restoration   | \$5            |
|  | Community Services & Development   | Low -Income Weatherization   | \$10           |
|  | California Conservation Corps      | Energy Corps   | \$6            |
| Climate and Clean Energy Research                  | Strategic Growth Council           | California Climate Change Technology and Solutions Initiative & Technical Assistance           | \$20           |
| <b>Total</b>                                       |                                    |  | <b>\$1,400</b> |

Source: Department of Finance

**Budget Includes Billions in Water & Parks Bond Funding.** The budget provides \$1.3 billion from the recently approved Prop 68 bond funds, which authorized \$4 billion in new general obligation bond debt to fund parks, ocean and coastal protection, safe drinking water, groundwater management, climate preparedness and resiliency, and multi-benefit flood control projects. The programs are identified in the chart below.

| Figure RES-01<br>California Drought, Water, Parks, Climate, Coastal Protection and<br>Outdoor Access For All (Proposition 68)<br>(Dollars in Millions) |  |  |                |
|--|--|--|----------------|
| Investment Category  | Department   | Program  | Amount         |
| State and Local Park Improvements  | Department of Parks and Recreation & Natural Resources Agency  | Local and Regional Grant Programs for Neighborhood Parks, Greenway Trails, and Enhancement of Natural and Cultural Resources | \$503          |
|  | Department of Parks and Recreation                             | State Park System Enhancements   | \$4            |
|  | Department of Food and Agriculture                             | Deferred Maintenance for Fairs   | \$4            |
| Ecosystem Restoration & Climate Resiliency   | Multiple Departments & Conservancies                           | River Recreation, Creek, and Waterway Improvements   | \$78           |
|  | Natural Resources Agency                                       | Salton Sea Restoration   | \$30           |
|  | Multiple Departments & Conservancies                           | Climate Adaptation & Resiliency  | \$177          |
|  | State Coastal Conservancy & Ocean Protection Council           | Coastal Protection   | \$53           |
|  | Sierra Nevada Conservancy & Department of Parks and Recreation | Forest Carbon Plan Implementation  | \$45           |
|  | California Conservation Corps                                  | CCC Restoration and Rehabilitation Projects & Grants to Local Community Conservation Corps                                   | \$10           |
| Water Action Plan  | State Water Board  | Safe Drinking Water Projects   | \$93           |
|  | Department of Water Resources & Natural Resources Agency       | Flood Management   | \$99           |
|  | Department of Water Resources & State Water Board              | Sustainable Groundwater Management Act   | \$146          |
|  | Department of Food and Agriculture                             | State Water Efficiency and Enhancement Program   | \$18           |
| <b>Total</b>   |  |  | <b>\$1,259</b> |

Source: Department of Finance

## Department of Forestry and Fire Protection

**New Funding for Various Firefighting Activities.** The budget provides additional resources to the Department of Forestry and Fire Protection (CalFire) for the following purposes:

- **New Helicopters.** \$98 million General Fund to purchase four helicopters to continue the replacement of CalFire's existing fleet. These four helicopters are in addition to the one helicopter already budgeted at \$12 million. Although the replacement of the Vietnam War-era helicopters is supportable, the price tag per helicopter has significantly increased from the initial \$12 million estimate. The initial appropriation of \$12 million will also need to be increased as these helicopters now cost a little over \$24 million, or double the initial estimate. To replace all 12 existing helicopters would cost \$295 million. The costs for new staffing, ongoing operations and maintenance, and aviation equipment will add another \$70 million General Fund from 2018-19 through 2023-24. Furthermore, the costs for capital outlay improvements to house the larger helicopters will result in an additional \$27 million General Fund.
- **Former Inmate Training.** \$27 million General Fund for CalFire, the California Department of Corrections and Rehabilitation, and the California Conservation Corps to operate the Firefighter Training and Certification Program for formerly incarcerated individuals for training to qualify for entry-level firefighting positions with local, state, and federal firefighting agencies. Although the goal of this new program is to provide parolees with job opportunities and reduce the likelihood of recidivism, it is unclear how many of these individuals would actually be hired by CalFire, local, or federal agencies. Given that CalFire already receives more applications each year than firefighter slots available and that most of those applying have already been employed by CalFire and have EMT certificates, it is unclear how successful formerly incarcerated individuals will be at gaining employment. Therefore, this program may not prove to be very cost-effective.
- **Equipment and Vehicles.** \$11 million General Fund to provide heavy equipment mechanics, vehicle maintenance funding, and associated administrative support staff to address the nearly year-round fire season.
- **Air Tankers.** \$4 million General Fund to staff and operate the McClellan Reload Base for the rapid deployment of large air tankers, very large air tankers, and the California National Guard Modular Airborne Fire Fighting Systems.

**Additional Funding for Tree Mortality and Carbon Sequestration.** The budget includes \$99 million from various funding sources to help address forest health. Furthermore, the Governor has issued an Executive Order (EO) on Forestry, and the state released its Forest Carbon Plan for how to maximize the carbon sequestration potential of our forests. The \$99 million is in addition to the \$160 million included in the Cap and Trade expenditure plan to support forest improvements and fire protection.

The EO calls for new or amended policies, including:

- Increasing the number of acres upon which vegetation management is performed.
- Simplifying the process for prescribed fire operations.
- Reducing barriers for forest health and fuels reduction projects.
- Reducing liability exposure for landowners.
- Providing financial and permitting assistance for smaller landowners.
- Supporting the demonstration and use of innovative wood products and worker training.

- Requesting the Public Utilities Commission to update its procurement programs for small bioenergy renewable generators to ensure long-term programmatic certainty.

The \$99 million will support the following activities:

- \$30 million for Prescribed Fire and Fuel Reduction.
- \$30 million for Sierra Regional Forest Health Projects.
- \$20 million for Northern, Coastal, and Southern California Regional Forest Health Projects.
- \$15 million for Legacy Forests at State Parks.
- \$1.9 million for Watershed Coordinator Grants.
- \$2.3 million for Markets for Wood Products.

This funding is mostly one-time and comes from Cap and Trade revenues, the Proposition 68 water and resources bond, timber tax revenues, and environmental license plate fees. Although the additional funding is a step in the right direction, given the state's \$10 billion General Fund surplus, millions more should be directed to ongoing funding to deal with the 129 million dead trees in our forests and to help avoid more catastrophic wildfires like those that occurred in 2017.

### **Department of Fish and Wildlife**

**Questionable Use of Fee Revenues to Fund the Department's Programs.** The budget contains \$32 million of ongoing funding (\$27 million General Fund and \$5 million Tire Recycling fee) to backfill the structural imbalance in the Fish and Game Preservation Fund, expand programs within the department, and provide funding for a service based budgeting review. The structural imbalance totals nearly \$20 million annually while the new expanded programs will cost nearly \$10 million annually. Some of the new programs would include conservation efforts to benefit specific species like salmon, increased efforts to recover an endangered species, increased hatchery production for inland fisheries, and new approaches to ensure sustainable marine fisheries.

