



COMMITTEE ON BUDGET & FISCAL REVIEW  
Room 5019, State Capitol  
Sacramento, CA 95814

SENATOR HOLLY J. MITCHELL, CHAIR

## **Summary of the Governor's Proposed 2018-19 Budget**

January 10, 2018

The purpose of this Summary is to provide members and staff of the Legislature with an overview of the Governor's proposed budget for 2018-19. More detailed reviews of the proposals will be developed as the Committee reviews the proposals in public hearings. If you have questions, please contact the committee at (916) 651-4103.

## Overall Budget Proposal

The Governor has proposed a budget for the 2018-19 fiscal year that includes General Fund resources—carry-forward balance, revenues and transfers—of \$135.1 billion and expenditures of \$131.7 billion. Based on the budget proposal, the General Fund would end the 2018-19 fiscal year with an unencumbered reserve of \$2.3 billion and include a deposit of \$5.0 billion to the Budget Stabilization Account (BSA), resulting in an expected balance in this account of \$13.5 billion at the end of the budget year, which would fully meet the constitutional goal of 10 percent of tax revenue.

As a result of the combined efforts of the Administration and the Legislature over the last few years, the General Fund continues to be in a strong position. In total, from the 2017-18 adopted budget, revenues are up by approximately \$4.7 billion. The proposed 2018-19 budget uses this adjusted base, incorporating a general reserve and BSA of approximately \$15.8 billion (with another \$1.1 billion reserved for encumbrances). Overall, General Fund spending in 2018-19 is expected to increase by \$5.2 billion (or 4.1 percent) from the revised 2017-18 fiscal year. The majority of the spending increases are in the areas of K-12 education and health and human services.

Eight years ago, the state faced a \$25 billion shortfall. The \$15.8 billion in reserves, as reflected in the Governor's 2018-19 proposal, represents approximately a \$41 billion turnaround. The Governor and the Legislature have made tremendous strides in building the fiscal strength of the state and ensuring that California is well positioned to protect the critical services and programs that citizens depend upon should another downturn occur. California's fiscal strength is also important given the uncertain impacts of actions at the federal level, such as the recently enacted tax plan. Due to these risks, the Governor's 2018-19 budget proposal prioritizes the maintenance of a balanced budget and the building up of budgetary reserves.

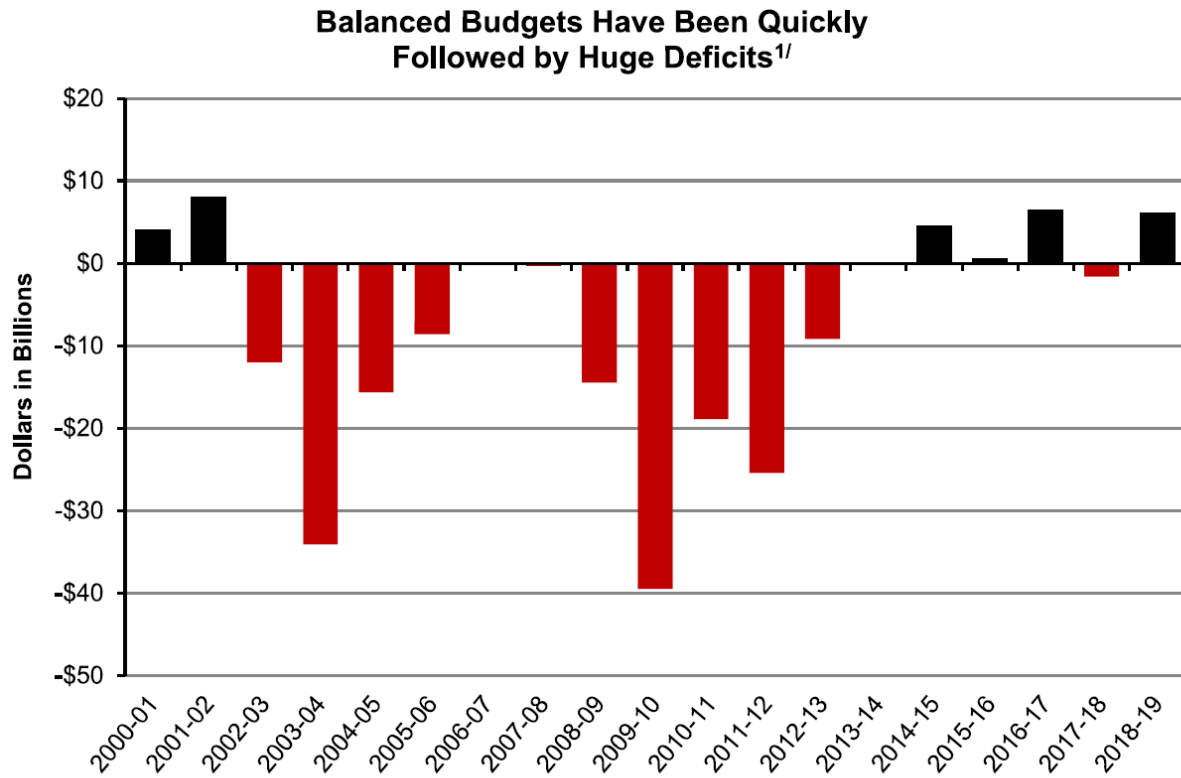
The Governor's proposal of a budget for the 2018-19 fiscal year begins the annual budget process, during which the Legislature will review and analyze the Governor's proposals, engage with the Administration and the public regarding the state's resources and priorities, and then negotiate a final budget with the Governor that reflects our shared values across the branches of government.

**Overall Structure.** The Governor's budget includes \$135.1 billion in General Fund revenues and other resources and \$131.7 billion in total General Fund expenditures (\$77.1 billion in non-Proposition 98 and \$54.6 billion in Proposition 98 funds), providing for a \$2.3 billion unencumbered reserve as well as setting aside an additional \$13.5 billion for the BSA. Expenditures in 2018-19 are proposed to be about \$5.2 billion higher than revised 2017-18 expenditures. Additional funding is proposed for K-14 education, health and human services, general government, and corrections and rehabilitation, with generally level funding in most other areas of the budget. The General Fund budget details are summarized below.

<b>2017-18 and 2018-19 General Fund Summary (Dollars in Millions)</b>		
	<b>Revised <u>2017-18</u></b>	<b>Proposed <u>2018-19</u></b>
<b>PRIOR YEAR BALANCE</b>	\$4,611	\$5,351
Revenues and transfers	\$127,252	\$129,792
<b>TOTAL RESOURCES AVAILABLE</b>	<b>\$131,863</b>	<b>\$135,143</b>
Non-Proposition 98 Expenditures	\$73,771	\$77,126
Proposition 98 Expenditures	\$52,741	\$54,564
<b>TOTAL EXPENDITURES</b>	<b>\$126,512</b>	<b>\$131,690</b>
<b>FUND BALANCE</b>		
Encumbrances	\$1,165	\$1,165
Special Fund for Economic Uncertainties	\$4,186	\$2,288
<b>BUDGET STABILIZATION ACCOUNT</b>	<b>\$8,411</b>	<b>\$13,461</b>

**Fiscal Stability** – The Governor's budget proposal points out that previous short periods of balanced budgets in the 2000s were followed by massive budget shortfalls, as displayed in the following chart from the Governor's proposal. While each of these

prior crises was preceded by a stock market crash, actions by the federal government could also easily overwhelm the fiscal capacity of the state.



<sup>1/</sup> Budget shortfalls or surplus, measured by the annual Governor’s Budget.

According to the Administration, the budget, now more than ever, demands caution and prudence. Among the uncertainties highlighted by the Administration are:

