The 2017-18 Budget:

California Spending Plan

MAC TAYLOR • LEGISLATIVE ANALYST • OCTOBER 18, 2017

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Chapter 1:

Key Features of the 2017-18 Budget Package

Each year, our office publishes the *California Spending Plan* to summarize the annual state budget. This publication discusses the *2017-18 Budget Act* and other major budget actions approved in 2017. In general, it reflects budgetary actions that the Legislature has taken through September 2017. In some cases, as noted, we discuss budget actions approved by the Legislature after June 15, 2017. In late July, for example, the Legislature passed and the Governor approved, an extension of authority for the Air Resources Board to implement the state's cap-and-trade program from 2020 to 2030.

BUDGET OVERVIEW

State Spending

Figure 1 displays the administration's June 2017 estimates of total state and federal spending in the 2017-18 budget package. As shown in the figure, the budget assumed total state spending of $180 billion (excluding federal and bond funds), an increase of 7 percent over revised totals for 2016-17. General Fund spending in the budget package is $125.1 billion—an increase of $3.7 billion, or 3 percent, over the revised 2016-17 level. Special fund spending increased $8.5 billion, or 18 percent, over the revised 2016-17 level, largely as a result in increased special fund spending related to transportation and Medi-Cal.

General Fund Revenues

Figure 2 (see next page) displays the administration's revenue projections as incorporated into the June 2017 budget package. The administration projects $125.9 billion in General Fund revenues and transfers in 2017-18, a 6 percent increase over revised 2016-17 estimates. The state's "Big Three" General Fund taxes—the personal income tax (PIT), sales and use tax,

Figure 1

Total State and Federal Fund Expenditures

(Dollars in Millions)

	Revised		Enacted	Change From 2016-17	
	2015-16	2016-17	2017-18	Amount	Percent
General Fund	$114,465	$121,421	$125,096	$3,675	3%
Special funds	42,100	46,343	54,891	8,547	18
Budget Totals	**$156,565**	**$167,765**	**$179,987**	**$12,222**	**7%**
Selected bond funds	$3,644	$6,573	$3,269	-$3,303	-50%
Federal funds	90,690	96,195	107,498	11,303	12

Note: Reflects administration estimates of budgetary actions through June 2017.

Figure 2

General Fund Revenue Estimates

(Dollars in Millions)

	Revised		Enacted	Change From 2016-17	
	2015-16	2016-17	2017-18	Amount	Percent
Personal income tax	$78,735	$83,161	$88,821	$5,660	7%
Sales and use tax	24,871	24,494	24,470	-25	—
Corporation tax	10,460	10,210	10,894	684	7
Subtotals, "Big Three Taxes"	($114,066)	($117,865)	($124,185)	($6,320)	(5%)
Insurance tax	$2,562	$2,483	$2,538	$55	2%
Other revenues	2,236	1,706	1,453	-253	-15
Transfer to BSA	-2,093	-3,014	-1,773	1,241	-41
Other transfers and loans	-1,111	-501	-522	-21	4
Totals, Revenues and Transfers	**$115,661**	**$118,539**	**$125,880**	**$7,341**	**6%**

Note: Reflects administration's revenue projections, as incorporated into the 2017-18 state budget plan in June 2017.
BSA = Budget Stabilization Account.

and corporation tax—are projected to increase 5 percent.

The PIT estimate for 2017-18 reflects a $140 million revenue loss associated with the expansion of the state Earned Income Tax Credit (EITC) to self-employment income and taxpayers with incomes of up to $22,300.

The Condition of the General Fund

Figure 3 summarizes the condition of the General Fund under the revenue and spending assumptions in the June 2017 budget package, as estimated by the Department of Finance. This shows that estimated state General Fund revenues ($125.9 billion) exceed total General Fund expenditures ($125.1 billion).

As shown in Figure 3, the budget package assumed that 2017-18 will end with $9.9 billion in total reserves, as of June 2017. This consists of: (1) $1.4 billion in the state's discretionary reserve, the Special Fund for Economic Uncertainties (SFEU), and (2) $8.5 billion in the state's mandatory reserve, the Budget Stabilization Account, which is governed by the terms of Proposition 2 (2014). This is an increase of about $2.6 billion in total reserves compared to revised 2016-17 levels. This essentially means the General Fund is projected to have $2.6 billion more in available resources compared to spending in 2017-18, with that $2.6 billion excess used to build reserves in the two accounts.

Figure 3

General Fund Summary

(In Millions)

	2016-17 Revised	2017-18 Enacted
Prior-year fund balance	$4,504	$1,622
Revenues and transfers	118,539	125,880
Expenditures	121,421	125,096
Ending fund balance	$1,622	$2,406
Encumbrances	980	980
SFEU balance	642	1,426
Reserves		
SFEU balance	$642	$1,426
BSA balance	6,713	8,486
Total Reserves	**$7,355**	**$9,912**

SFEU = Special Fund for Economic Uncertainties (the General Fund's discretionary budget reserve); and
BSA = Budget Stablization Account (the General Fund's mandatory budget reserve).

MAJOR FEATURES OF THE 2017-18 SPENDING PLAN

The major features of the 2017-18 budget package are shown in Figure 4 and briefly described below. We discuss these and other actions in more detail in "Chapter 2."

Allocates New Proposition 98 Funding Primarily for Discretionary Activities. In 2015-16 and 2016-17, the Proposition 98 minimum guarantees have dropped from June 2016 estimates due to lower-than-expected General Fund revenue. The budget plan funds above the revised estimates of the minimum guarantees in both years, not reducing funding for any school or community college programs from the June 2016 levels. The 2017-18 guarantee, which builds upon the higher levels of funding provided in the two previous years, is $3.1 billion (4.4 percent) above the revised 2016-17 funding level. The budget plan funds at this estimate of the minimum guarantee in 2017-18. Of the year-over-year increase, $2.1 billion is covered by state General Fund and $991 million is covered by local property tax revenue. For K-12 education, the budget provides a Proposition 98 funding increase of $1.4 billion for the Local Control Funding Formula as well as $887 million in one-time discretionary grants. For community colleges, the budget provides a $340 million Proposition 98 increase for apportionments. In addition to these general purpose augmentations, the budget includes various other targeted Proposition 98-funded initiatives, including ones designed to improve student outcomes, increase student financial aid, and address maintenance backlogs.

Allocates $2.8 Billion in New Transportation Revenues. Chapter 5 of 2017 (SB 1, Beall) increases existing fuel taxes and creates two new vehicle charges to support existing and new transportation programs. It also repays monies loaned in the past to the General Fund from various transportation accounts. Consistent with the provisions of SB 1, the budget allocates the bulk of the new revenues to highway maintenance and rehabilitation ($846 million), local streets and roads ($646 million), transit ($635 million), congested and trade corridors ($450 million), and bicycle and pedestrian projects ($100 million).