The Tire Recycling fee is a cost on consumers and is supposed to be used to promote the recycling of waste tires, not fund unrelated fish and wildlife programs. Unfortunately, this is not the first time this Administration has used the tire recycling fee for purposes outside of the program. In 2013, AB 8 (Perea) extended for 8 years, to January 1, 2024, a number of motor vehicle, vessel, and **tire recycling fees** (roughly \$275 million annually, or a total of up to \$2.3 billion) to fund emission reduction and alternative fuel programs, including the Carl Moyer Program and the Alternative and Renewable Fuel and Vehicle Technology Programs (AB 118).

In 2013, AB 8 required a 2/3 vote due to an urgency clause, but since Proposition 26 clarified the definition of fees and taxes in 2010, Sacramento Democrats were unsure that AB 8-type fees could be deemed taxes. Nonetheless, due to the 2/3 vote, the tire fee has been used as a tax to fund unrelated projects such as environmental cleanup of the Tijuana River. The Administration has stated that the fee can be treated as a tax since AB 8 received a 2/3 vote. This legally questionable claim should serve as a warning that any 2/3 vote on fees can and will be used as a tax by Sacramento Democrats.

### **Department of Parks and Recreation**

**Fixing State Parks with Gas Taxes.** Instead of the Department of Parks and Recreation (DPR) using the State Parks and Recreation Fund (SPRF) to provide new recreational opportunities for park visitors

or to renovate or improve existing parks, \$80 million of gas tax revenues will be used to backfill the department's ongoing operating deficit, among other non-road related activities. These include:

- \$42 million and 364 new staff positions to improve park access and to fix and maintain state park facilities. Gas tax revenues will be used to clean restrooms, maintain trails and historic structures, and provide clean water supplies. Some of the funding will also help address deferred maintenance projects.
- \$27 million to pay for the department's ongoing structural deficit and \$8.5 million to establish a reserve. Two years ago, the Administration ripped off \$31 million in fuel tax revenues meant for the Off-Highway Vehicle (OHV) program to cover its ongoing operating budget problems. These operations were supposed to be more self-sufficient by 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 fifth consecutive year of providing additional funding to keep the department solvent, with this budget approval making the fund shift permanent.
- \$1 million to make the newly established recruitment and training program permanent.
- \$1 million for the OHV program for increased law enforcement, environmental monitoring, and maintenance grants supporting federal off-highway vehicle recreation.
- \$1 million for the Abandoned Watercraft Abatement grant program to remove abandoned watercraft from California's waterways.

These gas tax revenues are derived from fuel purchases by the OHV and boating communities. However, this budget only gives the OHV and boating programs \$1 million each. California motorists, OHV riders, and boaters are all paying more at the pump but not receiving the road or program benefits that they were promised.

**New California Indian Heritage Center.** The Budget Act includes \$100 million General Fund for the Department of Parks and Recreation to begin construction of a new Indian Heritage Museum. Total estimated project costs would be \$200 million. This new museum will replace the current State Indian Museum which is located on the grounds of Sutter's Fort State Historic Park.

### **Department of Water Resources**

**The Budget Includes One-time Funds for Water Infrastructure but Lacks an Ongoing Funding Commitment.** The Budget includes \$295 million General Fund for urban flood control projects, deferred maintenance levee projects, and ongoing levee operation and maintenance needs. The inclusion of this funding should be applauded and is an important acknowledgement of the ongoing flood infrastructure needs.

Senator Nielsen (R-Tehama) has repeatedly requested \$100 million General Fund ongoing for the Department of Water Resources to address critical infrastructure repairs and reimbursements to local agencies for flood control infrastructure work. However, the funding in the budget is mostly one-time in nature with only \$25 million ongoing for operation and maintenance needs. Therefore, a consistent source of funding is still necessary to address the backlog of operation and maintenance needs across the state. Critical repairs are still needed to the Sacramento, Feather, and Yuba River levees along with the Sutter and Yolo Bypasses and to urban and rural flood protection facilities in high flood risk areas across the state.

As the Administration has acknowledged, the Central Valley Flood Protection Plan identified \$17 billion to \$21 billion in flood system investment needs over the next 30 years with approximately \$88 million needed

annually just for operations and maintenance. This budget represents a good down payment but much remains to be funded.

**Tire Fees to Fund Climate Related Agricultural Programs.** The budget adds one-time investments of \$20 million Tire Recycling fee to reduce GHG emissions by funding the Agricultural Diesel Engine Replacement and Upgrades program. These funds will be used to replace existing diesel agricultural vehicles and equipment which will help the state's agricultural industry comply with the overly burdensome GHG regulations.

### **California Energy Commission**

**Zero-Emission Vehicle Subsidies.** The budget includes \$334.5 million to begin an eight year program to accelerate sales of zero-emission vehicles (ZEVs). The eight year plan totals \$2.4 billion for clean vehicle rebates, installation of electric vehicle charging stations, and construction of hydrogen fuel stations. On January 26, 2018, Governor Brown issued Executive Order B-48-18 establishing a new state goal of 5 million ZEVs on California roads by 2030. To accomplish this goal, the Executive Order calls for the construction and installation of 200 hydrogen fuel stations and 250,000 zero-emission vehicle charging stations. The budget includes initial funding of \$134.5 million to construct and install these fueling and charging stations. The multi-year investment for charging and fueling stations is \$800 million through 2025. Additionally, the budget continues the practice of subsidizing ZEV ownership by providing \$200 million in Cap and Trade revenue annually through 2025 to the Air Resources Board for consumer rebates for the purchase or lease of ZEV vehicles, including \$25 million for incentives for low-income consumers. These subsidies come from revenues generated by all California vehicle and vessel owners paying car and boat registration fees and by businesses and consumers paying taxes under the Cap and Trade program. It is unclear that this level of investment is necessary or justified. Currently, in addition to private investment, more than \$2 billion is available, either from state coffers or overseen by state programs, for ZEV infrastructure investment.

# Cannabis

## Key Points

- **More Money for Cannabis Industry Oversight and Equity Programs.** Includes \$104.5 million for various entities to regulate the cannabis industry and local equity programs.
- **Funding for Proposition 64 Programs.** Provides \$25 million to begin funding some programs, as required by Proposition 64, which authorized adult recreational use in 2016.

**More Money for Cannabis Industry Oversight and Equity Program.** The budget includes an additional \$104.5 million across various departments to continue the ramp-up of California's regulation of the cannabis industry. This amount includes:

- \$73 million is for licensing and enforcement of cultivators, retail dispensaries, testing facilities, and manufacturers.
- \$7 million is to aid with tax collection and business filings.
- \$14 million is for hearings and appeals related to licensure denials or discipline of licensees.
- \$10.5 million for grants to local equity programs and to provide technical assistants to equity applicants and licensees.