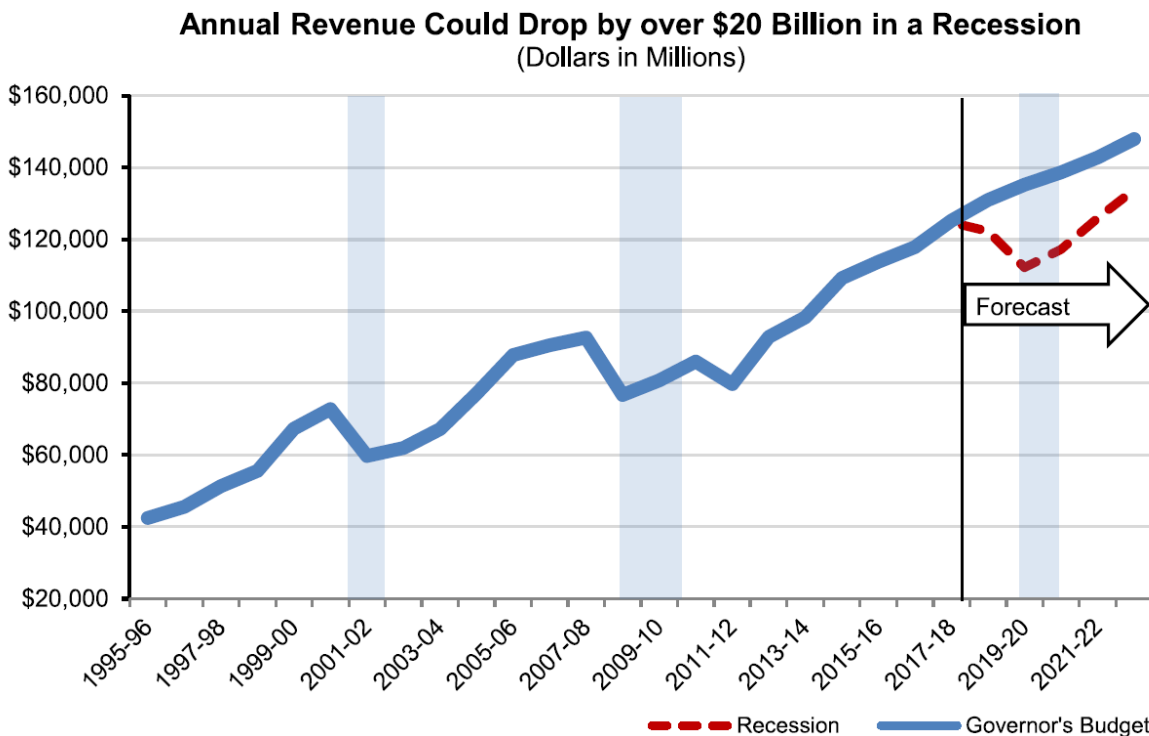
**Federal Tax Changes.** The budget’s economic and revenue forecasts were finalized prior to the enactment of the federal tax package at the end of December. The Governor’s budget forecasts assume no federal tax changes. While there are some aspects of the package that could temporarily benefit the national economy, millions of Californians will be hurt by the limitation of the ability to deduct state and local taxes from their federal filings. The Administration indicates that the May Revision will include a preliminary analysis of the projected impact of the changes on the state economy and revenues, although the effect from changed behavior of businesses and wealthy individuals will only be apparent after 2018 taxes are filed.

**Children’s Health Insurance Program (CHIP) Reauthorization.** Congress acted in late 2017 to extend the federal cost sharing ratio for CHIP at an 88 percent federal match for several more months. The Governor’s budget was finalized before this action and instead assumes that the federal government

will extend the CHIP cost sharing rate at a 65 percent level through 2018-19, consistent with the 2017 Budget Act. While the recent extension will lower budgeted state costs in the current year, failure by Congress to extend funding beyond March 2018 would increase state costs by hundreds of millions of dollars in 2018-19.

**Federal Cost Shifting.** In 2017, Congress attempted several times to repeal the Affordable Care Act and consequently drop health care coverage for millions of Californians. Such actions, if successful, would have cost the General Fund tens of billions of dollars annually—more than doubling the cost of Medi-Cal when fully implemented. While these recent efforts were defeated, Congress continues to indicate a willingness to shift health care and other entitlement program costs from the federal budget to states to address recent increases in the federal deficit.

**Possible Recession.** The Governor’s budget assumes the continued expansion of the economy. Yet, also notes that economic expansions do not last forever. In the post-war period, the average expansion has lasted about five years. By the end of the 2018-19 fiscal year, the expansion will have matched the longest in modern history. As shown in the figure below from the Governor’s budget proposal, a moderate recession will drop state revenues by over \$20 billion annually for several years.



## **Current-Year Budget Recap**

The 2017-18 budget included investments in health care, child care, immigrant services, anti-poverty efforts, college affordability, K-14 funding, infrastructure, and cannabis law implementation and oversight.

### **Specific Investments included in the 2017-18 budget include:**

- \$3.1 billion in higher Proposition 98 funding for schools and community colleges.
- \$2.8 billion in new transportation revenue.
- \$546 million in Proposition 56 revenues to Medi-Cal provider rates and reimbursements.
- \$2.6 billion in cap-and-trade revenues.
- \$400 million to counties through a new In-Home Supportive Services cost-sharing agreement.
- \$475 million to increase funding for universities and student financial aid.
- \$301 million to increase funding for child care and preschool spending.
- \$6 billion supplemental payment to CalPERS using a loan from state cash balances.
- Expansion of the Earned Income Tax Credit program to include the self-employed and taxpayers with incomes up to \$22,300.

## Proposed Budget Expenditures and Revenues

The proposed budget includes additional required programmatic increases and new spending. The table below summarizes the Governor's proposed expenditures by program area. The largest dollar changes in expenditures by program are in health and human services and K-12 education.

### General Fund Expenditures Current and Budget Year (Dollars in Millions)

Program Area	Revised 2017-18	Proposed 2018-19	Change	Percent Change
K-12 Education	\$53,489	\$55,167	\$1,678	3.1%
Higher Education	14,968	15,450	482	3.2%
Health and Human Services	35,394	37,383	1,989	5.6%
Corrections and Rehabilitation	11,678	11,815	137	1.2%
Business, Consumer Services, Housing	404	432	28	6.9%
Transportation	239	213	-26	-10.9%
Natural Resources	3,564	3,029	-535	-15.0%
Environmental Protection	115	82	-33	-28.7%
Labor and Workforce Development	147	122	-25	-17%
Government Operations	1,128	1,181	53	4.7%
General Government:				
Non-Agency Departments	775	766	-9	-1.2%
Tax Relief / Local Government	428	457	29	6.8%
Statewide Expenditures	962	1,942	980	101.9%
Legislative, Judicial and Executive	3,221	3,651	430	13.3%
<b>Total</b>	<b>\$126,512</b>	<b>\$131,690</b>	<b>\$5,178</b>	<b>4.1%</b>

The Governor's budget proposes some major policy and budgetary changes. Some of the more important aspects of the budget proposal are outlined below:

## Education

- **K-12 Education.** In K-12 education, the Governor proposes to provide an additional \$3 billion in ongoing Proposition 98 General Fund to reach full funding of the Local Control Funding Formula and provides \$1.8 billion in additional one-time discretionary resources allocated on a per-pupil basis. In addition, the Governor proposes to provide one-time funding to address Special Education needs including teacher recruitment and preschool and child care facilities.
- **Early Childhood Education.** In child care and pre-school, the Governor proposes \$61 million to fund the full-year costs of the rate and slot investments made in the 2017 Budget Act. In addition, the Governor proposes to increase the Standard Reimbursement Rate by 2.8 percent (\$48 million) and extend the hold harmless provision for the Regional Market Reimbursement rate.
- **California Community Colleges (CCC) Apportionment Formula.** The Administration proposes to create a new allocation funding formula for community colleges. Currently, colleges are funded primarily based on enrollment, however under the Governor's proposal, the new funding formula includes: (1) a base grant based on enrollment, (2) a supplemental grant based on the number of low-income students a district enrolls, (3) student success incentive grants based on the number of students who meet certain outcome and performance metrics, and (4) a hold harmless provision to ensure that during the first year of implementation, districts would be held harmless to the amount of funding they received in 2017-18. The budget proposes an increase of \$175 million Proposition 98 to support this transition.
- **CCC Online Education.** Additionally, the Administration proposes \$120 million Proposition 98 to create a new fully online community college targeted to working adults with a high school diploma, but lacking a college degree. Apportionment funding for this program will be similar to the Administration's proposed apportionment formula.
- **Career Technical Education.** The Administration proposes an increase of \$200 million Proposition 98 to the CCC Strong Workforce program to create a new high school CTE program to be administered by the CCC in collaboration with CDE.



- **Base Increases.** The budget proposes a \$92.1 million General Fund unrestricted base increase for each the University of California (UC) and the California State University (CSU). This is a three percent increase for the UC and a 2.7 percent increase for CSU.

## Health and Human Services

- **Children's Health Insurance Program (CHIP) Reauthorization.** Due to the failure of Congress to approve long-term funding for CHIP, which provides health care coverage to 1.3 million children in California, the budget assumes an 88 percent federal match only until December 31, 2017, and a 65 percent federal match beginning in 2018, consistent with assumptions in the 2017 Budget Act. However, this assumption does not account for a recently enacted temporary extension of CHIP funding until March 2018. The Administration indicates this funding will result in a reduction of \$150 million General Fund resources needed to fund the program, due to the three month extension of the enhanced 88 percent match. These savings will be reflected in the May Revision. If Congress fails to approve long-term funding for CHIP, health care coverage will continue for most of this population, but with a 50 percent federal match, resulting in higher General Fund costs.

Coverage for approximately 32,000 pregnant women and children in the Medi-Cal Access Program (formerly Access for Infants and Mothers) could be at risk if CHIP funding is not reauthorized, as this population is higher income and only eligible for CHIP-related coverage. However, the state could continue this coverage as a state-only, 100 percent General Fund program.

- **Increased Proposition 56 Supplemental Provider Payments.** The budget includes an additional \$232.8 million of Proposition 56 tobacco tax revenue to increase supplemental payments to Medi-Cal providers to improve access to care for beneficiaries. Approximately \$163 million would fund supplemental payments for physician services and \$70 million would fund supplemental payments for dental services.

In addition, the budget includes \$64.5 million (\$31.6 million Proposition 56 tobacco tax revenue) to fund a 50 percent rate increase for home health services provided through the fee-for-service system and home and community-based waivers. According to DHCS, this rate increase was the result of monitoring efforts to detect deficiencies in access to necessary medical care for Medi-Cal fee-for-service beneficiaries.