Figure 4

Major Features of the 2017-18 Spending Plan

Major General Fund and Special Fund Spending Actions
- Allocates $3.1 billion in higher Proposition 98 funding for schools and community colleges.
- Allocates $2.8 billion in new transportation revenues.
- Dedicates $546 million in Proposition 56 revenues to Medi-Cal provider rates and reimbursements.
- Allocates $2.6 billion in cap-and-trade revenues.
- Provides $400 million to counties through new In-Home Supportive Services cost sharing agreement.
- Increases on-going General Fund spending for universities and student financial aid by $475 million.
- Increases child care and preschool spending by $301 million.

Major General Fund Revenue Changes
- Expands the EITC program to include self-employed and taxpayers with incomes up to $22,300.

Other Major Changes
- Makes $6 billion supplemental payment to CalPERS using a loan from state cash balances.
- Replaces pay-as-you-go funding for state office buildings with lease revenue bond financing.

EITC = earned income tax credit.

Uses a Portion of Proposition 56 Revenues to Increase Medi-Cal Provider Rates and Reimbursements. The spending plan allocates to Medi-Cal around $1.3 billion in revenues related to Proposition 56 (2016), which raised state taxes on tobacco products. In 2017-18, the spending plan dedicates $546 million of these revenues to fund increases in physician, dental, and other healthcare provider payments. The remaining $711 million supports anticipated spending increases from growth in the Medi-Cal program between 2016-17 and 2017-18. The budget package also provides up to $800 million in these revenues for increases in provider payments in 2018-19, but these future amounts may be adjusted by the Department of Finance based on the state's fiscal condition.

Allocates $2.6 Billion in Cap-and-Trade Revenues. The budget allocates an estimated $2.6 billion in cap-and-trade revenues. Consistent with current law, about $1 billion is estimated to be continuously appropriated to certain transportation and housing programs, although this amount depends on revenue collected in 2017-18. The budget plan allocates an additional $1.6 billion to various programs, including programs intended to reduce emissions from vehicles and heavy duty equipment, forestry and fire prevention activities, and projects to reduce emissions from agricultural activities.

Makes $6 Billion Supplemental Payment to CalPERS Loan. The budget package makes a one-time $6 billion supplemental payment to CalPERS to reduce the state's unfunded liabilities associated with pension benefits earned by current and past state employees. This should reduce annual state pension costs. To make this payment, the budget uses a loan from the state's cash balances in the Pooled Money Investment Account (PMIA), which is essentially the state's checking account. The budget also makes an initial repayment of $146 million toward the loan, which is counted toward annual required debt payments under Proposition 2 (2014).

Establishes New In-Home Supportive Services Program (IHSS) Cost Sharing Agreement. The budget creates a new maintenance-of-effort (MOE) for counties' share of IHSS costs. The new MOE significantly increases counties' IHSS costs in 2017-18 relative to 2016-17. The budget provides ongoing state General Fund support and additional realignment revenue (which consists of sales taxes and vehicle license fee revenue) to partially offset this increase. Specifically, the 2017-18 budget includes $400 million from the General Fund to assist counties in meeting their share of IHSS costs. Over the next five years, the General Fund support is expected to gradually decline to $150 million. In addition, the budget makes a number of changes to realignment revenue streams, including the temporary redirection of health and mental health realignment revenues to pay for counties' IHSS costs.

Expands the State EITC Program. The 2017-18 budget expands the state Earned Income Tax Credit to taxpayers with self-employment income and to include taxpayers with incomes up to $22,300, significantly increasing the number of taxpayers eligible to claim the tax credit. The administration estimates the increase in EITC claims will reduce revenues by $140 million in 2017-18.

Increases Ongoing General Fund for Universities and Student Financial Aid by $475 Million. The budget provides $331 million is for the universities and $144 million is for financial aid programs administered by the California Student Aid Commission. The key budget components for the California State University ($243 million) and University of California ($88 million) are general purpose base increases and funding for enrollment growth. The key financial aid budget components are (1) funding for cost and caseload increases in the Cal Grant program and (2) funding to fully implement the Middle Class Scholarship program. (The final budget package rejects the Governor's January proposal to phase out the Middle Class Scholarship program.) In addition to funding increases, the budget sets numerous expectations for the universities, such as improving budget transparency and oversight of the University of California's Office of the President and providing students greater access to their nearby California State University campuses.

Increases Child Care and Preschool Spending Above Multiyear Budget Agreement. The budget increases child care and preschool programs by $310 million from the revised 2016-17 level. This increase is largely due to implementing the second year of a four-year budget agreement. As part of this agreement, the 2017-18 budget contains substantial increases in reimbursement rates and funds an additional 2,959 full-day State Preschool slots at local education agencies. In addition to implementing the budget agreement, the 2017-18 budget includes funding to update the income eligibility threshold to use the most recent State Median Income (SMI) instead of the SMI used in 2007-08.

Replaces Pay-As-You-Go Funding for State Office Buildings With Bond Funds. The 2016-17 budget package established the State Project Infrastructure Fund (SPIF) and provided $1 billion from the General Fund to the SPIF in 2016-17—as well as an additional $300 million in 2017-18—with the intent that the funding be used to construct two new office buildings in the Sacramento area and to renovate or replace the State Capitol Annex. The 2017-18 budget transfers $851 million from the SPIF to the General Fund. To replace the transferred funding, the budget authorizes the use of $851 million of lease revenue bonds to finance the construction of the two new state office buildings. The budget also eliminates the transfer of $300 million from the General Fund to the SPIF that was slated to occur in 2017-18.

EVOLUTION OF THE BUDGET

January Budget Proposed $3.2 Billion in Budget Solutions. In preparing the 2017-18 budget, the administration concluded that the state's fiscal condition has worsened. In January, the administration's estimates suggested that, absent new budget solutions, the state faced a budget deficit of $1.6 billion at the end of 2017-18. To address this, the Governor's Budget included more than $3.2 billion in actions to reduce General Fund spending growth. The most significant of these actions was related to the Proposition 98 minimum funding guarantee for schools and community colleges. The Governor's Budget also eliminated a $400 million set-aside for affordable housing, cancelled a scheduled transfer of $300 million for the replacement of state office buildings, and delayed child care rate augmentations.

May Revision: Higher Revenues, More Spending for Schools. Relative to January, the administration's estimates of revenues associated with the "Big Three" state taxes were up $2.1 billion across 2015-16, 2016-17, and 2017-18 combined. In addition to required spending increases under the Proposition 98 minimum guarantee, the May Revision proposed a discretionary increase of $1.6 billion for schools and community colleges across the three fiscal years. This resulted in $2.2 billion in proposed increases for schools and community colleges over the period. The Governor also proposed other discretionary increases, including $400 million in assistance to counties to offset some of their cost increases associated with the termination of the Coordinated Care Initiative (CCI).