During the development of the budget, there were proposals to include \$14 million for the Department of Justice to enforce illegal cannabis activities statewide and \$25 million for local law enforcement grants to combat illegal cannabis activity within their jurisdictions. Ultimately those proposals were rejected and no additional funding is included in the budget for these purposes. Rejecting this funding is a missed opportunity to ensure the health and safety of Californians and to help level the playing field in the marketplace.

**Funding for Proposition 64 Programs.** The budget includes \$25 million to begin funding some of the required programs under Proposition 64 (2016, Control, Regulate and Tax Adult Use of Marijuana Act). The funding provided includes:

- \$10 million for the Governor's Office of Business and Economic Development's Community Reinvestment Grants Program for competitive grants to local health organizations and other entities to fund substance use disorder treatment, job placement, legal services, and other programs.
- \$10 million to be awarded to one or multiple public universities to research and evaluate the implementation and effect of Proposition 64.
- \$2 million for University of California-San Diego's Center for Medicinal Cannabis Research to research the medicinal values and adverse effects of cannabis.
- \$3 million for the California Highway Patrol to establish procedures to detect drivers impaired by cannabis.

The remaining programs required to be funded under Proposition 64 are expected to begin receiving funding in 2019-20 from 2018-19 cannabis tax revenues.

# Statewide Debts and Liabilities

## Key Points

- **State Debts Rise Past \$300 Billion.** Although the state continues to make required debt payments, a rise in retiree liabilities pushes overall debts \$19.5 billion higher since January 2018, to nearly \$305 billion.
- **Local Government Relief.** The budget provides funding relief to local governments for repayment for repealed mandates.

The 2018 Budget Act includes \$9.7 billion to pay the state's current debts and liabilities, including the following components:

- About \$8 billion to pay debt service costs for the state's outstanding and planned General Obligation (GO) and Lease Revenue (LR) bonds in 2018-19, as required by the California Constitution and respective debt issuance documents. According to the State Treasurer, the state currently has outstanding GO bonds totaling \$74.2 billion and has authorization to issue \$33 billion more, while outstanding LR bonds total \$9.2 billion and the state has authorization to issue \$4.1 billion more.
- More than \$1.7 billion to pay a variety of debts and liabilities as mandated by Proposition 2, which was passed by the voters in November 2014. The 2018 Budget Act includes \$382 million of truck weight fee repayments as part of the \$1.7 billion of Proposition 2 debt repayments, a shift started for the first time in the 2017 Budget Act. While such debts are eligible to be counted against Proposition 2 requirements, these repayments were previously made in addition to Proposition 2 repayments. Thus, the effect of this shift is to decrease debt repayment for other critical areas such as Proposition 98 settle-up and to free up room for more spending on Democrat priorities.

**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. Since the Governor released the January 2018-19 budget, a mere six months ago, the state's debts have grown by almost \$20 billion, reaching \$305 billion. The table on the following page identifies Proposition 2 outstanding liabilities as well as other debts and obligations, including GO and LR bonds. The largest growth area is the state's unfunded retiree health liability, growing from \$76.5 billion unfunded as of January 2018 to \$91 billion unfunded as of July 1, 2018.

Although the state has taken minor steps to eliminate the unfunded liability in recent years (in 2016, the state and its employees began to share equally in the prefunding of retiree health benefits), the debt continues to grow at an alarming rate. The recent efforts to pay down retiree health liabilities have been counteracted by the state granting public employee unions even higher annual pay raises, which increase both current costs and future pension liabilities. Paying down state debt while revenues are reaching record levels would provide the state with a cushion for softening the fiscal effect of the economic recession that is likely on the horizon, but the budget misses an opportunity to capitalize on the state's good fortune.

**Local Governments Get Relief for Mandates.** The budget includes a one-time General Fund payment of \$254 million to repay local agencies for three repealed mandates associated with mental health services for severely emotionally disturbed children. Utilizing a small portion of the state's windfall revenue to repay local governments for state mandated activities is a positive step, but the budget doesn't go far enough towards reducing the state's outstanding debts to local governments, leaving those governments without funding for critical programs and services.

| <b>Statewide Debts and Liabilities</b>   |                                |                           |                |                |                                   |          |
|--|--------------------------------|---------------------------|----------------|----------------|-----------------------------------|----------|
| <i>(Dollars in Millions)</i>   |                                |                           |                |                |                                   |          |
|  | <b>At Start of<br/>2018-19</b> | <b>Estimated Payments</b> |                |                | <b>Remaining<br/>Liabilities*</b> |          |
|  |                                | <b>2018-19</b>            | <b>2019-20</b> | <b>2020-21</b> | <b>2021-22</b>                    |          |
| <b><u>Eligible for Proposition 2 Payments</u></b>  |                                |                           |                |                |                                   |          |
| <b>Budgetary Borrowing</b>   |                                |                           |                |                |                                   |          |
| Loans from Special Funds   | \$1,248                        | \$205                     | \$39           | \$288          | \$474                             | \$242    |
| Weight Fee Payments  | \$1,150                        | \$382                     | \$509          | \$259          | \$0                               | \$0      |
| Pre-Proposition 42 Transportation Loans  | \$471                          | \$235                     | \$236          | \$0            | \$0                               | \$0      |
| Non-Proposition 98 Mandates (Pre 2004)   | \$18                           | \$7                       | \$0            | \$0            | \$0                               | \$11     |
| Underfunding of Proposition 98 - Settle-Up   | 440                            | 100                       | 100            | 190            | 50                                | \$0      |
| <b><u>State Retirement Liabilities</u></b>   |                                |                           |                |                |                                   |          |
| State Retiree Health   | 91,008                         | 195                       | 260            | 305            | 315                               | \$89,933 |
| State Employee Pensions***   | 58,765                         | 623                       | 390            | 427            | 532                               | \$56,793 |
| Teachers' Pensions (state portion)   | 35,330                         | 0                         | 0              | 0              | 0                                 | \$35,330 |
| Judges' Pensions   | 3,277                          | 0                         | 0              | 0              | 0                                 | \$3,277  |
| Deferred payments to CalPERS   | 682                            | 0                         | 0              | 0              | 0                                 | \$682    |
| <b><u>University of California Retirement Liabilities**</u></b>  |                                |                           |                |                |                                   |          |
| UC Employee Pensions   | 10,851                         | 0                         | 0              | 0              | 0                                 | \$10,851 |
| UC Retiree Health  | 19,331                         | 0                         | 0              | 0              | 0                                 | \$19,331 |
| <b>Subtotal, Eligible for Proposition 2</b>  | <b>\$222,571</b>               | <b>\$1,747</b>            | <b>\$1,534</b> | <b>\$1,469</b> | <b>\$1,371</b>                    |          |
| <b><u>Other State Debts</u></b>  |                                |                           |                |                |                                   |          |
| Long-Term Infrastructure (General<br>Obligation & Lease-Revenue Bonds)   | \$82,700                       | \$8,089                   | \$0            | \$0            | \$0                               | \$74,611 |
| Unemployment Insurance   | -2,300                         | 10                        | 0              | 0              | 0                                 | \$0      |
| Suspended Mandate  | 584                            | 254                       | 0              | 0              | 0                                 | \$330    |
| Education Mandate  | 1,411                          | 500                       | 15             | 27             | 7                                 | \$862    |
| <b>Subtotal, Other State Debts</b>   | <b>\$82,395</b>                | <b>\$8,853</b>            | <b>\$15</b>    | <b>\$27</b>    | <b>\$7</b>                        |          |
| <b>Total</b>   | <b>\$304,966</b>               | <b>\$10,600</b>           | <b>\$1,549</b> | <b>\$1,496</b> | <b>\$1,378</b>                    |          |
| * Assumes no additional debts incurred.  |                                |                           |                |                |                                   |          |
| ** UC liabilities technically belong to the UC system alone, not the State of California, due to UC's constitutional autonomy, but these liabilities are nonetheless included as eligible for repayment under Proposition 2. |                                |                           |                |                |                                   |          |
| *** Estimated payments pay down the General Fund's portion of the supplemental payment pension loan from the Surplus Monetary Investment Fund (SMIF).  |                                |                           |                |                |                                   |          |