- **CalWORKs.** The budget includes \$26.7 million in 2018-19 for a voluntary Home Visiting Pilot program for young, first-time parents in the CalWORKs program. Home visitors would help parents navigate and connect to resources in the CalWORKs program and other available services. A total of \$158.5 million in one-time TANF funds is being reserved for the duration of the pilot through 2021.

## Resources and the Environment

- **Fire Response.** As of the Governor's budget proposal, \$469 million has been added to the Emergency Fund for wildfire response since the enactment of the 2017 Budget Act, which brings the total for the Emergency Fund to \$896 million. The Administration expects some of the costs to be offset by federal funds.
- **Cap-and-Trade Revenues.** The Administration will propose the 2018-19 cap-and-trade expenditure plan in the Governor's upcoming State of the State Address. The Governor's proposal assumes that there will be \$1.3 billion in Greenhouse Gas Reduction Fund revenue to appropriate in the 2018-19 fiscal year.

## Transportation

- **Highway Maintenance and Repairs.** The budget includes \$2.8 billion in SB 1 funding for the Department of Transportation (Caltrans). This includes \$1.2 billion for highway maintenance and repairs, \$400 million for the repair of state-owned bridges and culverts, \$330 million for local transit projects, \$250 million for congestion relief on commuter corridors, \$200 million in matching funds for the Local Partnership Program, \$100 million for active transportation projects, \$25 million for freeway service patrols, and \$25 million for local planning grants, as well as associated support costs.
- **Local Streets and Roads.** The budget provides \$1.2 billion in additional funding to be distributed by formula to cities and counties for local road maintenance.

## Public Safety and General Government

- **Trial Courts.** The Governor's budget proposes a \$150 million General Fund augmentation to the state's trial courts. \$75 million of that funding is proposed as discretionary funding for the Judicial Council's priorities.
- **Firefighter Training and Certification Program.** The budget proposes \$26.6 million General Fund to establish a Firefighter Training Center at the Ventura Conservation Camp for 80 people who were formerly incarcerated to receive the necessary training and job skills to work as career firefighters.
- **Funding for Affordable Housing.** The budget allocates \$538 million and 81 positions to the Department of Housing and Community Development to implement the 2017 housing package. This includes \$3 million in General Fund resources as well as resources from an estimated \$258 million in real estate transaction fee revenue for housing programs, plus proceeds from the SB 3 housing bond that will be available upon voter approval in November 2018.

## Overall Proposition 98 – K-14 Education

**Budget Year – Overall Funding Levels** – The budget estimates a total Proposition 98 funding level of \$78.3 billion (K-14). This is a \$3.1 billion increase over the 2017-18 Proposition 98 level provided in the 2017 Budget Act (a \$3.8 billion increase over the revised 2017-18 Proposition 98 level, as discussed below). The Administration estimates that the Proposition 98 calculation for 2018-19 will be a Test 3 calculation.

**Prior – and Current Year Adjustments** – The budget estimates that the total Proposition 98 guarantee (K-14) for 2016-17 remains at the 2017 Budget Act level of \$71.4 billion. For 2017-18, the Governor estimates an increase in the total guarantee of \$687 million (for a total of \$75.2 billion). These adjustments are the result of increases in anticipated General Fund revenues over the three-year budget period. The Administration estimates that the Proposition 98 calculation for 2016-17 is a Test 3 and for 2017-18 is a Test 2.

**Proposition 98 Settle-Up** – The budget includes \$100 million in Proposition 98 settle-up payments in the 2018-19 year that will count toward meeting the 2009-10 Proposition 98 minimum guarantee. The need for settle-up results when the Proposition 98 guarantee estimate included in the budget for a given year is ultimately lower than the final calculation of the minimum guarantee. Proposition 98 requires the state to make a "settle-up" payment, or series of payments, in order to meet the final guarantee for that year. After this payment, the state would owe approximately \$340 million in settle-up for years prior to 2014-15.

**Proposition 98 - K-12 Education – Major Spending Proposals** – The budget includes a proposed Proposition 98 funding level of \$67.7 billion for K-12 programs. This includes a year-to-year increase of \$2.4 billion in Proposition 98 funding for K-12 education, as compared to the revised Proposition 98 K-12 funding level for 2017-18. Under the Governor's proposal, ongoing K-12 Proposition 98 per pupil expenditures increase from \$11,149 provided in 2017-18 (revised) to \$11,614 in 2018-19, an increase of almost 4.2 percent. The Governor's major K-12 spending proposals are identified below.

**K-12 Local Control Funding Formula** – The 2013 Budget Act changed how the state provides funding to school districts and county offices of education by creating the Local Control Funding Formula (LCFF). Since its inception, the state has dedicated a large portion of the new ongoing Proposition 98 revenues in each year towards full implementation of the LCFF. The budget proposes approximately \$2.9 billion in additional ongoing Proposition 98 funding to fully implement LCFF for

school districts in 2018-19. County offices of education reached full implementation with their LCFF allocation in the 2014 Budget Act. When LCFF was enacted in 2013-14, the Governor estimated full implementation of LCFF in 2020-21.

**Discretionary Funds / Mandate Backlog Reduction** – The budget proposes an increase of \$1.8 billion in discretionary one-time Proposition 98 funding provided to school districts, charter schools, and county offices of education. The Administration indicates that this funding allows for continued investments in implementing state adopted academic content standards, upgrading technology, providing professional development, supporting beginning teacher induction and addressing deferred maintenance projects. These funds would offset outstanding mandate reimbursement claims, although the amount may be adjusted to account for any outstanding balances school districts have related to Medi-Cal billing practices.

## **Other K-12 Education Budget Proposals**

**K-12 Special Education** – Recognizing statewide difficulties in recruiting and retaining special education teachers, the budget includes two proposals to support a teacher pipeline in these areas. First, the budget includes \$50 million in one-time Proposition 98 funding for a teacher residency grant program for special education teachers. Second, the budget includes \$50 million in one-time Proposition 98 funding to provide competitive grants to local education agencies to support local efforts to recruit and retain special education teachers. In addition, the budget provides \$125 million in one-time Proposition 98 and \$42.2 million in federal Temporary Assistance to Needy Families (TANF) funding to provide competitive grants to expand inclusive settings for education and care of 0-5 year olds with exceptional needs.

**Career Technical Education (CTE)** – The budget proposes the creation of a new K-12 CTE program that would be administered by the California Community Colleges in consultation with the California Department of Education. The program would provide ongoing Proposition 98 funding of \$200 million in competitive grants to school districts through the existing Strong Workforce Program and \$12 million for local industry experts to provide technical assistance to school districts with CTE programs.

**K-12 Accountability and Support** – When LCFF was enacted; the state also provided a framework for a new accountability system based on multiple measures. In 2016, the State Board of Education adopted accountability performance measures, now available through a tool called the California School Dashboard that provides school and district level performance data by student subgroups. Since 2013-14, the state has continued to build a system of support for school districts identified as

needing improvement under the new system. The budget includes \$55 million in Proposition 98 funding for county offices of education to support districts that are in need of improvement under the state's accountability system, \$10 million for special education local plan areas (SELPAs) to support districts that need improvement in the area of special education, \$11 million (\$4.8 million of this is reappropriated prior-year funding) for the California Collaborative for Education Excellence to provide support to county offices of education and school districts, and \$4 million for eight regional county office of education leads. The budget also proposes some additional transparency on district expenditures to support all students, including special education students.

**Enrollment and Cost-of-Living Adjustments** – The proposed budget reflects an estimated decrease in student enrollment in the K-12 system. Specifically, it reflects a decrease of \$183.1 million in 2017-18, as a result of a decrease in the projected average daily attendance (ADA), as compared to the 2017 Budget Act. For 2018-19, the Governor's proposed budget reflects a decrease of \$135.5 million to reflect a projected further decline in ADA for the budget year. The proposed budget also provides \$133.5 million to support a 2.51 percent cost-of-living adjustment for categorical programs that are not included in LCFF. These programs include special education and child nutrition, among others. The proposed funding level for the LCFF includes cost-of-living adjustments for school districts and county offices of education.

**K-12 School Facilities** – In November, 2016, the voters passed the Kindergarten through Community College Facilities Bond Act of 2016 (Proposition 51), which authorizes the state to sell \$9 billion in general obligation bonds for K-14 facilities (\$7 billion for K-12 and \$2 billion for community colleges). The budget proposes approximately \$640 million in bond authority in 2018-19 for new construction, modernization, career technical education, and charter facility projects.

**Charter School Facilities** – The budget proposes an increase of approximately \$23.8 million in Proposition 98 funds for the Charter School Facility Grant Program to fund a cost-of-living adjustment and projected increased participation.