Final Budget Package Includes $9.9 Billion Reserve. The Legislature passed the final budget package on June 15, 2017. Total reserves in the final budget package were about $200 million lower than reserves proposed by the Governor in the May Revision. The budget package also reflected various choices that shifted spending priorities compared to the Governor's proposal. Budget savings resulted from (1) shifting nearly $1 billion funding for the renovation and replacement of state office buildings from General Fund to bond funds, and (2) counting $398 million in repayments of weight fee loans toward Proposition 2, which freed up a like amount of General Fund resources. Correspondingly, the final budget deal reflects higher spending for provider rates and reimbursements in Medi-Cal, an expansion of the state EITC program, and additional augmentations for UC and CSU. The final budget plan also reflects a long-standing interpretation of the state appropriation's limit with some limited modifications and does not include a significant change in the limit proposed by the Governor in his January budget proposal.

Budget Package Signed by Governor. The Governor signed the *2017-18 Budget Act* and other budget-related bills between June 27, 2017 and September 28, 2017. These bills are detailed in Figure 5. The Governor did not veto any appropriations in the *2017-18 Budget Act*.

Figure 5

2017-18 Budget Related Legislation[a]

Bill Number	Chapter	Subject
Signed in June 2017		
AB 97	14	*2017-18 Budget Act*
AB 99	15	K-14 Education and Child Care
AB 102	16	State Board of Equalization Reorganization
AB 103	17	Public Safety
AB 107	18	Developmental Services
AB 111	19	State Government
AB 115	20	Transportation
AB 119	21	State Government
AB 120	22	*2017-18 Budget Act*: Augmentation
SB 85	23	Education
SB 89	24	Human Services
SB 90	25	In-Home Supportive Services Maintenance-of-Effort
SB 92	26	Public Resources
SB 94	27	Cannabis
SB 96	28	State Government
Signed After June 2017		
AB 109	249	Amendments to the *2017-18 Budget Act*
AB 114	38	Public Health
AB 126	65	Health and Human Services
AB 129	250	Education
AB 130	251	Health and Human Services
AB 131	252	Taxation
AB 133	253	Cannabis regulation
AB 134	254	Amendments to the *2017-18 Budget Act*
AB 135	255	Transportation
SB 84	50	Public Employees Retirement Fund: State Employer Contributions Supplemental Payment
SB 88	51	State Government
SB 97	52	Health
SB 103	95	Transportation
SB 107	53	Amendments to the *2016-17 Budget Act*
SB 108	54	Amendments to the *2017-18 Budget Act*
SB 110	55	Energy efficiency grants for schools
SB 112	363	State government
SB 113	181	Amendments to the *2017-18 Budget Act*
SB 117	180	Elections

[a] Includes budget bill and "trailer bills" identified in Section 39.00 of the *2017-18 Budget Act* that were enacted into law. Also includes SB 107, which amends the *2016-17 Budget Act*.

Chapter 2:

Spending by Program Area

PROPOSITION 98

State budgeting for schools and community colleges is based primarily on Proposition 98, approved by voters in 1988 and amended in 1990. In this section, we provide an overview of Proposition 98 changes under the enacted budget package. We then highlight Proposition 98 spending changes specifically for K-12 education and community colleges. On the "EdBudget" portion of our website, we post dozens of tables containing additional detail about the Proposition 98 budget (as well as the child care and higher education budgets).

Overview

Proposition 98 Establishes Minimum Spending Level. Proposition 98 establishes a minimum spending requirement commonly called the minimum guarantee. The minimum guarantee is determined by three main formulas (known as tests) and various inputs, including General Fund revenue, per capita personal income, and K-12 attendance. The state can spend at the minimum guarantee or any level above it. Spending above the minimum guarantee one year typically becomes part of the base for calculating the minimum guarantee the next year. If the minimum guarantee increases after budget enactment due to updated inputs, the state owes a "settle-up" obligation. In some years, the state also creates or pays "maintenance factor." Maintenance factor is created when General Fund revenue is weak relative to per capita personal income and is paid when General Fund revenue is stronger.

2015-16 and 2016-17 Minimum Guarantees Down but Total Spending Up Slightly. Figure 1 shows how estimates of the minimum guarantee

Figure 1

Tracking Changes in the Minimum Guarantee and Spending

(In Millions)

	2015-16			2016-17		
	June 2016	June 2017	Change	June 2016	June 2017	Change
Minimum guarantee	$69,050	$68,671	-$379	$71,874	$71,316[a]	-$558
Proposition 98 spending	$69,050	$69,103	$53	$71,874	$71,390	-$484
Settle-up payment for LCFF	—	—	—	—	514	514
Total Spending	$69,050	$69,103	$53	$71,874	$71,903	$29

[a] Reflects amount that would be required to fund the minimum guarantee and provide a $405 million statutory supplement, consistent with the June 2016 budgetary approach. The June 2017 budget plan notwithstands the supplement.

LCFF = Local Control Funding Formula.

and Proposition 98 spending have changed from the June 2016 to June 2017 budget plans. The 2015-16 minimum guarantee has decreased $379 million due to lower-than-expected General Fund revenue. Proposition 98 spending that year, however, has increased $53 million due to various minor adjustments involving the Local Control Funding Formula (LCFF) and community college apportionments. The 2016-17 minimum guarantee has decreased $558 million, again due to lower estimates of General Fund revenue. Proposition 98 spending that year has decreased by $484 million, but total spending, including a settle-up payment of $514 million, is up slightly ($29 million) from the June 2016 level. The settle-up payment allows the state to cover some 2016-17 LCFF costs using funds set aside for Proposition 2 (2014) debt payments. In both 2015-16 and 2016-17, Proposition 98 spending is above the calculated minimum guarantees.

2017-18 Spending Up $3.1 Billion Over Revised 2016-17 Level. Figure 2 shows Proposition 98 spending for each segment from 2015-16 through 2017-18. In 2017-18, total spending across all segments is $74.5 billion, an increase of $3.1 billion (4.4 percent) from the revised 2016-17 level. For 2017-18, the state funds at the estimate of the minimum guarantee. This estimate builds upon the higher levels of spending provided in 2015-16 and 2016-17. (Had the state not funded above the guarantee in those two years, the 2017-18 guarantee would have been $542 million lower.) Test 2 is the operative test in 2017-18, with the change in the guarantee attributable to a 3.7 percent increase in per capita personal income and a 0.05 percent decline in K-12 attendance. The increase in the guarantee also reflects a maintenance factor payment of $536 million. Under the administration's estimates, the state would end 2017-18 with an outstanding maintenance factor obligation of $900 million.