# General Government

## Key Points

- **Infrastructure Funds, Deferred Maintenance Still a Concern.** Sacramento office buildings are prioritized over water storage, high housing costs, and forest health, while the budget includes a nominal amount of one-time General Fund for maintenance, missing an opportunity for the state to use significant surplus funds for higher priorities.
- **Critical Voting Equipment Funding Not Enough.** The state will provide \$134 million General Fund that counties must match \$1 for \$1, but it may not be enough to replace aging equipment statewide.
- **Census Funding Skyrockets.** The 2010 Census activities cost \$12 million (\$2 million General Fund) but funding for the 2020 Census will reach more than \$103 million General Fund. The budget also inexplicably provides exemptions from standard transparency laws for census contracts.
- **Workplace Conduct Unit.** A budget trailer bill establishes a unit within the Legislative Counsel Bureau to investigate workplace misconduct, a positive first step in effectuating cultural change within the Legislature.
- **Abuse of the Budget Process to Change San Diego Election Laws.** The budget abuses state budget laws by enacting retroactive changes to election rules in San Diego County to benefit public unions.
- **Doubles Down on Redirecting Housing Assistance Funds.** The budget undercuts an ongoing lawsuit by asserting that the state's use of the National Mortgage Settlement funds in 2013 was consistent with legislative intent.
- **Property Tax Backfill Will Help Local Governments.** The budget provides much needed property tax relief to disaster-stricken areas across the state.
- **County Assessors' Program Continues.** The budget provides funding to improve and expedite local assessments of property.
- **Arts Funding Helps Underserved Communities.** The Arts Council will receive millions to enhance programs statewide.
- **Precision Medicine Program Expands.** The budget includes \$30 million for the Precision Medicine program, a tripling of resources from 2017-18.
- **Public Sector Unions Handouts.** The 2018-19 Budget includes numerous problematic policies including making it harder to cancel your union dues, forcing counties to the bargaining table, expanding new employee orientations, and mandating union-centric curriculum for inmates.

**Infrastructure Spending Commendable, Though Funds Could Be Better Prioritized.** The 2018-19 Budget includes \$963.5 million General Fund for deferred maintenance, state building restoration and replacement, and the Capitol Annex project (the budget also includes \$1.2 billion in lease revenue bond authority for the Capitol Annex project). The Governor's 2017 California Five-Year Infrastructure Plan identifies more than \$75 billion in deferred maintenance needs across the state. Of this amount, 73 percent is in transportation, 17 percent is in water resources, 4 percent is in higher education, and 2 percent is in parks and recreation. The budget includes a relatively minor amount of General Fund given the enormity of need, providing \$305 million in one-time funding across various program areas. Some of the most notable infrastructure expenditures include the following:

- \$630 million for the Capitol Annex project, design activities related to state office building refurbishing, and demolition and development of a new office complex.
- \$28.5 million (Proposition 98 General Fund) for California Community Colleges.
- \$100 million for the Department of Water Resources for levee repairs.
- \$50 million for courts.
- \$35 million each for the University of California and the California State University.
- \$15 million for Cal Expo.
- \$10 million each for the Department of State Hospitals and the Department of Developmental Services.
- \$9 million for state prisons.
- \$4 million each for the Military Department, the Department of Veteran's Affairs, State Special Schools, and the Office of Emergency Services.

The total funding for infrastructure includes \$630 million in one-time General Fund, rather than borrowing, to replace or rehabilitate state facilities. The budget provides for the next phase of several office building projects in the Sacramento area, including the design phase of the Capitol Annex project. While using one-time General Fund resources for the state's infrastructure needs is a fiscally responsible approach, Sacramento office buildings may not be the highest priority given the state's overall challenges, including needs to address water storage, forest health, and homelessness.

**Voting Equipment Funds Reward Shift to Vote-Center Model.** The budget provides \$134 million General Fund (with counties required to provide at least \$134 million in matching funds) for the replacement of voting equipment across the state. In addition to funding, the new policy would require the distribution of funds in a manner consistent with SB 450 (Allen, 2016), which allows counties to implement an all vote-by-mail election system that eliminates polling places in favor of vote centers. Senate Republicans remain concerned that funding may not be sufficient for rural counties to replace their aging equipment, increasing the risk of fraudulent election activities as the shift towards the SB 450 model further undermines the integrity of our election system.

**Census Funding Benefits Community-Based Organizations.** The budget includes \$90.3 million over three years for statewide outreach and other efforts related to increasing the participation rate in the 2020 Census. Of the funding provided, \$62.5 million General Fund will go to Community-Based Organizations (for direct outreach to individuals), and \$17 million will be dedicated to a media campaign. This level of funding represents a significant increase compared to 2010, when the state provided \$2 million and the Complete Count Committee raised \$10 million in private funding. When combined with \$13 million General Fund provided in the 2017-18 budget, the state will have committed \$103.3 million General Fund for census activities without the consideration of a cost/benefit analysis that could have ensured the state was providing an appropriate amount of funding for a positive return on investment. The budget also exempts all contracts for census activities from the usual transparency provisions of state law found in the Public Contract Code, thus reducing accountability for these funds. Public review is a critical tool for ensuring the integrity of state and local programs, and Sacramento Democrats offered no rationale for excluding contracts in this sensitive area from standard transparency requirements.

**Workplace Conduct Unit a Positive First Step.** The 2018-19 budget provides authority to establish a unit within the Legislative Counsel Bureau to investigate workplace misconduct. The budget provides \$1.5 million to implement recommendations adopted by the Subcommittee on Sexual Harassment Prevention and Response of the Joint Rules Committee intended to support cultural change and reduce sexual harassment in the Legislature. Senate Republicans applaud these efforts to provide legislative employees with a single, unified structure for the reporting and investigation of misconduct.