## **Child Care and Early Education**

The Governor's budget increases funding for child care and preschool programs by \$399 million (including Transitional Kindergarten) for a total of \$4.4 billion in state and federal funds. This reflects an increase of nine percent from 2017-18. Major changes are described below:

**Implementation of the 2016-17 Budget Agreement and the 2017 Budget Act** - As part of the 2016-17 budget package, the Legislature and the Governor agreed on a multi-year plan to increase ongoing child care and preschool funding by roughly \$500 million (roughly \$200 million in Proposition 98 General Fund and \$300 million in non-Proposition 98 General Fund). The budget proposes \$60.7 million (\$32.3 million non-Proposition 98 General Fund and \$28.4 million Proposition 98 General Fund) to fund the full-year costs of rate and slot increases implemented midway in 2017-18 related to the 2016-17 agreement and other policy changes made in 2017-18, such as enactment of the emergency child care bridge program.

**Regional Market Reimbursement Rate (RMR)** – The budget proposes approximately \$17 million in the budget year and \$34.2 million in future years to make the RMR hold harmless provision permanent (under current law the provision would expire December 31, 2018).

**Standard Reimbursement Rate (SRR)**. The budget proposes \$31.6 million in Proposition 98 General Fund and \$16.1 million in non-Proposition 98 General Fund to increase the SRR by approximately 2.8 percent.

**State Preschool** – The budget proposes \$8 million for an additional 2,959 full-day Preschool slots beginning April 1, 2019.

**Non-CalWORKs Child Care** – The budget includes \$50 million for a 2.51 percent cost-of-living adjustment for non-CalWORKs child care and state preschool programs and decreases slots by \$9 million to reflect a decrease in the birth to age four population.

**CalWORKs Child Care** – The budget proposes several adjustments to reflect changes in the CalWORKs child care caseload and cost of care, totaling a \$4 million increase in Stage 1, a \$16 million decrease in Stage 2, and a \$12 million increase in Stage 3.

**Transitional Kindergarten.** – The budget also includes an increase of \$41 million (for a total of \$779 million Proposition 98 General Fund) for Transitional Kindergarten, reflecting ADA growth and cost-of-living adjustments. This funding is included within LCFF totals as discussed earlier in this report.

**Inclusive Early Education Expansion Program** – Also, as discussed earlier in this report, the budget provides \$125 million in one-time Proposition 98 and \$42.2 million in federal Temporary Assistance to Needy Families (TANF) funding to provide competitive grants to expand inclusive settings for education and care of 0-5 year-olds with exceptional needs.

## Higher Education

### University of California

**General Fund Increase** – The budget proposes a \$92.1 million General Fund (three percent) unrestricted base increase for the University of California (UC). The budget assumes resident tuition will remain at the 2017-18 level, and the Student Service Fee will increase by \$54 (4.8 percent). The Governor's budget also assumes a \$978 (3.5 percent) increase in nonresident supplement tuition for undergraduate nonresident students.

The budget does not establish 2019-20 enrollment expectations for UC or designate any new core funding for enrollment growth. Consistent with expectations set in last year's budget, the Governor's budget assumes an enrollment increase of 1,500 in 2018-19 compared to 2017-18.

### California State University

**General Fund Increase** – The budget proposes a \$92.1 million General Fund (2.7 percent) unrestricted base increase for California State University (CSU). While the budget does not assume any increases in tuition levels, the CSU Chancellor's Office has proposed an increase of \$228 (four percent) resident and \$900 (7.6 percent) full-time nonresident tuition charges for 2018-19. The Governor's budget does establish an enrollment target for CSU or associate any new funding with enrollment growth.

**Various Increases** – The budget provides increases of: (1) \$24.9 million (3.8 percent) for increased pension costs, (2) \$20.3 million (seven percent) for higher retiree health benefit costs, and (3) \$181,000 (4.4 percent) for increased costs at the Center for California Studies. The increase for the Center for California Studies includes (1) \$100,000 in new General Fund support for the California Education Policy Fellowship Program (the program has been supported entirely by nonstate funding since it began in 2016-17); and (2) \$81,000 for a cost-of-living adjustment to executive, legislative, and judicial fellowship stipends.

### California Community Colleges

*Please see the K-12 Education section of this report for additional information on the overall K-14 Proposition 98 budget.*



**New Funding Model** – The Governor proposes a new allocation formula, the Student-Focused Funding Formula, and provides \$175 million to ensure no college receives less under the new formula than it would receive under current law. Under the proposed new formula:

- About 25 percent is based on the number of low-income students served (as measured by eligibility for College Promise Grant fee waivers, formerly known as the Board of Governor's Fee waiver, and federal Pell grants);
- About 25 percent is based on performance outcome measures: (1) the number of degrees and certificates granted, and (2) the number of students who complete a degree or certificate in three years or less. This grant would also include additional funds for each Associate Degree for Transfer granted by college. By comparison, the current apportionment funding is allocated based primarily on enrollment, with none based on performance.
- The remainder will include a base grant where each district receives a grant based on enrollment, and additionally, there will be a hold harmless provision where each district will be held harmless to the level they received in 2017-18.

**Increases Apportionments for Growth and COLA** – The budget proposes an increase of \$161 million in apportionments to cover a 2.51 percent cost-of-living-adjustment, and \$60 million to fund one percent enrollment growth.

**Adjusts Prior Year and Current Year for Enrollment, Property Tax, and Fee Revenue Changes** – The Governor's budget reduces apportionments by \$74 million in 2016-17 and \$78 million in 2017-18 to reflect unused growth funding. Additionally, the budget adjusts 2016-17 and 2017-18 Proposition 98 General Fund for apportionments to account for updated estimates of local property tax and student fee revenue. These adjustments result in net Proposition 98 General Fund savings of \$38 million in 2016-17 and \$54 million in 2017-18.

**Creates New Online Community College** – The budget includes \$120 million to create a new fully online community college. The college would create and coordinate online courses and programs targeted toward working adults with a high school diploma but lacking a college degree or certificate. Of the funding provided, \$100 million would support start-up costs, and \$20 million would support ongoing operating expenses.

According to the Administration the college's initial focus would be to develop content and programs to provide vocational training, career advancement

opportunities, and credentialing for careers in child development, the service sector, advanced manufacturing, health care and in-home supportive services, among other areas. Consistent with the Student-Focused Funding Formula, apportionment funding for this program will be based on enrollment, the number of underrepresented students enrolled, and student outcomes.

The budget also proposes to accelerate the expansion of courses available through the Online Course Exchange, which will expand access to fully online Associate Degrees for Transfer, and establish a minimum number of fully online transfer degree programs.

**New High School Career Technical Education Program Run Through CCC** – The budget proposes an increase of \$200 million to existing Strong Workforce consortia to be administered by the community colleges in collaboration with California Department of Education. The consortia, in turn, would decide how to allocate the new funds to school districts. Additionally, \$12 million would fund local industry experts who would provide technical assistance to school districts with career technical education programs.

**Financial Aid Programs** – The budget provides \$46 million to fund the fee waiver program established by Assembly Bill 19 (Santiago), Chapter 735, Statutes of 2017. AB 19 allows colleges to offer full or partial tuition waivers to all first-time, full-time students who take at least 12 units per semester for their first year of college. The Administration expects colleges to encourage students to take 15 units per semester, or 30 units per year, in order to qualify for AB 19 once guided pathways have been implemented.

The Administration proposes to consolidate the Community College Completion Grant and the Full-Time Student Success Grant into one program, and provides an additional \$33 million, bringing total funding for the consolidated program to \$124 million. Additionally, the Administration proposes to base the grant amounts on the number of units a qualifying student takes each semester or year.

**Apprenticeship Programs Adjustments** – The budget proposes a \$17.8 million ongoing increase to cover additional costs of classroom instruction for apprenticeship programs, a 32 percent increase over 2017-18. The budget also includes one-time funding of \$30.6 million to backfill shortfalls in the reimbursements for classroom instruction for programs from 2013-14 to 2017-18. The budget includes language that would allow apprenticeship programs to claim the credit/enhanced noncredit apportionment funding rate for their classroom instruction. Currently, apprenticeship programs claim reimbursements for classroom instruction at an hourly rate.

**Innovation Awards** – The budget proposes \$20 million one-time to provide grants focused on enhancing equity.

**Adult Education Block Grant** – The Administration proposes an increase of \$20.5 million for a COLA for the program, with \$5 million for a data collection and accountability system.

**Deferred Maintenance** – The budget proposes \$264.3 million one-time for deferred maintenance. Of the total, \$184 million is from 2017-18 Proposition 98 funds, \$81 million is from 2018-19 Proposition 98 funds, and \$11 million is from settle-up funds (scored as a Proposition 2 debt payment).

**Infrastructure** – The budget proposes \$45 million in Proposition 51 bonds for five new and 15 continuing CCC infrastructure projects.

**Categorical Programs** – While the Administration does not have a proposal at this time, the Administration expects the Chancellor's Office to consult with stakeholders to develop a proposal for consideration within the May Revision that would consolidate categorical programs.

## **Hastings College of the Law**

**Base Increase** – The budget provides a \$1.1 million General Fund (two percent) base increase for Hastings. The budget contains no enrollment targets, though the Governor's budget documents show resident juris-doctor enrollment to be 815 full-time-equivalent students in 2018-19, an increase of 15 students (1.9 percent) over the estimated level in 2017-18. The budget assumes no changes to tuition and fee charges.