About One-Third of Increase Covered With Higher Property Tax Revenue. Of the total Proposition 98 spending provided in 2017-18, $52.6 billion is state General Fund and $21.9 billion is local property tax revenue. From 2016-17 to 2017-18, state General Fund increases $2.1 billion (accounting for about two-thirds of the $3.1 billion increase in spending) and property tax revenue increases by $1 billion. The primary factor

Figure 2

Proposition 98 Spending by Segment and Source

(Dollars in Millions)

	2015-16 Final	2016-17 Revised	2017-18 Enacted	Change From 2016-17 Amount	Change From 2016-17 Percent
Preschool[a]	$885	$975	$1,122	$148	15.0%
K-12 Education					
General Fund	$43,074	$43,955	$45,763	$1,808	4.1%
Local property tax	17,047	18,133	18,981	848	4.7
Subtotals	($60,121)	($62,089)	($64,745)	($2,656)	(4.3%)
California Community Colleges					
General Fund	$5,384	$5,473	$5,654	$181	3.3%
Local property tax	2,631	2,768	2,911	142	5.1
Subtotals	($8,016)	($8,242)	($8,565)	($324)	(3.9%)
Other Agencies[a]	$82	$85	$91	$6	7.4%
Totals	**$69,103**	**$71,390**	**$74,523**	**$3,134**	**4.4%**
General Fund	$49,425	$50,488	$52,631	$2,143	4.2%
Local property tax	19,678	20,902	21,892	991	4.7

[a] Consists entirely of General Fund.

explaining the growth in property tax revenue is the projected 5.3 percent growth in assessed property values, which is similar to the average growth rate over the past 20 years.

Budget Plan Notwithstands Statutory Supplemental Payment Through 2020-21. A law enacted in 1990 requires the state to provide a supplemental appropriation when Test 3 is the operative test for calculating the minimum guarantee and school funding otherwise would grow less quickly than the rest of the state budget. The budget plan notwithstands the supplemental appropriation through 2020-21. Under the administration's estimates, this has no effect on school funding in 2017-18 because Test 3 is not operative. In the latter three years of the period, the administration estimates that notwithstanding the supplement will reduce required Proposition 98 spending by $440 million in 2018-19, $300 million in 2019-20, and $110 million in 2020-21. (These estimates are highly sensitive to a variety of assumptions, particularly growth in General Fund revenue and per capita personal income.) To the extent the state provides a lower level of funding in these years, it will have a corresponding increase in its maintenance factor obligation.

Spending Package Reduces Outstanding Settle-Up Obligation by $603 Million. This payment reduces the state's outstanding settle-up obligation from slightly above $1 billion to $440 million. Of the $603 million provided, the budget plan allocates $514 million for covering 2016-17 LCFF costs, $86 million for the community college guided pathways initiative, and $3 million for the Career Technical Education Incentive Grant program. The state budget package scores all of the settle-up spending as a Proposition 2 debt payment.

K-12 Education

$64.7 Billion Proposition 98 Funding for K-12 Education in 2017-18. The budgeted 2017-18 level is $2.7 billion (4.3 percent) more than revised 2016-17 level and $2.2 billion (3.6 percent) more than the *2016-17 Budget Act* level. The budget increases funding per student by $450 (4.3 percent) over the *2016-17 Budget Act* level, bringing Proposition 98 funding per student up to $10,863.

Package Includes Mix of Ongoing and One-Time Spending. As Figure 3 shows (see next page), the budget includes $2.4 billion in augmentations for K-12 education. Of these augmentations, $1.5 billion are ongoing increases and $930 million are one-time initiatives. In addition to these changes, the budget package includes $328 million in one-time initiatives funded from other sources. (Of this amount, $325 million is from Proposition 98 reversion dollars and $3 million is from a settle-up payment. Of the reversion dollars, $114 million is for a fund swap primarily relating to special education.) The budget also authorizes $593 million from Proposition 51 (2016) general obligation bond proceeds for school facilities. We describe major K-12 spending and programmatic changes below. In the box on page 15, we describe changes to the state's school district reserve cap policy.

General Purpose Funding

Accelerates Implementation of LCFF for School Districts and Charter Schools. The budget provides an additional $1.4 billion ongoing Proposition 98 funding for this purpose, bringing total LCFF funding for school districts and charter schools to $57.3 billion, a 2.7 percent increase over the revised 2016-17 level. The administration estimates this funding will result in the LCFF-target level being 97 percent-funded. School districts and charter schools may use LCFF monies for any educational purpose.

Augments LCFF Funding for Some County Offices of Education (COEs). The budget provides $7 million ongoing Proposition 98 funding for an increase to the district services portion of the COE LCFF. Specifically, the budget increases COE LCFF targets by an amount equal to (1) $18,697 for each school district located in the county (bringing total

Figure 3

2017-18 K-12 Proposition 98 Changes

(In Millions)

2016-17 Revised Spending	**$62,089**
Technical Adjustments	
Make LCFF adjustments	$151
Make other adjustments	64
Adjust categorical programs for changes in attendance	-3
Subtotal	($215)
Policy Changes	
Increase LCFF funding for school districts and charter schools	$1,362
Provide per-student discretionary grants (one time)	877
Provide cost-of-living adjustment for select categorical programs[a]	65
Augment funding for after school programs	50
Support classified employees interested in becoming teachers (one time)	25
Fund Career Technical Education Pathways program	15
Expand refugee student services (one time)	10
Add mandated reporter training to mandates block grant	8
Increase LCFF for county offices of education	7
Provide professional development for bilingual teachers (one time)	5
Create free online history/social science curriculum (one time)	5
Support Southern California Regional Occupational Center (one time)	4
Fund online educational resources	3
Fund Equity Performance and Improvement Teams (one time)	3
Fund California-Grown School Meals Program (one time)	2
Develop electronic LCAP template and dashboard application (one time)	0.4
Subtotal	($2,441)
Total Changes	**$2,656**
2017-18 Enacted Spending	**$64,745**

[a] Applies 1.56 percent increase to special education, child nutrition, services for foster youth, adults in correctional facilities, and American Indian education.

LCFF = Local Control Funding Formula and LCAP = Local Control and Accountability Plan.

funding per district to $131,808) or (2) $80,000, whichever is higher. This change to the formula results in additional funding for the 40 percent of COEs currently funded at but not above their LCFF targets.

Requires All COEs to Develop Plans for Supporting School Districts. Trailer legislation (Chapter 15) requires all COEs to develop plans specifying how they will support their school districts. In these plans, COEs, at a minimum, are to specify how they will provide support to (1) all districts in developing their Local Control and Accountability Plans (LCAPs) and (2) any district deemed low performing. Each COE plan must include goals for each type of district support provided, metrics to measure progress towards achieving these goals, and specific actions the COE will take to meet its goals. Each plan also must describe how the COE will work with other entities, including other COEs, the California Department of Education (CDE), and the California Collaborative for Educational Excellence—to support school districts in their county. Chapter 15 also requires the Superintendent of Public Instruction (SPI) to provide assistance to a COE if the SPI finds merit in an LCAP-related complaint filed against the COE or one of the districts in the county.

Funds One-Time Discretionary Grants. The largest one-time augmentation for K-12 education is $877 million that local education agencies (LEAs) may use for any educational purpose. Funding is based on average daily attendance ($147 per ADA). If an LEA has unpaid mandate claims, funding counts toward those claims. As most LEAs do not have any such claims, we estimate only about one-third ($268 million) of the funding will end up reducing the K-12 mandates backlog. We estimate the K-12 mandates backlog will be $799 million at the end of 2017-18.