**Blatant Abuse of the Budget Process to Benefit Democrat Allies.** The budget abuses Proposition 25's budget voting laws by retroactively enacting changes to local election laws in San Diego County. AB 901 (Gloria, Statutes of 2017) increased the threshold for gathering signatures from 10 percent of the electors in the last gubernatorial election, to 10 percent of the jurisdiction's electors in the last major election, requiring significantly more signatures to qualify an initiative. A last-minute budget trailer bill to retroactively revert the threshold back to the pre-AB 901 level allows a current SEIU initiative to qualify for the November 2018 ballot. Enacting policy changes with no relationship to the state budget in a budget trailer bill is not consistent with Proposition 25's specific requirements, nor is it consistent with the sales pitch given to voters that Proposition 25 was necessary to enact an on-time budget by June 15 each year.

**Mortgage Settlement Money Redirected.** The 2018-19 budget seeks to undercut a current lawsuit by asserting that the state's 2013 use of the National Mortgage Settlement (NMS) funds was consistent with implementing legislation. The NMS funding generally was intended to ameliorate harms caused by improprieties in the servicing of mortgages, but the one-time money was used as an offset to General Fund expenditures for various housing programs and debt service during years of state budget problems. Californians who are suffering from the incredibly high cost of California housing, which largely results from Democrats' misguided policies, could benefit from additional spending on housing programs, but instead, Governor Brown and the Democrat-controlled Legislature chose to use this one-time housing relief funding as a General Fund offset in order to prioritize spending on union giveaways and state employees.

**Disaster-Related Property Tax Funds for Local Governments.** The budget includes \$32.8 million General Fund to backfill the property tax revenue losses that cities, counties, and special districts will incur in 2017-18 and 2018-19 due to the 2017 wildfires and resulting mudslides in Southern California. Of this amount, \$21.8 million is for Northern California jurisdictions and \$11 million is for Southern California jurisdictions. Senate Republicans applaud the inclusion of funding for these hard-hit communities and encourage local agencies to mitigate some of the devastating losses with the one-time General Fund.

**Local Property Assessment Expedited.** The budget provides \$15 million over the next three years for the State Supplementation for the County Assessors Program (SSCAP) to improve and expedite local assessments of property with the goal to increase countywide assessed values. Higher assessed values mean higher property tax revenue for K-14 schools, which offsets the state's Proposition 98 General Fund obligation. Senate Republicans support providing resources to local county assessors' to ensure timely review and modification of property tax while improving overall administration of the property tax program and ensuring equity statewide.

**Arts Funding Helps Underserved Communities.** The 2018 budget includes \$8.8 million General Fund for the California Arts Council to support grant programs in underserved communities in 2018-19. Senator Wilk proposed the additional funding in Subcommittee, and Senator Nielsen supported the action, as available grant funding has been over-subscribed and the one-time General Fund will provide an opportunity for program expansion across the state.

**Precision Medicine Funding Continues.** The 2018 budget provides \$30 million General Fund for continued investment in the California Initiative to Advance Precision Medicine. The initiative was implemented with \$3 million General Fund in 2014-15 and supported two precision medicine demonstration projects. In 2016-17 and 2017-18, an additional \$10 million was provided each year. Eight demonstration projects have been funded, an asset inventory and economic analysis are both in progress, and a new request for proposal is in development.

## **Public Employment**

**Blatant Hand-Out to Public Employee Unions.** Legislative Democrats abused the budget voting rules to make various changes to strengthen unions in the wake of the recent *Janus v. AFSCME* Supreme Court case, even though these changes have nothing to do with the state budget. The *Janus v. AFSCME* case effectively makes it unlawful for public sector unions to collect “agency fees” from non-union members. To counteract this new nationwide legal ruling that restored free speech rights to union enrollment, Sacramento Democrats dropped union-centric requirements into budget trailer bills at the last minute without undergoing the usual scrutiny of budget subcommittee hearings, thus limiting transparency and public input from the lawmaking process. The provisions, which were authorized by SB 846 and SB 866, include:

- Making it harder to leave a union by placing the union in charge of cancelling union membership and/or agency fees and requiring requests for cancellation to comply with vague and undefined “terms of authorization”.
- Protecting public employers and unions from lawsuits regarding fair share due deductions that happened prior to the *Janus* decision.
- Forcing In-Home Supportive Services employers in three counties (Orange, Merced, and LA) to reopen their MOU agreement if requested by the union in order to negotiate the structure, time, and manner of union access to new employee orientations.
- Requiring union approval before a public employer can send out mass communications regarding employee rights.
- Prohibiting employers from sharing the time, date, and place of new employee orientation with anyone but the employees, the union, and a contracted vendor. This provision could place the employer in a position to violate public records requirements.
- Forcing new employees of Kern County Hospital Authority to participate in the Kern County Employees' Retirement Association, upon approval of that association.
- Mandating union-centric curriculum for a Pre-Release Construction Trades program for prison inmates.

# Economic Development

## Key Points

- **Expanded Earned Income Tax Credit.** The budget expands the state’s earned income tax credit to all Californians over 18 years of age.
- **Cal Competes Tax Credit Continues.** The budget provides \$180 million in tax credit benefits to California businesses through 2022-23.
- **New Small Business Assistance Program.** The budget carves out \$20 million to enhance services to underserved small business segments such as women and veteran owned businesses.
- **Missed Opportunity to Improve Hiring Credit.** The budget continues the existing New Employment Hiring Credit program but does nothing to improve utilization, missing an opportunity to help more businesses across the state.
- **Policy Issue Moved Through Budget Process.** The budget extends the Hollywood Tax Credit program to provide \$330 million in tax credits annually from 2020-21 through 2024-25.
- **Tribal Taxes.** The budget exempts the earned income derived from any tribal land for a member of a federally recognized tribe.

**Expansion for State Earned Income Tax Credit Program.** The 2018-19 budget expands, for the second year in a row, the state’s Earned Income Tax Credit (EITC) program. The 2018-19 expansion allows workers between the ages of 18 and 25 and those above 64 to be eligible for the tax credit and also revises the credit’s income limits to reflect the minimum wage increase to \$12 per hour in 2019. For 2018-19, the state will provide approximately \$420 million in tax credits to 2 million low-income working California households. Senate Republicans have supported the EITC as a more effective way to reduce poverty and assist families than traditional welfare programs.

**California Competes Tax Credit Program Continues.** The budget continues the Cal Competes Tax Credit program, providing \$180 million per year in tax credit benefits to California businesses through 2022-23. The program is a unique, flexible economic development tool that helps California compete with other states for employers that may be seeking to relocate or expand their business. The budget requires the Governor’s Office of Business and Economic Development (Go-Biz), as part of eligibility criteria, to consider the extent to which the credit will influence the taxpayer’s willingness and ability to create jobs that might not otherwise be created without the credit, reducing what is commonly referred to as “windfall” benefits and increasing the program’s economic impact.

The tax credit allocation authority of \$180 million per year reflects a redirection of \$20 million (from the historical \$200 million annual allocation level) to provide funding for direct technical assistance to small businesses (discussed below).