## **Student Financial Aid**

**Private Nonprofit Institutions** – The budget provides an increase of \$7.9 million General Fund to maintain the maximum Cal Grant tuition award level of \$9,084 for students attending private nonprofit institutions. However, beginning in 2019-20, the Administration proposes that in order to maintain the maximum award amount, the sector must admit at least 2,500 students who have earned transfer degrees from community colleges and guarantee junior standing. Starting in 2020-21, the transfer target grows to at least 3,000 students.

**Adjusts Cal Grant Budget to Reflect Estimated Costs** – The budget revises down 2016-17 Cal Grant spending by \$33 million (1.7 percent) and 2017-18 spending

down by \$15 million (0.7 percent) to reflect updated cost estimates. Compared to this revised level of spending, the budget provides a \$65 million (3.1 percent) increase for 2018-19 to account for projected cost increases.

**Adjusts Middle Class Scholarship to Reflect Estimated Costs** – The budget revises upward 2017-18 Middle Class Scholarship General Fund spending by \$3.9 million (4.1 percent) to reflect updated cost estimates. Compared to this revised level of spending, the budget provides a \$2.1 million (2.2 percent) increase for 2018-19 to account for projected cost increases.

**New Grant Delivery System** – The budget includes \$7.4 million in one-time funding for the California Student Aid Commission to contract for the replacement of its online grant delivery system. The state provided funding for earlier phases of this project the past two years.

## State Library

**Various Programs** – The budget proposes increases of: (1) \$2.5 million General Fund ongoing to expand the existing California Library Literacy Services Program, (2) \$5 million one-time for broadband equipment grants, of which \$2 million is for libraries who lack access to the broadband network, and (3) \$1.5 million one-time for online systems for use by public libraries to support efficient access to resources.

## Other

**Creates an Intersegmental Online Education Learning Lab for Faculty** – The budget proposes \$10 million General Fund (ongoing) aimed at improving the quality of online courses at UC, CSU, and CCC. Under the Governor's proposal, the Office of Planning and Research would award a multiyear grant to a consortium of institutions. The consortium, in turn, would train faculty from all three segments on effective practices for teaching online. The consortium also would be charged with procuring or developing technology that faculty can use to better assess student learning in their online classes, as well as developing and curating a virtual library of exemplary online courses and course materials.

## Resources and the Environment

- **Cap-and-Trade Revenues** – The Administration will propose the 2018-19 cap-and-trade expenditure plan in the Governor's upcoming State of the State Address. The Governor's proposal assumes that there will be \$1.3 billion in

Greenhouse Gas Reduction Fund revenue to appropriate in the 2018-19 fiscal year.

**California Drought, Water, Parks, Climate, Coastal Protection, and Outdoor Access for All Act – SB 5** – If approved by voters in June 2018, SB 5 (de León), Chapter 852, Statutes of 2017, proposes the issuance of \$4 billion in general obligation bonds for California's parks, water and flood control infrastructure, ocean and coastal protection, safe drinking water, groundwater management and climate adaptation and resiliency. If voter-approved, the budget proposes \$1.02 billion of the bond for the first year of implementation, as noted in various sections below. Of this amount, the budget proposes to dedicate \$123 million to climate adaptation and resiliency programs.

**Water Action Plan** – The budget proposes to build on previous years' efforts to build more reliable and resilient water systems, and includes: (1) \$61.8 million, from SB 5, should the bond be approved by voters, for the Department of Water Resources (DWR) for purposes of implementing the Sustainable Groundwater Management Act; (2) \$84 million, from SB 5, for the State Water Resources Control Board (SWRCB) to provide for regional groundwater treatment and remediation activities; (3) \$98.5 million, from SB 5, for multi-benefit flood control projects and a new Floodplain Management, Protection and Risk Awareness Program; (4) \$30 million, from SB 5, for the Natural Resources Agency for purposes of Salton Sea restoration; (5) \$4.7 million for SWRCB and the Department of Food and Agriculture to implement a new program to assist communities, particularly disadvantaged communities, in addressing safe and affordable drinking water issues; and, (6) \$63 million, from SB 5, for SWRCB to provide grants for infrastructure improvements to public water systems in disadvantaged communities for purposes of meeting safe and affordable drinking water standards, including both drinking water and wastewater treatment projects.

**Department of Forestry and Fire Protection (CalFIRE)** – The budget proposal includes: (1) \$97.6 million General Fund for CalFIRE to purchase the next four helicopters to replace CalFIRE's existing fleet; and (2) \$26.6 million General Fund for CalFIRE, the California Department of Corrections and Rehabilitation, and the California Conservation Corps to operate a training and certification program for ex-offenders in Ventura County.

**Department of Fish and Wildlife (DFW)** – The budget proposes \$50.6 million of ongoing funding (\$6.6 million General Fund, \$18 million Motor Vehicle Account and \$26 million Tire Recycling Management Fund) for purposes of addressing the structural deficit in the Fish and Game Preservation Fund and to improve and expand DFW's program activities.

**Department of Parks and Recreation** – The budget proposes: (1) \$42 million and 364 positions to increase services for various programs, with an emphasis on directly benefitting park visitors by improving access, and fixing and maintaining aging infrastructure of the state parks system, which has more than \$1 billion in deferred maintenance projects; (2) \$26.6 million in permanent funding to address the structural deficit of the State Parks and Recreation Fund; (3) \$8.5 million to establish a prudent reserve balance in the fund; (4) \$4 million, from SB 5, for project identification and planning activities for purposes of allocating the bond funds dedicated to the state park system; and, (5) \$464 million, from SB 5, to provide grants for improving and rehabilitating local park facilities.

**California Conservation Corps (Corps)** – The budget proposes \$120.5 million (\$66.4 million General Fund) and 299.5 positions for the Corps, and includes: (1) \$14.1 million General Fund to begin four new, and rehabilitate two existing, residential centers; and, (2) \$2.3 million General Fund to support five CalFIRE/Corps fire crews for wildland fire suppression, emergency incident mitigation, and fire prevention and resource management work.

**Abandoned Oil Wells** – The budget proposes \$109 million General Fund across three years, including \$58 million in 2018-19, for the State Lands Commission to permanently secure, plug and abandon, and decommission oil wells and facilities, located onshore and offshore, in Santa Barbara and Ventura Counties.

**Public Utilities Commission (CPUC)** – The budget includes \$76.6 million to implement several audit-related reforms in the California Advanced Services Fund program, as well as to implement the requirements of AB 1665 (Garcia), Chapter 851, Statutes of 2017. The budget also includes a shift of \$2.2 million and 11 positions out of the CPUC to implement the requirements of SB 19 (Hill), Chapter 421, Statutes of 2017.

## Transportation

**Total Transportation Funding** – The budget includes \$18.7 billion for the various transportation programs administered by the California Transportation Agency. The budget includes \$2.7 billion in fuel taxes allocated to cities and counties for local streets and roads, including \$1.2 billion in revenues from the Road Repair and Accountability Act of 2017 (SB 1).

**Department of Transportation (Caltrans) Funding** – The budget provides for total expenditures of \$13.6 billion by the department. The primary sources of funding are

federal funds, state taxes on gasoline and diesel fuel, and vehicle weight fees (about \$12.4 billion), with additional funds from Proposition 1B bonds (about \$129 million), and reimbursements from local governments (about \$1.1 billion).

**Highway Maintenance and Repairs** – The budget includes \$2.8 billion in SB 1 funding for a variety of transportation programs at Caltrans. This includes \$1.2 billion for highway maintenance and repairs, \$400 million for the repair of state-owned bridges and culverts, \$330 million for local transit projects, \$250 million for congestion relief on commuter corridors, \$200 million in matching funds for the Local Partnership Program, \$100 million for active transportation projects, \$25 million for freeway service patrols, and \$25 million for local planning grants, as well as associated support costs.

**Local Streets and Roads** – The budget provides \$1.2 billion in additional funding to be distributed by formula to cities and counties for local road maintenance.

**Transit and Intercity Rail Capital** – The budget provides \$330 million from SB 1 revenues for transit capital investments that provide greenhouse gas reductions, with at least 50 percent of the funds going to disadvantaged communities.

**State Transit Assistance** – The budget provides \$355 million in SB 1 revenues for formula-based assistance to local transit operators, in addition to \$500 million in other base funding.

**Trade Corridor Enhancements** – The budget includes \$306 million to fund freight projects that address bottlenecks and improve throughput on the state's most economically important trade corridors.

**High-Speed Rail** – The budget provides capital outlay funding of \$897 million (\$749 million in cap-and-trade funds and \$148 million in Proposition 1A bond funds) for phase one of the blended system. It also proposes \$190 million in Proposition 1A resources to provide funds to local agencies for local/regional components of the high-speed train system.

**Department of Motor Vehicles** – The budget provides \$15 million in Motor Vehicle Account (MVA) funding for the first year of the five-year, \$89 million Front Ed Sustainability project, which will replace software for vehicle registration and managing service fees and payments. It also provides \$3.1 million in MVA funding to replace IT hardware that has reached the end of its useful life, and \$2.7 million for a new clean air vehicle decal program pursuant to AB 554 (Bloom), Chapter 630, Statutes of 2017.