Teacher Workforce

Funds Second Round of Grants for Helping Classified Employees Become Teachers. Chapter 29 of 2016 (SB 828, Committee on Budget and Fiscal

Review) created a program to assist classified school employees (such as instructional aides and library assistants) in completing their bachelor's degree and pursuing a teaching credential. The program provides grants of up to $4,000 per participant per year. The grants are intended to help cover education costs. The state initially provided the program with $20 million one-time Proposition 98 funding, providing grants for up to 1,000 participants. The 2017-18 budget package includes an additional $25 million one-time Proposition 98 funding, providing grants for up to 1,250 participants.

Creates Two New Teaching-Related Programs. The budget redirects $11 million one-time federal Title II local assistance funding to establish the California Educator Development program to help LEAs attract and support teachers, principals, and other school leaders.

The budget also provides $5 million one-time Proposition 98 funding for a new program to encourage more teachers to obtain bilingual authorizations and teach in bilingual settings.

Takes Various Actions Relating to Teacher Misconduct Reviews. The 2016-17 budget package provided CTC with $7.8 million in Teacher Credential Fee revenue to address higher ongoing workload and costs for the Office of the Attorney General (AG) to review serious teacher misconduct cases. The AG was unable to hire all anticipated additional staff in 2016-17, resulting in $4.5 million carried forward to 2017-18. The 2017-18 budget package also requires the AG to report quarterly on the status of its backlog of teacher misconduct reviews.

Career Technical Education

Funds Third and Final Year of Career Technical Education (CTE) Incentive Grant Program. The 2015-16 budget package created a three-year competitive grant program to

New Agreement on School District Reserve Cap

Legislature and Governor Adopt Cap Policy in 2014. In 2014, as part of final budget negotiations, the state enacted trailer legislation capping school district reserve levels under certain conditions. Specifically, school district reserves were to be capped at between 3 percent and 10 percent of annual General Fund expenditures (depending upon district size), with the caps being operative if the state made a deposit (of any size) into the state school reserve during the previous year. (Proposition 2 established the state school reserve in 2014.) Under the policy, a district facing extenuating circumstances could apply to its county office of education for an exemption from the cap. Even with this possible exemption, many school districts expressed serious concern with the cap policy, believing the caps would negatively affect their fiscal health.

Legislature and Governor Agree to Amend Policy. In September 2017, the Legislature approved several modifications to the reserve caps. Under the modified policy, all basic aid school districts and districts with 2,500 or fewer pupils are exempt from the caps. (As of 2016-17, the districts qualifying for this exemption account for about 60 percent of districts in the state and about 10 percent of statewide attendance.) For every other district, the modified policy raises the cap to 10 percent of its annual General Fund expenditures. Under the modified policy, the caps only apply if, during the previous year, the balance in the state school reserve exceeds 3 percent of the total Proposition 98 funding allocated for school districts. The caps then remain in effect until the balance of the state school reserve no longer exceeds 3 percent.

promote CTE at secondary schools. As designed, state funding for the program decreases over the three-year period, as local match requirements increase. In 2015-16 and 2016-17, the state provided $400 million and $300 million, respectively, for the program. Consistent with the authorizing legislation, the 2017-18 budget provides $200 million for the third and final year of the program. (Of this amount, $197 million is Proposition 98 reversion funds and $3 million is from a settle-up payment.) In 2017-18, grant recipients are required to provide a total of $400 million in local matching funds.

Provides Funding for CTE Pathway Program Directly to CDE. The budget provides CDE with $15.4 million ongoing Proposition 98 funding to support efforts linking secondary and postsecondary CTE. The funding formerly was provided to the California Community Colleges (CCC) Chancellor's Office, which in turn passed through the funds to CDE. The basic rules of the program remain unchanged. In the past, the department has used the funds for California Partnership Academies ($9.3 million) and various other activities (a combined $6.1 million), including funding CTE student organizations and virtual CTE counselors.

Earmarks Funding for Southern California Regional Occupational Center (SCROC). The budget provides a total of $10 million over four years to SCROC—$4 million in 2017-18, $3 million in 2018-19, $2 million in 2019-20, and $1 million in 2020-21. The state funds are intended to support SCROC's general operations.

Other Changes

Specifies Use of Remaining Proposition 39 Funds and Extends Energy-Efficiency Programs Indefinitely. The budget provides $423 million Proposition 98 funding for energy-efficiency projects at schools and community colleges. This reflects the fifth and final year of Proposition 39 (2012) funding. Trailer legislation (Chapter 55), however, extends the date for schools to use this funding by one year, to June 30, 2019, and sets rules for how any remaining uncommitted funds are to be used. The first $75 million in remaining funds is earmarked for school districts and COEs to replace or retrofit school buses. The next $100 million is earmarked for a competitive grant program to provide K-12 LEAs with low- and no-interest loans for energy projects. Any funding still remaining is to be distributed as grants to K-12 LEAs according to Proposition 39 rules.

Augments After School Education and Safety (ASES) Program. Proposition 49, passed by the voters in 2002, requires the state to provide $550 million in Proposition 98 funds annually for the ASES program. The budget increases ASES funding by $50 million (9 percent)—bringing total funding to $600 million.

Increases Funding for Tobacco Use Prevention Education. As required by Proposition 56 (2016), the budget provides $32 million in new cigarette tax revenue to support tobacco use prevention education in California schools. The funds are to be allocated in accordance with the existing Tobacco Use Prevention Education program administered by CDE.

Makes Various Adjustments to K-12 Mandates Block Grant. The 2017-18 budget package adds two new mandates to the K-12 mandates block grant. The first mandate requires schools to provide trainings on the detection and reporting of child abuse. For this mandate, the budget adds $8.5 million ongoing Proposition 98 funding to the block grant. The second mandate requires schools to administer the California Assessment of Student Performance and Progress computer-based exam. Though this mandate is added to the block grant, the budget does not include additional block grant funding for it.

Applies Cost-of-Living Adjustment (COLA) to Certain Programs. In addition to these changes, the budget provides a 1.56 percent COLA for both the K-12 and community college mandates block grants and establishes a statutory COLA for them moving forward. These block grants have not received a COLA since they were originally created in 2012-13. The cost of providing the COLA in 2017-18 is $3.5 million and $503,000 for the K-12 and community colleges block grants, respectively. The budget also applies a 1.56 percent COLA to several other state categorical programs—special education, Child Nutrition, the Foster Youth Services Coordinating Program, the American Indian Early Childhood Education program, and American Indian Education Centers. The total cost of providing a COLA for these five programs is $61 million.