**New Small Business Development Technical Assistance Program.** The budget provides \$17 million each of the next five years to establish and support the Small Business Development Technical Assistance Expansion Program, a competitive grant program intended to expand services to small businesses. The funding will allow federal small business technical assistance programs to expand service to underserved small business segments with a focus on women, minority, and veteran-owned businesses. Additionally, \$3 million each of the next five years will support the California Small Business Development Center (SBDC) network to assist in drawing down federal funds, which will allow the SBDCs to focus on access to capital for small businesses.

**Democrats Fail to Improve the New Employment Hiring Tax Credit.** The budget extends the existing California Hiring Tax Credit program through 2023-24. The program has been underutilized, providing significantly less in tax credits than originally projected. The nonpartisan Legislative Analyst's Office (LAO) opines that modifying eligibility requirements could increase participation and provide greater incentive to businesses, but Sacramento Democrats rejected program reforms, extending the current program criteria and eligibility requirements and missing an opportunity to better assist businesses across the state.

**Hollywood Tax Credit Extended.** The 2018-19 budget extends the Film and TV Tax Credit Program and provides \$330 million per year in tax credits from 2020-21 through 2024-25 (current program is authorized through 2019-20). While Senate Republicans support the program and its economic benefits, it may have been prudent to wait before extending the tax credit as the LAO is expected to evaluate the effectiveness of the program and provide a report to the Legislature in 2019.

**Tribal Taxes.** The budget exempts the earned income derived from any tribal land for a member of a federally recognized tribe. Prior to this change, members had to reside on their own tribe's land to be exempt from income earned on that land. The budget includes \$1.1 million General Fund revenue loss annually.

# Employee Compensation & Retirement

## Key Points

- **State Employee Pay Keeps Rising.** Employee compensation increases by \$1.4 billion so far, and one more expected employee contract is likely to drive costs higher.
- **Retirement Costs Continue to Rise.** Pension costs exceed \$9.5 billion, and are on pace to exceed \$10 billion by 2020, crowding out resources from critical state programs.

## Employee Compensation

**State Employee Compensation Increases.** The budget includes an additional \$1.4 billion (\$804 million General Fund) for employee pay raises and benefits. Over the past five budgets the state has spent over \$10 billion (\$4.7 billion General Fund) cumulatively for increased employee compensation and benefits.

**Generous New Bargaining Contracts Drive Costs Higher.** The budget reflects generous new contracts with correctional officers, engineers, and scientists. The unusual one-year correctional officer contract will provide a leave buy-out in 2018 plus a 5 percent general raise beginning in July 2019. The engineer and scientist contracts provide two-year deals with raises of 8.5 percent and 10 percent, respectively, with additional raises possible for senior engineers with more than 20 years' experience, among other perks. Additionally, the budget does not yet reflect expected higher costs for the highway patrol contract, which is likely to contain large raises as well.

## California Public Employees Retirement System (CalPERS)

**Public Employee Pension Costs Continue to Rise.** The budget provides \$6.2 billion total funds (\$3.6 billion General Fund) in employer contributions to CalPERS for state employees' retirement costs, including \$683 million for California State University employees. This is 7 percent higher than the amount budgeted in Fiscal Year 2017-18. Current estimates predict that state contributions to CalPERS will increase by nearly \$1.6 billion (\$866 million General Fund) by the 2023-24 budget, accounting for a combined state contribution of nearly \$7.9 billion (\$4.5 billion General Fund).

**Supplemental Payment Loan Payment.** The 2017-18 budget approved a \$6 billion supplemental payment to CalPERS. This payment was a long-term loan from the state's cash accounts, which will be paid back over time from Proposition 2's debt repayments. The 2018-19 budget includes a \$624 million debt repayment, within Proposition 2, to pay down the General Fund's portion of the loan. This loan, and interest, must be repaid by the 2029-30 budget.

## California State Teachers' Retirement System (CalSTRS)

**State's Share of Teacher Pension Costs Continue to Rise.** The budget provides \$3.1 billion General Fund to pay for the state's share of CalSTRS costs. This is a 10 percent increase above 2017-18 spending. By 2021-22 state contributions to CalSTRS will be \$4 billion, 30 percent higher than the amount the state is projected to pay in this budget.

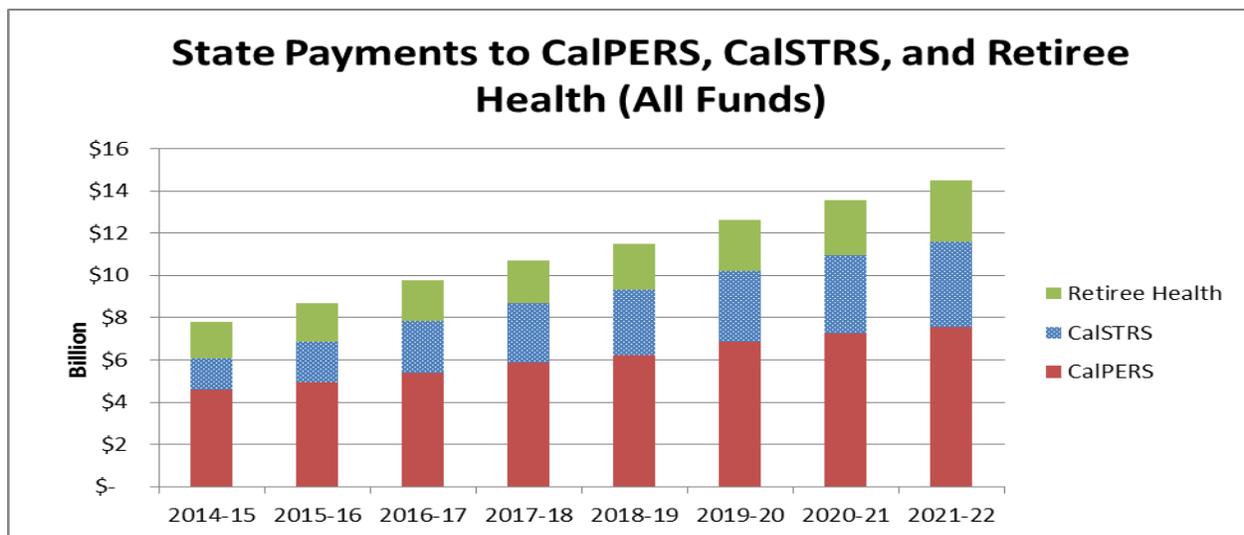
**Taking Money Out of the Classroom.** A contribution made to CalSTRS is money taken directly out of the classroom. The LAO estimated that **by the 2020-21 fiscal year, school districts will be sending somewhere between 25 percent and 33 percent of new cumulative Proposition 98 dollars to CalSTRS.**

## Retiree Health Care Benefits

The budget includes \$2.2 billion General Fund for health care benefits for state retirees, California State University retirees, and dependents. Retiree health care benefits continue to be paid out on a “pay-as-you-go” approach, which has led to the creation of a \$91 billion unfunded liability, an estimate that has increased by \$15 billion just since January 2018, based on more accurate reporting requirements. Pre-funding contributions from the state will provide almost \$373 million in the budget year, and the prefunding account’s cumulative balance should exceed \$1 billion by the end of the budget year.