**California Highway Patrol (CHP)** – The budget proposes \$4.5 million in MVA funding to address a vehicle replacement backlog; \$3.9 million in MVA funding for the first year of a \$13.3 million effort to replace 187 dispatch radio consoles at 23 CHP communications centers; and \$182 million in MVA funding for radio tower and facility replacement work across the state.

## Health and Human Services

The Governor's budget includes a total of \$155.7 billion (\$37.4 billion General Fund and \$118.3 billion other funds) for health and human services that serve low-income, vulnerable individuals and families.

### Health

#### Department of Health Care Services (DHCS)

The budget includes \$104.5 billion (\$21.9 billion General Fund) for DHCS, which provides Californians with access to affordable, integrated, high-quality health care including medical, dental, mental health, substance use disorder services, and long-term care. Of this amount, the budget includes \$685.3 million (\$219.1 million General Fund) for state operations and \$103.9 billion (\$21.6 billion General Fund) for local assistance.

**Medi-Cal Program** – The budget proposes total expenditures of \$101.5 billion (\$21.6 billion General Fund) for 2018-19, a 7.6 percent increase in General Fund spending compared to the revised 2017-18 estimate. Medi-Cal is projected to provide health care services to approximately 13.5 million Californians in 2018-19. The budget assumes costs of \$17.7 billion (\$1.4 billion General Fund) in 2017-18 and \$22.9 billion (\$1.6 billion General Fund) in 2018-19 for the 3.9 million Californians covered through the optional expansion of Medi-Cal.

The budget includes increased expenditures of \$543.7 million General Fund in 2017-18 compared to the 2017 Budget Act, primarily due to retroactive payment of drug rebates to the federal government and a higher estimate of Medi-Cal managed care costs.

**Affordable Care Act (ACA)** – Although the federal administration and leaders in Congress have suggested major changes to the ACA and Medi-Cal, the budget continues to reflect existing state and federal law. The budget notes that repeal of the ACA without a replacement would affect the health benefits of millions of



Californians and the recent federal repeal of the individual mandate to purchase health insurance may result in disruptions in California's health care market.

**Increase Proposition 56 Supplemental Provider Payments.** The budget includes an additional \$232.8 million of Proposition 56 tobacco tax revenue to increase supplemental payments to Medi-Cal providers to improve access to care for beneficiaries. Approximately \$163 million would fund additional supplemental payments for physician services and \$70 million would fund additional supplemental payments for dental services.

In addition, the budget includes \$64.5 million (\$31.6 million Proposition 56 tobacco tax revenue) to fund a 50 percent rate increase for home health services provided through the fee-for-service system and home- and community-based waivers. According to DHCS, this rate increase was the result of monitoring efforts to detect deficiencies in access to necessary medical care for Medi-Cal fee-for-service beneficiaries.

**Children's Health Insurance Program (CHIP) Reauthorization.** Due to the failure of Congress to approve long-term funding for CHIP, which provides health care coverage to 1.3 million children in California, the budget assumes an 88 percent federal match only until December 31, 2017, and a 65 percent federal match beginning in 2018, consistent with assumptions in the 2017 Budget Act. However, this assumption does not account for a recently enacted temporary extension of CHIP funding until March 2018. The Administration indicates this funding will result in a reduction of \$150 million General Fund resources needed to fund the program, due to the three month extension of the enhanced 88 percent match. These savings will be reflected in the May Revision. If Congress fails to approve long-term funding for CHIP, health care coverage will continue for most of this population, but with a 50 percent federal match, resulting in higher General Fund costs.

Coverage for approximately 32,000 pregnant women and children in the Medi-Cal Access Program (formerly Access for Infants and Mothers) could be at risk if CHIP funding is not reauthorized, as this population is higher income and only eligible for CHIP-related coverage. However, the state could continue this coverage as a state-only, 100 percent General Fund program.

**County Administration "Cost-of-Doing-Business" Adjustment** – The budget includes an additional \$54.8 million (\$18.5 million General Fund) to increase the allocation for county administration of the Medi-Cal program. The Administration reports it was unable to procure a vendor to implement a new county administration budgeting methodology, as required by SB 28 (Hernandez), Chapter 244, Statutes of 2013. The Administration indicates it will continue working with stakeholders to

develop the best mechanism to fund county administration in the future. In the interim, the budget includes this increased allocation as a “cost-of-doing-business” adjustment based on the estimated California Consumer Price Index of 2.8 percent for 2018-19.

**Hospital Quality Assurance Fee Extension** – The budget assumes General Fund savings of \$852 million in 2017-18 and \$885 million in 2018-19 from the permanent extension of the hospital quality assurance fee, pursuant to Proposition 52 of 2016. These figures reflect a decrease of \$168.7 million compared to the 2017 Budget Act due to federal changes to upper payment limit requirements.

**School-Based Medi-Cal Administrative Activities and Local Education Agency (LEA) Billing Option** – The budget includes General Fund expenditures of \$58.4 million in 2017-18 and \$163.4 million in 2018-19 to repay the federal government for overpayments to local education agencies for school-based Medi-Cal administrative activities (SMAA) and the LEA Billing Option program. Overpayments for SMAA are the result of back-casting deferred claims between 2009-10 and 2014-15 based on a new claims methodology. Overpayments for the LEA Billing Option program are the result of a federal audit that discovered inappropriate claiming of Title XXI funds.

**Drug Medi-Cal Organized Delivery System Pilot** – The budget includes \$372.9 million (\$76.2 million General Fund) in 2017-18 and \$1 billion (\$209.8 million General Fund) in 2018-19 for implementation of the Drug Medi-Cal Organized Delivery System pilot program. A total of 15 counties are estimated to implement the waiver and provide services in 2017-18, with an additional 20 counties expected to begin implementing the waiver in 2018-19.

**340B Drug Billing Requirements Trailer Bill** – The Administration proposes trailer bill language to restrict the use of federal 340B Drug Pricing Program reimbursements within the Medi-Cal program, effective July 1, 2019. Existing law requires 340B entities providing prescription drugs to Medi-Cal beneficiaries to bill the program at their actual 340B acquisition costs plus any applicable dispensing fee. However, DHCS believes this billing requirement is not uniformly being met in either the fee-for-service or managed care delivery systems, particularly when drugs are provided through contract pharmacies. The Administration's proposed language would prohibit the use of 340B drugs in the Medi-Cal program, but would allow 340B pharmacies to continue to serve Medi-Cal beneficiaries under standard Medi-Cal drug reimbursement policies.

## **Department of Public Health (DPH)**

The budget includes \$3.2 billion (\$137.9 million General Fund) for DPH, which is dedicated to optimizing the health and well-being of all Californians through a variety of public health monitoring, protection, education, direct services and emergency preparedness activities.

**Licensing and Certification: Los Angeles County Contract** – The budget includes \$1.9 million from the Licensing and Certification Program Fund for a one-year extension of the Los Angeles County contract for health care facility licensing and certification activities. DPH is also proposing trailer bill language to impose a supplemental fee on regulated health care entities located in Los Angeles County to account for the additional cost of administering and enforcing licensing and certification of these entities.

**Alzheimer's Disease Program Grant Awards** – The budget includes \$3.2 million (\$3.1 million General Fund) for research relating to the study of Alzheimer's disease and related disorders. This allocation includes ongoing General Fund expenditures of \$3.1 million, as well as a one-time expenditure increase of \$104,000 from the Alzheimer's Disease and Related Disorders Research Fund, to allow the department to fulfill contractual commitments.

## **Department of State Hospitals (DSH)**

The budget includes \$1.9 billion (\$1.8 billion General Fund) for DSH, which administers five state mental health hospitals, the Forensic Conditional Release Program, the Sex Offender Commitment Program, and the evaluation and treatment of judicially and civilly committed patients. The Administration estimates that the population served by the five state hospitals will reach a total of 6,828 in 2018-19.

**Mental Health Diversion** – The budget includes \$117.3 million (\$114.8 million General Fund) to increase the state-county partnership to address the growing number of people in the criminal justice system who are found incompetent to stand trial due to their mental health. Specifically:

- \$100 million General Fund spent over three years for community alternatives to increase diversion from the criminal justice system for people who are mentally ill.

- \$14.8 million General Fund for a partnership between the Department of State Hospitals and Los Angeles County to provide treatment in the community for up to 150 people who have been found incompetent to stand trial.
- \$2.5 million from the Mental Health Services Act funds for the Mental Health Services and Accountability Commission to provide two years of consulting services to assist counties in developing diversion programs.

## Other Health and Human Services Issues

**Certified Nursing Assistant Workforce Development** – The budget includes \$4.5 million to expand training slots and support health care facilities to meet the increase in minimum direct care services hours for certified nursing assistants required pursuant to SB 97 (Committee on Budget and Fiscal Review), Chapter 52, Statutes of 2017. SB 97 requires skilled nursing facilities to provide a minimum of 3.5 direct care service hours per patient day, with a minimum of 2.4 hours provided by certified nurse assistants. This budget allocation includes one-time funding of \$2 million Proposition 98 General Fund from the Strong Workforce Program and \$2.5 million from existing training programs at the Employment Development Department.

## Human Services

**Department of Social Services** – The Governor proposes an overall 2018-19 budget of \$24.2 billion (\$8.6 billion General Fund).