Expands Refugee Student Services. The budget provides $10 million one-time Proposition 98 funding for the Department of Social Services (DSS) to provide grants to districts serving notable numbers of refugee students. Specifically, the program is limited to districts in counties that DSS labels as "refugee-impacted." Currently, DSS identifies ten such counties. The grant funds will be provided on a competitive basis to three cohorts over the next three years, with each cohort receiving a total of $3.3 million (supplementing an existing federal grant that has provided $1 million annually the past several years). Grants will fund extra services for refugee students, such as tutoring and counseling.

Funds Two Initiatives Relating to History/ Social Science. The first initiative provides $10 million unspent prior-year Proposition 98 funding for a COE or consortium of COEs to create an online repository of resources to help schools implement new history/social science and health curriculum frameworks. Funding would be available for three years and is intended to focus on particular components of history/social science (specifically the Armenian genocide; labor issues; lesbian, gay, bisexual, and transgender issues; and civic education) and particular components of health (specifically sexual harassment and violence prevention). The second initiative provides $5 million one-time Proposition 98 funding for the California Historical Society, in partnership with the California History/Social Science Project, to create a free online K-12 curriculum for history/ social science. The curriculum must include primary and secondary sources, lesson plans, and other instructional materials. In addition, the curriculum must use archival and digital resources of state and federal institutions. The curriculum must be made available to teachers by July 1, 2019.

Extends District of Choice Program by Six Years, Makes Several Changes. This program allows students to transfer to any school district that has deemed itself a District of Choice. If oversubscribed, these districts must use a lottery to select transfer students. Trailer legislation (Chapter 15) extends the program—which was set to expire July 1, 2017—to July 1, 2023, and modifies the program in several ways. Regarding the lottery, Districts of Choice are to give priority to low-income students and children of military personnel. Compliance with lottery procedures are to be verified as part of districts' annual audits. Regarding outreach, each District of Choice is to post application materials, deadlines, and lottery information on its website, in some cases posting the information in multiple languages. In addition, a District of Choice must provide each home (sending) district a preliminary list of approved transfer applications by February 15 and a final list by May 2. Regarding oversight, each District of Choice is to register with its county board of education and CDE beginning in 2018-19. Districts that fail to register and submit required data will not receive funding for their transfer students. Chapter 15 also reduces funding for students transferring into basic aid districts from 70 percent to 25 percent of the funding those students would have generated in their home districts.

Makes Various Other Adjustments. The 2017-18 budget package also makes various other changes to K-12 programs, including:

- ***K-12 High Speed Network (HSN).*** The budget replaces $8 million ongoing Proposition 98 funding for the K-12 HSN with $8 million unspent funding from the Broadband Infrastructure Improvement Grant program.

- ***K-12 HSN Infrastructure Upgrades.*** Chapter 15 requires the K-12 HSN to develop a methodology for identifying and prioritizing Internet infrastructure upgrade projects exceeding $25,000. The K-12 HSN must submit the newly developed method to CDE, the Legislature, and the Department of Finance by December 15, 2017, and begin using the methodology in 2017-18.

- ***Augments Existing Environmental Education Program.*** The budget provides $4 million unspent prior-year Proposition 98 funding for the California Regional Environmental Education Community (CREEC). The CREEC is a network of COE staff that helps schools integrate environmental literacy into the K-12 curriculum.

- ***Online Educational Resources.*** The budget provides $3 million ongoing Proposition 98 funding for the State Librarian to make online educational resources publicly available. The budget provides the funding to Riverside COE to spend upon the direction of the State Librarian.

- ***Creates Equity and Improvement Teams.*** The budget provides $2.5 million one-time Proposition 98 funding for two or more COEs to assist LEAs in closing achievement gaps in California's public schools.

- ***Fresh School Meals.*** The budget provides $1.5 million one-time funding to create the California-Grown Fresh School Meals Grant Program. The program will provide grants to at least 13 LEAs. Trailer legislation (Chapter 250) specifies that CDE is to give grant priority to LEAs with high shares of low-income students and English learners.

- ***Training Relating to New Science Standards and Assessments.*** The budget uses $502,000 in anticipated one-time savings from the state's testing contract to conduct statewide trainings for teachers related to new science standards and assessments. The trainings are to help teachers understand and teach the new science standards. The state plans to begin using the new science assessment in spring 2019.

- ***LCAP E-Template and California School Dashboard.*** The budget provides $400,000 one-time Proposition 98 funding to the San Joaquin COE to undertake two specified activities: (1) $350,000 to develop an electronic LCAP template that will streamline the process of creating, editing, reviewing, and publicly posting LCAPs; and (2) $50,000 to develop a mobile application to support the California School Dashboard. The Dashboard is a website that provides information on school and district performance based on the indicators included in the state's new accountability system.

- ***Report on Full-Day Kindergarten.*** Chapter 15 requires our office to submit a report by March 1, 2018 that includes options for incentivizing full-day kindergarten and differentiated funding rates for full-day and part-day kindergarten.

State Operations

Funds Instructional Quality Commission Activities. The budget includes $948,000 one-time non-Proposition 98 General Fund to support the activities of the Instructional Quality Commission.

Specifically, the funding is for the commission to create a model curriculum for ethnic studies, update standards in world languages and visual and performing arts, create computer science content standards, complete the health curriculum framework, and adopt instructional materials for history/social science and science. These activities are required due to recently adopted legislation.

Reduces Funding for Bus Driver Training Program. The CDE's Bus Driver Training program is funded with State Penalty Fund monies and fee revenue. The budget reduces total funding for the program from $1.7 million in 2016-17 to $1.4 million in 2017-18 (an 18 percent reduction). State Penalty Fund revenue for the program decreases from $1.6 million in 2016-17 to $838,000 in 2017-18 (a 48 percent decrease). In response to the drop in special fund revenue, Chapter 15 expands CDE's authority to charge course fees. Whereas CDE formerly could charge course fees only to transit bus drivers, moving forward it also may charge course fees to school bus drivers, pupil activity bus drivers, and farm labor bus drivers. Due to some combination of raising fees and expanding the group of program participants assessed fees, the budget assumes fee revenue will increase from $117,000 in 2016-17 to $275,000 in 2017-18 (a 135 percent increase). The budget also assumes that CDE will use $276,000 of existing program reserves in 2017-18—leaving a reserve of about $325,000 at year end.

School Facilities

Provides First Installment of Proposition 51 Bond Funding for School Facilities. Passed by the voters in November 2016, Proposition 51 authorizes the state to sell $9 billion in general obligation bonds—$7 billion for schools and $2 billion for community colleges. The state plans to issue $593 million of these bonds for K-12 facility projects in 2017-18. This would fully fund the state's list of $368 million in already approved facility projects, as well as $225 million in additional projects. The budget also reappropriates the remaining balance of $1.7 million General Fund provided in the *2016-17 Budget Act* to construct a middle school activity center at the California School for the Deaf in Fremont.

Establishes New Audit Rules. Chapter 15 shifts audit responsibilities for state-funded school facility projects from the Office of Public School Construction to local independent auditors. Moving forward, the local auditors are to review facility expenditures to ensure that they comply with the rules of the state's School Facilities Program. The State Allocation Board has enacted a regulatory change requiring districts to sign grant agreements prior to receiving state funding that specify allowable project expenditures.