## Total State Cost for Retirement Programs

To evaluate the combined effects of the budget actions described above, the graph below illustrates combined budgetary costs for employer contributions to CalPERS and CalSTRS, along with retiree health costs through the 2021-22 budget year.



State retirement costs are projected to grow by more than 26 percent between now and the 2021-22 budget, which is 2.7 times as fast as the overall projected state revenue growth of 9.7 percent. During that same time period Non-Proposition 98 General Fund expenditure growth is estimated to be 13 percent higher than 2018-19 levels. Thus, without additional reforms, other programs will see larger portions of their General Fund resources siphoned off to pay for pension and retiree health costs. However, Democrats have taken only modest steps to address this problem while at the same time continuing to award significant new raises to employees.

The Legislature and the Governor enacted “funding plans” for both CalPERS (2012) and CalSTRS (2014) in an effort to reduce unfunded liabilities. While these plans did help to mitigate the creation of some future liabilities, retiree liabilities have grown by \$68 billion since 2011. The 2018-19 budget misses an opportunity to use the current surplus to further reduce these massive liabilities.

## Appendix: Budget and Trailer Bill List

| Budget and Related Bills |   |
|--------------------------|---|
| Bill Number              | Subject (Date Chaptered)  |
| <b>SB 840</b>            | <b>Main Budget Bill (June 27, 2018)</b>   |
|                          | Provides for the vast majority of the state's \$201 billion budget (some appropriations are included in other bills).   |
| <b>SB 841</b>            | <b>Supplemental Appropriations for 2017-18 (June 27, 2018)</b>  |
|                          | Appropriates \$890.5 million General Fund to address budget deficiencies.   |
| <b>SB 846</b>            | <b>General Government: Labor (Enrolled September 5, 2018)</b>   |
|                          | This bill seeks to protect public employers and employee organizations from specified lawsuits relating to the Janus v. AFSCME Supreme Court Case and provides discretion to the Kern County Employees' Retirement Association on accepting specified employees to their plan.                                      |
| <b>SB 847</b>            | <b>Courts (June 27, 2018)</b>   |
|                          | Establishes two new judgeships and one appellate court justice to serve Riverside County. Extends various "temporary" court fee increases by five years. Establishes a pilot program to resolve traffic tickets online. Provides \$4 million for interpreter services in civil proceedings.                         |
| <b>SB 848</b>            | <b>Transportation (June 27, 2018)</b>   |
|                          | Imposes a fee on businesses partner transactions to help fund a new Department of Motor Vehicles IT system, allows SB 1 funds to reimburse local coffers that advance funds for transportation projects, and limits the amount of overhead costs the Department of Transportation can charge to self-help counties. |
| <b>SB 849</b>            | <b>Medi-Cal (June 27, 2018)</b>   |
|                          | Creates the Proposition 56 Medi-Cal Physicians and Dentists Loan Repayment Program to encourage recent graduate physicians and dentists to serve Medi-Cal beneficiaries.  |
| <b>SB 850</b>            | <b>Housing (June 27, 2018)</b>  |
|                          | Establishes the California Emergency Solutions and Housing Program, establishes the Homeless Emergency Aid program and provides an allocation methodology for \$500 million in one-time General Fund, provides \$5 million each to Merced County and Orange County for homeless projects.                           |
| <b>SB 852</b>            | <b>Employee Compensation: Correctional Officers Contract (June 27, 2018)</b>  |
|                          | Provides one-time leave buyouts in 2018 and a 5 percent pay raise in 2019.  |
| <b>SB 853</b>            | <b>Department of Developmental Services (June 27, 2018)</b>   |
|                          | Prioritizes funding for specified self-determination program activities, increases transparency for regional centers, and appropriates \$1.5 million for the Best Buddies Program.  |
| <b>SB 854</b>            | <b>Resources (June 27, 2018)</b>  |
|                          | Imposes new regulations and fees, authorizes eminent domain against private landowners, and provides new wild and scenic river designations, among numerous other issues.   |
| <b>SB 855</b>            | <b>Revenue (June 27, 2018)</b>  |
|                          | Expands the state's Earned Income Tax Credit program to individuals between 18 and 25 years of age and those over the age of 65, extends the New Employment Hiring Credit and the Cal Competes Tax Credit program an additional five years.   |

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| <b>SB 856</b> | <b>Budget Bill Junior (June 27, 2018)</b>  |
|               | Expendes \$1 billion in tobacco tax proceeds and \$1.4 billion in Cap & Trade funds.   |
| <b>SB 857</b> | <b>Labor - County IHSS (Enrolled July 2, 2018)</b>   |
|               | For LA, Orange, and Merced counties, requires IHSS employers to reopen their MOUs, upon request of a union, to negotiate union access to new employee orientation.   |
| <b>SB 861</b> | <b>Mortgage Settlement (Enrolled September 5, 2018)</b>  |
|               | Responds to a recent court ruling against the state by asserting that the state's past use of the National Mortgage Settlement funds is consistent with both implementing legislation and legislative intent in enacting the National Mortgage Special Deposit Fund.   |
| <b>SB 862</b> | <b>August Budget Bill Jr. (Enrolled September 5, 2018)</b>   |
|               | Makes various changes to the 2018 Budget Act, including extending the availability of grant funds for rape kit processing, providing \$10 million for human trafficking grants, and providing \$15 million in advance for bail reform.   |
| <b>SB 866</b> | <b>General Government - Public Employment (June 27, 2018)</b>  |
|               | Makes the cancellation of union dues harder, requires union approval for mass communications with employees, forces Kern County Hospital employees to join the county retirement plan, and mandates a union-centric curriculum for a pre-release construction pilot program in prisons.  |
| <b>SB 867</b> | <b>Workplace Conduct (Enrolled September 5, 2018)</b>  |
|               | Provides authority to establish a unit within the Legislative Counsel Bureau to investigate workplace misconduct. The bill provides \$1.5 million towards implementation of recommendations adopted by the Subcommittee on Sexual Harassment Prevention and Response of the Joint Rules Committee.   |
| <b>SB 869</b> | <b>General Government: Elections (Enrolled September 5, 2018)</b>  |
|               | Seeks to protect against outstanding lawsuits over the majority party's abuse of Proposition 25 budget rules to retroactively change local election requirements in San Diego County.  |
| <b>SB 872</b> | <b>Local Government - Taxation: Prohibition Groceries (July 9, 2018)</b>   |
|               | The bill amends the definitions contained in the grocery sales tax ban (AB 1838) to exempt cannabis more broadly from the moratorium on local grocery taxes.   |
| <b>SB 873</b> | <b>State Employee Contracts; (Enrolled September 5, 2018)</b>  |
|               | Approves memoranda of understanding that provide raises and other benefits over two years for Bargaining Unit 9 (Engineers) and Bargaining Unit 10 (Scientists).   |
| <b>SB 875</b> | <b>Resources Clean-Up and Miscellaneous (Enrolled September 5, 2018)</b>   |
|               | Makes technical changes to the delta levee maintenance and beverage recycling programs. Amends local project provisions for the Lower Los Angeles River Recreation and Park District and the Pure Water San Diego Program.   |
| <b>SB 876</b> | <b>Human Services Clean-Up (Enrolled September 5, 2018)</b>  |
|               | This trailer bill appropriates \$10,000 federal funds for the Tribal State Title IV E agreement between the Department of Social Services and the tribal child welfare programs and makes technical changes.   |
| <b>SB 877</b> | <b>General Government (Enrolled September 5, 2018)</b>   |
|               | Exempts certain contracts related to the 2020 Census activities from normal public transparency, extends the repayment deadline for mass transit cash flow loans, gives flexibility to public works contractors working on emergency projects regarding award noticing, requires public works contractors to continue to pay employees for up to 10 days if they are issued a stop order from the Labor Commissioner, and makes other technical changes. |