**California Work Opportunity and Responsibility to Kids (CalWORKs)** – The Governor proposes an overall 2018-19 budget of \$5.1 billion in federal, state, and local funds for the program and estimates a caseload of 401,000 families (a decrease of 11 percent).

- **Home Visiting Initiative.** The budget includes \$26.7 million in 2018-19 for a voluntary Home Visiting Pilot program for young, first-time parents in the CalWORKs program. Home visitors would help parents navigate and connect to resources in the CalWORKs program and other available services. A total of \$158.5 million in one-time Temporary Assistance for Needy Families (TANF) funds is being reserved for the duration of the pilot through 2021.
- **Single Allocation Methodology.** The budget includes a one-time augmentation of \$187 million for the county single allocation until a revised budget methodology is adopted.

**In-Home Supportive Services (IHSS)** – The budget includes \$11.2 billion (\$3.6 billion General Fund), a 7.7 percent increase in General Fund costs over the current year, and estimates a 545,000 person caseload in 2017-18.

- **IHSS Administration.** The budget includes an increase of \$27.8 million General Fund in 2018-19 for county IHSS administrative costs to reflect revised workload and budget assumptions.
- **Minimum Wage Increase and Sick Leave.** The budget includes \$260.3 million (\$119.4 million General Fund) to reflect the impact of the increasing state minimum wage, and \$29.9 million General Fund for the implementation of eight paid sick leave hours for IHSS providers beginning on July 1, 2018.

**Child Welfare Services: Continuum of Care Reform (CCR)** – The budget includes \$238.2 million (\$179.7 million General Fund) for the department, county child welfare agencies, and county probation departments to continue implementation of CCR reforms.

**Supplemental Security Income/State Supplementary Payment (SSI/SSP)** – The estimated caseload for the SSI/SSP program is 1.3 million recipients (28.6 percent aged; 1.4 percent persons who are visually impaired or blind; 70 percent persons with disabilities). Effective January 2018, maximum SSI/SSP grant levels are \$910 per month for individuals and \$1,532 per month for couples. The Governor's budget includes \$2.8 billion General Fund for the SSI/SSP program.

The budget includes an estimated growth factor of two percent in 2018 and 2.6 percent in 2019 for the SSI (federal) portion of the grants. The budget also assumes a corresponding increase in costs for benefits under the state-only Cash Assistance for Immigrants (CAPI) program.

### **Department of Developmental Services (DDS)**

The Governor proposes an overall 2018-19 budget for DDS of \$7.3 billion (\$4.4 billion General Fund).

DDS estimates the number of persons with developmental disabilities receiving services and supports in the community to be 333,000. The estimated population in developmental centers as of July 1, 2018, is 547 individuals. By June 30, 2019, that number is estimated to decrease to 361 individuals.

**Developmental Centers** – The state is in the process of closing all state-operated developmental centers, except for the secure treatment area at the Porterville

Developmental Center and the Canyon Springs facility. The Sonoma Developmental Center will close in December 2018 and no longer receives federal funding for its intermediate care units. The Fairview Developmental Center and the general treatment area at Porterville are scheduled to close at the end of 2021. The Department will continue to receive federal funding for individuals residing in those two facilities until they close in 2021.

**Regional Centers** – The budget includes about \$4.1 billion General Fund in 2018-19 for services and supports provided or secured by regional centers, an increase of about \$319.6 million over the updated current year budget. Major proposals include:

- **Minimum Wage Increase.** \$97.6 million of the above mentioned increase reflects the impact of the increasing state minimum wage.

## **General Government and Local Government**

The budget includes several proposals related to statewide issues and cross-departmental functions.

**Emergency Communication and Warning Systems** – The budget includes \$11.5 million State Emergency Telephone Number Account (SETNA) funds to update the state's 9-1-1 system. The budget also proposes to revise the SETNA fee structure to a per-subscription flat-rate on all voice and data plans, instead of the current fee which is charged on intrastate voice plans as a percentage fee on total intrastate calls. \$15.8 million General Fund is included in the budget for buildout and support of the California Earthquake Early Warning System.

**Voting System Replacement** – The budget includes a one-time augmentation of \$134.3 million General Fund for the purchase of equipment and software to replace voting technology in all counties throughout the state. The state would share 50 percent of the costs, and counties would be responsible for the other 50 percent.

**Funding for Affordable Housing** – The budget allocates \$538 million and 81 positions to the Department of Housing and Community Development to implement the 2017 housing package. This includes \$3 million in General Fund resources as well as resources from an estimated \$258 million in real estate transaction fee revenue for housing programs, plus proceeds from the SB 3 housing bond that will be available upon voter approval in November 2018.

**Employee Retirement** – The budget proposes \$475 million within the Proposition 2 debt payment to pay down the General Fund's portion of the supplemental pension

loan to the California Public Employees' Retirement System (CalPERS) that was approved in the 2017-18 budget from the Surplus Monetary Investment fund. Additionally, the budget includes \$6.2 billion (\$3.5 billion General Fund) total for state contributions to CalPERS for state pension costs. Of this \$686 million General Fund is for the California State University employee retirement costs.

**Teachers' Retirement Contributions** – The budget proposes \$3.1 billion General Fund total for state contributions to the California State Teachers' Retirement System (CalSTRS).

**Retiree Health Care Benefits** – The budget includes \$2.2 billion total for retiree health care benefits for 2018-19.

**Employee Compensation** – The budget provides \$1.2 billion for increased employee compensation, health care costs for active state employees, and retiree health care prefunding for active employees. In addition, the Administration will begin collective bargaining negotiations with four of the state's 21 bargaining units, whose contracts with the state will expire in late June or early July 2018.

**Military Department** – The California Military Department oversees and manages the California National Guard, the California Cadet Corps, the State Military Reserve and the Naval Militia. The budget includes \$6.5 million General Fund to expand the California Cadet Corps to serve close to 22,000 youths by 2022-23. The budget also includes a total of \$3.6 million General Fund to implement the Porterville Military Institute College Preparatory Academy and provide personnel at the California Military Institute.

**Department of Technology** – The Department of Technology, the state's central information technology (IT) organization, approves and oversees statewide IT projects, statewide IT professional development, and centralized IT services to state and local governments. The budget includes one major program change with the goal of improving the information security program. The budget includes \$4.7 million (\$1.5 million ongoing) to augment the Security Solutions Unit. These resources would improve the Department's Security Operations Center efficacy by procuring and maintaining information security technologies.

**Department of General Services** – The budget includes a total of \$60 million General Fund for various infrastructure projects. \$30.4 million is intended for the continuation of the State Printing Plant demolition, \$5.2 million is to be used for renovation of the Gregory Bateson Building, \$6.3 million for the Jesse Unruh Building renovation, and \$18.1 million for a new office complex on Richards Boulevard at the former site of the State Printing Plant.

**Department of Veterans Affairs** – The budget includes \$15.7 million General Fund for the beginning plans of a new skilled nursing facility at the Yountville Veterans Home of California. \$571,000 is also proposed for the continuation of the California Central Coast Veterans Cemetery.

**Department of Insurance** – The Department of Insurance, which regulates the sixth largest insurance economy in the world, licenses and regulates insurance companies and individuals, enforces insurance laws and regulations, and assists customers in their dealings with insurers in California. The budget includes one major program change to improve fraud investigation and prevention. The budget includes, through use of settlement revenue, \$8.2 million General Fund to continue enhanced fraud prevention, investigation, and prosecution.

**Property Tax Backfill** – The budget includes \$23.7 million to backfill property tax revenue losses that cities, counties, and special districts will incur in 2017-18 and 2018-19 due to the October 2017 Northern California wildfires. This estimate will be adjusted in the May Revision and the adjustment will include backfilling property tax revenue losses incurred due to the December 2017 Southern California wildfires. Property tax losses incurred by K-14 schools over the same time period due to the October 2017 wildfires are backfilled under the Proposition 98 funding mechanism.

**Census 2020** – The budget includes \$40.3 million for statewide outreach, coordination, and other activities related to the 2020 Census count.

**Tax Administration Reform** – Prior to July 1, 2017, the State Board of Equalization (BOE) administered a variety of tax and fee programs, as well as adjudicated appeals for these tax and fee programs. The Department of Finance's Office of State Audits and Evaluations released a review of the BOE in March 2017 that uncovered board member practices that “[interfered] with administrative practices, created inconsistencies in operations” and resulted in errors in sales tax revenue allocation totaling in “hundreds of millions of dollars.” The Legislature and Administration worked together to reform tax administration, leading to the creation of two new departments—the Office of Tax Appeals and the California Department of Tax and Fee Administration. The budget allocates resources to the three departments in the following manner:

- **Board of Equalization** - The budget includes \$30.4 million (\$30 million General Fund) and 204 positions.



- **California Department of Tax and Fee Administration** - Effective July 1, 2017, the California Department of Tax and Fee Administration assumed the statutory duties formerly performed by the BOE. The budget includes \$664 million (\$354 million General Fund) and 4,270 positions.
- **Office of Tax Appeals** – Established on January 1, 2018, the Office of Tax Appeals performs tax appeal duties formerly assigned to the State Board of Equalization for personal income, franchise, and sales and use taxes. The budget includes \$20 million General Fund and 80 positions.