Increases Maximum Grant for Charter School Facility Grant Program. Under this program, the state provides certain charter schools with grants to help defray the cost of renting and leasing school facilities. Previously, the state provided applicants with grants equal to either $750 per student or 75 percent of their annual facilities costs, whichever was lower. Trailer legislation (Chapter 23) updates the $750 per-student amount to $1,117 and applies a COLA moving forward. The 2017-18 increase is the first increase in the per-student amount since the program was created in 2001.

California Community Colleges

$8.6 Billion Proposition 98 Funding for CCC in 2017-18. The budgeted 2017-18 level is $324 million (3.9 percent) more than the revised 2016-17 funding level and $270 million (3.3 percent) more than the *2016-17 Budget Act* level. The budget increases funding per full-time equivalent (FTE) student by $363 (5.2 percent) over the *2016-17 Budget Act* level, bringing Proposition 98 funding per FTE student up to $7,416.

Package Includes Mix of Ongoing and One-Time Spending. As Figure 4 shows (see next page), the budget includes $584 million in community college augmentations, partly offset

Figure 4

2017-18 CCC Proposition 98 Changes

(In Millions)	
2016-17 Revised Spending	**$8,242**
Technical Adjustments	
Remove one-time spending	-$177
Make other adjustments	-84
Subtotal	(-$260)
Policy Changes	
Augment apportionments (above growth and COLA)	$184
Provide COLA for select programs[a]	104
Fund deferred maintenance and instructional equipment (one time)	70
Fund guided pathways initiative (one time)[b]	64
Fund 1 percent enrollment growth	58
Increase Full-Time Student Success Grant	25
Create Community College Completion Grant Program	25
Fund Innovation Awards (one time)	20
Augment Online Education Initiative	10
Fund emergency student aid	7
Develop statewide integrated library system (one time)	6
Augment Part-Time Faculty Office Hours Program	5
Provide direct state support for veterans resource centers[c]	5
Provide direct state support for Umoja Program[c]	3
Subtotal	($584)
Total Changes	**$324**
2017-18 Enacted Spending	**$8,565**

[a] Applies 1.56 percent increase to apportionments, Extended Opportunity Programs and Services, Disabled Students Programs and Services, CalWORKs student services, mandates block grant, and support for certain campus child care centers. Applies 1 percent increase to financial aid administration. Of the total increase, $98 million is for apportionments.
[b] Budget also includes $86.3 million in settle-up funding for this purpose, for a total of $150 million.
[c] In addition to the amounts reflected in the table, these programs might receive indirect state funding through other community college student support programs.
COLA = cost-of-living adjustment.

by $260 million in reductions largely due to the removal of prior-year, one-time spending. Of the augmentations, $417 million are ongoing increases and $167 million are one-time initiatives. In addition to these changes, the budget includes $123 million in one-time initiatives funded from other sources ($86 million from a settle-up payment and $37 million from 2015-16 Proposition 98 dollars). The budget also authorizes $17 million from Proposition 51 general obligation bond proceeds for community college facilities. We describe major CCC spending and programmatic changes below.

Apportionments

Funds 1 Percent Enrollment Growth. The budget provides $58 million for 1 percent enrollment growth systemwide. In addition, the budget adjusts for enrollment declines that districts experienced in 2016-17 and anticipated enrollment restoration in 2017-18. (If its enrollment declines in a given year, a district's funding correspondingly declines the following year. Districts, however, generally have three years to restore enrollment up to earlier levels and earn back the associated funding.) After adjusting for declining enrollment (-2.1 percent) and restoration (1.3 percent), the budget supports net enrollment growth of 0.2 percent, representing about 2,200 FTE.

Funds 1.56 Percent COLA. The budget includes $98 million to provide the statutory 1.56 percent COLA for apportionments. The budget also includes $5 million to provide a 1.56 percent COLA for five categorical programs: (1) Extended Opportunity Programs and Services, (2) Disabled Students Programs and Services, (3) CalWORKs Student Services, (4) the mandates block grant, and (5) Child Care Tax Bailout (which supports campus child care centers that serve as teaching labs for early childhood education students). Additionally, it includes $1 million to provide a partial COLA for financial aid administration.

Provides Additional Unrestricted Funds Beyond Growth and COLA. The budget includes a $184 million apportionment increase that districts may use for any educational or operational purpose. Trailer legislation (Chapter 23) rescinds existing Chancellor's Office authority to allocate any higher-than-anticipated local property tax or fee revenues as unrestricted funds to colleges. This authority rarely has been used by the Chancellor's Office because prior-year excess revenues typically are reappropriated through the budget process.

Financial Aid

Augments Full-Time Student Success Grant. The budget provides $25 million to increase the maximum annual Full-Time Student Success Grant from $600 to $1,000 per award. The state created this grant in 2015-16 to provide additional aid to CCC students who enroll in 12 or more credit units per term and qualify for Cal Grant B and Cal Grant C awards. In 2017-18, Cal Grant B and Cal Grant C awards for CCC students are $1,672 and $1,094, respectively. The full-time grant of $1,000 is an add-on to these amounts.

Creates New CCC Completion Grant. The budget includes $25 million for a new Community College Completion Grant. As set forth in Chapter 23, the grant provides an additional $2,000 annually for Full-Time Student Success Grant recipients who develop a comprehensive education plan and enroll in 15 or more credit units per term. The Chancellor's Office is required to submit a report to the Legislature by April 1, 2019 that includes information about associated program enrollment and outcomes.

Increases Cal Grant C Awards for CCC Students. The budget includes $1.7 million to double the Cal Grant C book and supply award from $547 to $1,094 for CCC students. (Cal Grant C recipients who attend other institutions will continue to receive a book and supply award of $547.)

Other Ongoing Programmatic Increases

Funds Common Course Management System. The budget augments the CCC Online Education Initiative by $10 million, bringing ongoing annual funding to $20 million. The new funds primarily will pay for ongoing subscription costs for all colleges to use Canvas, the CCC's common course management system.

Augments Part-Time Faculty Office Hours. The budget adds $5 million, bringing total funding for this program to $12 million. The program reimburses districts that compensate part-time faculty members for office hours related to their teaching assignments. Districts must provide a one-to-one match for state funds.

Directly Funds Umoja Program. The budget provides a new $2.5 million ongoing state appropriation for the Umoja program, which seeks to close achievement gaps by promoting awareness of African and African-American culture. (The program already exists on 45 campuses but, to date, it has received only one-time student equity funding.)

Guided Pathways

Funds Guided Pathways Initiative. The budget provides $150 million one time for an initiative focused on helping colleges (1) integrate myriad existing student success programs and services; (2) build their internal capacity for data analysis, leadership, planning, and program implementation; and (3) develop structured academic course sequences for all entering students.