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| <b>SB 878</b>  | <b>Film Tax Clean-Up (Enrolled September 5, 2018)</b>   |
|                | Provides clarification on the definitions of previously allowable credits within the Film and TV Tax Credit program and extends the due date for an evaluation report on the program from 2019 to 2023.   |
| <b>SB 879</b>  | <b>Public Safety Clean-Up (Enrolled September 5, 2018)</b>  |
|                | Contains clean-up provisions that clarify actions included in the Budget Act of 2018 (SB 840) and the first 2018-19 public safety trailer bill (AB 1812). Reappropriates funds from the Commission on Peace Officer Standards and Training's 2015-16 budget to address an accounting error. Clarifies existing law regarding the State Auditor's authority to review confidential information in the possession of public agencies. |
| <b>AB 1808</b> | <b>Education (June 27, 2018)</b>  |
|                | Appropriates over \$5 billion for K-12 education programs, including \$3.67 billion to fully fund the K-12 local control funding formula and \$698 million in discretionary one-time funding for K-12 schools. Makes a career technical education incentive grant permanent. Permanently bans expulsion of students in grades K-3 for willful defiance.   |
| <b>AB 1809</b> | <b>Higher Education (June 27, 2018)</b>   |
|                | Establishes a new funding formula for community colleges. Establishes a new fully online community college. Appropriates one-time funding for several community college programs, including veterans' resource centers, support for currently and formerly incarcerated students, and legal services for undocumented students.   |
| <b>AB 1810</b> | <b>Health (June 27, 2018)</b>   |
|                | Creates a new pretrial diversion program for mentally ill criminal defendants and a new council to research single payer health care.   |
| <b>AB 1811</b> | <b>Human Services (June 27, 2018)</b>   |
|                | Expands CalFresh to low-income disabled, blind, and aged individuals, establishes a pilot program to prevent homelessness for the at-risk elderly population, increases the CalWORKs grant levels, and establishes the CalWORKs Home-Visiting Initiative.   |
| <b>AB 1812</b> | <b>Public Safety (June 27, 2018)</b>  |
|                | Allows CAL FIRE to grant emergency medical certification to parolees. Expands the authority of courts to resentencing inmates. Creates programs to curtail drugs entering prison, divert young adults from prison to youth facilities, and divert minors from contact with the justice system.  |
| <b>AB 1817</b> | <b>General Government (June 27, 2018)</b>   |
|                | The bill creates a new small business development program, modifies the County Assessors program to improve performance, and revises funding strategy for the California Science Center.  |
| <b>AB 1824</b> | <b>General Government IV (June 27, 2018)</b>  |
|                | The bill makes changes related to the Veterans Home Master Plan and to elections equipment and processing. The bill also disqualifies muffler or exhaust modification violations from fix-it type tickets.  |
| <b>AB 1825</b> | <b>Education II (June 27, 2018)</b>   |
|                | Revises the process for annual certification of the Proposition 98 guarantee of spending on K-14 education. Appropriates \$100 million in Proposition 98 "settle-up" funds to K-12 schools and community colleges.  |

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| <b>AB 1826</b> | <b>Infrastructure (June 27, 2018)</b>  |
|                | Provides authority for the design and construction of the State Capitol Building Annex project, and appropriates \$20 million towards that effort. Additionally, the bill authorizes lease-revenue bonds, not to exceed \$1.2 billion, to finance the projects.  |
| <b>AB 1827</b> | <b>No Place Like Home (June 27, 2018)</b>  |
|                | Puts the No Place Like Home Act of 2018 on the November 6, 2018 election.  |
| <b>AB 1830</b> | <b>Reserves (June 27, 2018)</b>  |
|                | Creates several new budget accounts, the Budget Deficit Savings Account, the Safety Net Reserve Fund, plus two subaccounts within the Safety Net Reserve Fund: the Medi-Cal subaccount and the CalWORKs subaccount.  |
| <b>AB 1831</b> | <b>Proposition 2 - Appointments (June 27, 2018)</b>  |
|                | Creates several new infrastructure accounts intended to provide specificity on how the state will invest a portion of Proposition 2 infrastructure funds through 2021-22. Also amends the length of terms that appointees may serve on certain board.  |
| <b>AB 1834</b> | <b>Corrections - Lease Revenue Bond (June 27, 2018)</b>  |
|                | Increases the total lease-revenue bond financing authority for CDCR's Health Care Facilities Improvement Program by \$43 million.  |
| <b>AB 1836</b> | <b>9-1-1 Tax (Did not pass)</b>  |
|                | Broadens the tax base that supports the state's 9-1-1 system to increase revenues for the implementation of Next-Generation 9-1-1. Makes the Disaster Response Emergency Operations Account permanent and improves flexibility regarding when it may be used.  |
| <b>AB 1840</b> | <b>Education Clean-Up (Enrolled September 5, 2018)</b>   |
|                | Provides funding for charter school facilities funding for school districts affected by recent wildfires. Establishes undocumented University of California students' eligibility for state and local public benefits. Requires future gift (rather than loan) funding for two poorly-managed school districts that have unpaid emergency "bailout" loans. |

## Senate Republican Fiscal Staff Assignments

**Kirk Feely, Fiscal Director**  
**Andrea Mullen, Budget & Appropriations Committee Assistant**

Contact Number: (916) 651-1501

| <u>Assignment Area</u>                       | <u>Consultant</u> |
|--|-------------------|
| Education                                    | Cheryl Black      |
| Public Safety, Judiciary,<br>Corrections     | Matt Osterli      |
| Natural Resources &<br>Environment           | Rocel Bettencourt |
| Health & Veteran Affairs                     | Anthony Archie    |
| Human Resources & Labor                      | Rebecca Hamilton  |
| Revenue, General<br>Government & Housing     | Chantele Denny    |
| Transportation, Energy &<br>Consumer Affairs | Heather Wood      |

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