**California Competes Tax Credit** – The budget proposes the extension of the California Competes tax credit program at \$180 million for five years. In addition, 1) \$20 million is proposed to provide direct assistance to small businesses and, 2) a reconstituted \$50 million per year credit is proposed to encourage small businesses to hire individuals with barriers.

**California Alternative Energy and Advanced Transportation Authority** – The budget includes one major program change for energy efficiency pilot programs. The budget proposes an increase of \$8.2 million limited-term funding through 2020-21 to continue administering the ratepayer-funded pilot programs to encourage private lenders to develop financial products for energy efficiency projects.

**California Secure Choice Retirement Savings Investment Board** – By statute, the California Secure Choice Retirement Savings Investment Board is authorized to implement the California Secure Choice Retirement Savings Program for California private sector employees who have no access to workplace retirement savings plans. The budget includes a \$2.5 million General Fund Loan and five positions for the Program's start-up and administrative activities.

**State Controller** – The budget proposes the following four major program changes:

- **Personnel and Payment Services Workload** – The budget proposes \$6 million (\$3.5 million General Fund) ongoing in 2018-19 and 2019-20, and approximately \$4.2 million (\$2.4 million General Fund) one-time to support this workload.
- **Integrated Data Management System Replacement Workload** – To support Integrated Management System contract costs and permanent positions associated with developing and implementing a system migration plan, the budget proposes approximately \$5.5 million (\$2.3 million General Fund) in 2018-19 through 2022-23.

- **Road Maintenance and Rehabilitation Program** – The budget proposes \$0.9 million in 2018-19 and 2019-20 and \$0.4 million ongoing to perform audits and ensure city and county compliance with maintenance of effort expenditure requirements per SB 1.
- **Financial Information System of California (FI\$Cal)** – The budget proposes \$5.4 million (\$3.1 million General Fund) in 2018-19 and approximately \$7.5 million (\$4.3 million General Fund) through 2021-22 to support an integrated solution to transition the State Controller Office's legacy systems to FI\$Cal.

**Franchise Tax Board** – The budget proposes the following three major program changes:

- **Audit Staffing Increase** – The budget includes \$7.8 million General Fund to allow the Franchise Tax Board to fill vacant audit positions.
- **Information Technology Security Enhancements** – The budget includes \$4.9 million General Fund and 23 positions for the enhancement of information technology security systems and procedures.
- **Enterprise to Revenue Project** – The budget includes \$2.5 million General Fund to convert, to permanent status, 20 limited-term positions that provide ongoing maintenance and operations services for the Enterprise Data to Revenue project.

**State Treasurer** – The State Treasurer provides banking services for state government with the goals of minimizing interest and service costs and maximizing yield on investments. The budget proposes one major program change for infrastructure support and sustainability. To align the department's information technology infrastructure budget with its recent resource growth, the budget proposes a General Fund appropriation of \$450,000 in 2018-19 and \$400,000 ongoing.

## **Trial Courts, Corrections, and Local Law Enforcement**

### **Judicial Branch**

The budget proposes total funding of \$3.8 billion (\$1.9 billion General Fund) for the Judicial Branch in 2018-19, of which \$2.9 billion is provided in support of trial court operations.

**Trial Court Operations** – The budget proposes \$47.8 million General Fund for trial courts that are currently funded below 76.9 percent of their overall funding according to the Workload-Based Allocation and Funding Methodology (WAFM).

**Discretionary Funding** – The budget proposes \$75 million General Fund for the Judicial Council to fund their priorities for trial courts.

**Trial Court Construction** – The budget proposes \$32.2 million from the Immediate and Critical Needs Account to complete the design of three courthouse projects in Riverside, Sonoma, and Stanislaus counties. In the budget, the Governor also commits to providing over \$1 billion in General Fund-backed lease revenue bonds to complete construction for the next ten courthouse projects ready to proceed to construction.

**Self-Help Services** – The budget proposes \$19.1 million General Fund to expand self-help services in trial courts throughout the state. This brings total funding for self-help services to \$30.1 million.

**Trial Court Trust Fund Backfill** – The budget proposes \$34.1 million General Fund to backfill reductions in fine and penalty revenue in 2018-19. In addition, the budget proposes \$25.9 million General Fund for trial court employee retirement and health benefit costs.

**Language Access** – The budget proposes \$4 million General Fund to expand the availability of interpreter services for civil matters in all courts.

**Civil Traffic Pilot** – The budget proposes \$3.4 million General Fund to implement a five-court pilot to provide a civil model of adjudication for minor traffic violations.

## **California Department of Corrections and Rehabilitation**

The budget proposes total funding of \$12 billion (\$11.7 billion General Fund and \$313 million other funds) for the California Department of Corrections and Rehabilitation (CDCR) in 2018-19. This is an increase of approximately \$1 billion over 2016-17 actual expenditures.

**Adult Institution Population** – The adult inmate average daily population is projected to decline from 130,317 in 2017-18 to 127,412 in 2018-19, a decrease of 2,905 inmates. This constitutes an increase from the 2017 Budget Act's 2017-18 projection.

**Parolee Population** – The average daily parolee population is projected to increase from 46,971 in 2017-18 to 49,794 in 2018-19, an increase of 2,823 parolees. This is a decrease from the 2017 Budget Act projections.

**Division of Juvenile Justice (DJJ) Population** – The DJJ's average daily ward population is decreasing when compared to 2017 Budget Act projections. Specifically, the ward population is projected to decrease by 121 in 2017-18, for a total population of 615; and to increase by 30 in 2018-19, for a total population of 645.

**Firefighter Training and Certification Program** – The budget proposes \$26.6 million General Fund to establish a Firefighter Training Center at the Ventura Conservation Camp for 80 people who were formerly incarcerated to receive the necessary training and job skills to work as career firefighters.

**Statewide Prison Employment Initiative** – The budget proposes \$16 million General Fund for a partnership between the California Workforce Development Board, California Department of Corrections and Rehabilitation, and the California Prison Industry Authority that will provide services for regional and local planning and implementation to integrate reentry and workforce services for people who were formerly incarcerated.

**Rehabilitative Programming** – The budget proposes \$454.4 million General Fund for providing rehabilitative programming for adult inmates. Specifically, the budget proposes the following increases in funding:

- \$6.7 million General Fund to increase career technical education programming to 13 additional prisons, creating 338 additional slots.
- \$2.7 million General Fund to expand self-help groups, expanding the available groups from 1,100 in 2016-17 to over 3,000 by 2018-19.
- \$4 million from the Inmate Welfare Fund to provide rehabilitative programming grants to non-profits that provide rehabilitative programs that have demonstrated success.

**Infrastructure Investment** – The budget proposes \$131.1 million General Fund for prison infrastructure improvements, including \$60.7 million for roof repairs and \$20 million for mold abatement.

**Mental Health Treatment Bed Capacity** – The budget proposes \$20.1 million General Fund to add bed capacity for women who are in prison and create flexibility in some of the mental health treatment beds for men.

**Division of Juvenile Justice: Age of Jurisdiction** – The budget proposes increases to the age of jurisdiction from 23 to 25 for youth who are committed by the juvenile court who can be housed at the state's juvenile justice facilities.

**Young Adult Offender Pilot Program** – The budget proposes \$3.8 million General Fund to establish two housing units to support a Young Adult Offender Pilot Program that would divert young offenders who have committed specified crimes from an adult prison to a juvenile facility.

**Inmate Health Care** – The budget proposes \$3.1 billion for inmate health care, augmenting funding by \$12.8 million General Fund. Specifically, the budget proposes the following increases:

- \$8.3 million to complete the integration of the Electronic Health Records System.
- \$4.5 million to lease automated drug cabinets for controlled substances.

**Health Care Transportation** – The budget proposes \$17.5 million General Fund to replace high-priority health care vehicles.

## **Local Public Safety**

**Revenue for Realigned Public Safety Responsibilities** – The Administration estimates that \$2.6 billion in revenue will be available to fund realigned activities, with an additional \$318 million available in the growth account.

**Proposition 47 State Savings** – The Administration estimates that the 2016-17 savings associated with Proposition 47, the Reduced Penalties for Some Crimes Initiative (2014), will be \$64.4 million in 2017-18, an increase of \$18.8 million in savings over 2016-17. Ongoing savings are estimated to be \$69 million.

**Post Release Community Supervision** – The budget proposes \$29 million General Fund for county probation departments to supervise the temporary increase in offenders on post release community supervision as a result of the implementation of court-ordered measures and Proposition 57.

**Community Performance Incentive Grant** – The budget assumes \$106.4 million General Fund for county probation departments to support the continued efforts of counties to reduce the number of offenders sent to prison.

**Mental Health Diversion<sup>1</sup>** – The budget proposes \$117.3 million (\$114.8 million General Fund) to increase the state-county partnership to address the growing number of people in the criminal justice system who are found incompetent to stand trial due to their mental health.

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<sup>1</sup> For additional details on the Department of State Hospitals and other proposals related to mental health treatment, see the Health section of this summary.