Allocates 90 Percent of Funds Directly to Colleges, Reserves 10 Percent for Statewide Assistance. Of the $135 million designated for colleges, the Chancellor's Office is to allocate 80 percent on a formula basis and the remaining 20 percent as a fixed base grant for each college. To qualify for funds, colleges must demonstrate their commitment to implementing guided pathways by attending a state workshop and submitting specified letters and work plans. Funding is to be allocated in stages, based on each college's progress toward implementing guided pathways. Colleges may use the funds for one-time purposes, such as faculty and staff release time, professional development, coordination and communication, and information system upgrades related to pathways implementation. The Chancellor's Office has broad discretion in deciding how to use the remaining$15 million designated for statewide assistance.

Includes Accountability and Reporting Requirements. Chapter 23 requires the Chancellor's Office to develop indicators to measure the success of the initiative. By July 1, 2018 and annually thereafter for four more years, the Chancellor's Office must report on these indicators and provide information about participating colleges' work plans, use of funds, and implementation progress.

Other One-Time Initiatives

Funds Additional Innovation Awards. The budget provides $20 million one-time funding for community college innovation awards. The state previously funded innovation awards in 2014-15 (providing $50 million for all three public higher education segments) and 2016-17 (providing $25 million solely for community colleges). Chapter 23 creates a similar award program for 2017-18. Like the 2016-17 awards, the 2017-18 program is to prioritize innovations that both address specified groups of underrepresented students and use technology to improve instruction and support services. The new program is different, however, in that it eliminates the award committee appointed by the Governor and Legislature and tasks the Chancellor's Office with making award decisions directly. The Chancellor's Office is to submit interim and final reports on these awards by January 1, 2020 and 2022, respectively.

Provides Special Appropriation for Compton Community College District. Following the loss of its accreditation in 2006, Compton College has operated as a "center" under the supervision and accreditation of neighboring El Camino Community College District. In June 2017, Compton College regained initial accreditation as a college under El Camino's governing authority. Over the coming year, the Compton Community College District will work to restore core oversight and operational functions as a prerequisite to seeking accreditation under its own authority. The district identified certain costs associated with these efforts, including purchasing a new information system, supporting associated personnel, conducting extra outreach, and re-establishing a police department and personnel commission. Chapter 23 appropriates $11.3 million one-time funding for these efforts. (The appropriation results from repurposing some 2015-16 Proposition 98 funds.) Chapter 23, however, requires the district's governing board to perform the duties of the personnel commission until July 1, 2029, at which time the district is to have paid off an emergency state General Fund loan dating back to 2006. Chapter 23 also protects the district's budget from any drop in enrollment (compared to the 2017-18 level) for four years following the college's accreditation under the authority of its own governing board.

Funds Development of Statewide Integrated Library System (ILS). The budget provides $6 million (one time) for the CCC Technology Center to procure and operate an ILS. Typical functions of an ILS include acquiring and cataloging books and other materials, providing ways for library users to search catalogs and access materials, and tracking the circulation of these materials.

Several Other One-Time Augmentations. Chapter 254 amended the budget act to provide $7 million for emergency financial aid to students who qualify for aid under the California Dream Act. In addition, Chapter 23 funds various other one-time initiatives using repurposed 2015-16 Proposition 98 funds. It provides $8 million for workforce grants to community college districts in distressed economic areas. It provides $7 million for veterans resource centers. Of this amount,

$5 million is to establish or enhance centers that meet specified standards and $2 million is for Norco College to expand the capacity of its center as well as establish mechanisms for awarding course credit for prior military services. Chapter 23 also provides $4.5 million to support mental health services and training, $2.5 million to address student hunger at community colleges, $2.5 million to help colleges comply with state and federal requirements regarding preventing sexual harassment and violence, and $1 million for the CCC Academic Senate to support the course identification numbering system.

State Operations

Increases Chancellor's Office Staffing. The budget provides six new positions and $1.1 million in additional resources to improve the Chancellor's Office's capacity to provide leadership and expertise to colleges. The augmentation is based on a review of central operations conducted by staff from the Department of Finance and Chancellor's Office over the course of spring 2017. Of the total augmentation, $618,000 is General Fund. This amount is to support two additional information technology specialists, a new administrator to oversee guided pathways implementation, and a second deputy chancellor who will fill an existing vice chancellor position that has been vacant for some time. The remaining $454,000 is reimbursement authority for two research specialists and an attorney. Colleges and third parties (such as research organizations) will be able to use the services of these individuals on a fee-for-service basis.

Exempts Office From Competitive Bidding Under Certain Conditions. Specifically, Chapter 23 exempts the Chancellor's Office from competitively bidding new district contracts of $20 million or less (Proposition 98 funding) and all renewal district contracts. The legislation sunsets this exemption on July 1, 2022.

Facilities

Provides Physical Plant and Instructional Support Funding. The budget package includes $70 million one-time funding that districts may use for scheduled maintenance and certain other infrastructure-related purposes, as well as replacement of instructional equipment and library materials. The funds are allocated to districts based on their FTE enrollment.

Funds Planning for 15 New Capital Outlay Projects. The budget allocates $17 million for the preliminary planning phase for 15 capital outlay projects. The funds are from Proposition 51.

CHILD CARE AND PRESCHOOL

Budget Act Provides $4 Billion for Child Care and Preschool Programs. Of this amount, $2 billion is for preschool programs, $1.9 billion is for child care programs, and $93 million is for support programs. As Figure 5 shows (see next page), the *2017-18 Budget Act* augments these programs by a total of $310 million (8.3 percent) from the revised 2016-17 level. Proposition 98 General Fund covers the bulk of this increase ($164 million), with additional non-Proposition 98 General Fund ($104 million) and federal funds ($42 million) comprising the rest of the increase.

Higher Spending Predominantly Due to Reimbursement Rate Increases. As Figure 6 shows (see page 25), higher reimbursement rates account for the vast majority of the year-over-year funding increase, with additional slots, new eligibility rules, and various other adjustments comprising the remainder of the increase. We discuss these augmentations in greater detail below.

Reimbursement Rates

Increases Standard Reimbursement Rate (SRR) 11 Percent From Effective 2016-17 Rates.

The state funds State Preschool, General Child Care, a portion of Migrant Child Care, and Care for Children with Severe Disabilities through direct contracts based on the SRR. The 2017-18 budget provides $160 million to increase the SRR by 11 percent. Of this increase, $68 million is for a 5 percent rate increase approved in 2016-17 and $93 million is for an additional 6 percent rate increase. The bulk of the SRR increase goes to support the State Preschool and General Child Care programs. The new rate for a full-day, center-based State Preschool slot is $11,433 per year, whereas the

Figure 5

Child Care and Preschool Budget

(Dollars in Millions)

	2015-16 Revised	2016-17 Revised[a]	2017-18 Enacted	Change From 2016-17	
				Amount	Percent
Expenditures					
CalWORKs Child Care					
Stage 1	$334	$418	$361	-$57	-14%
Stage 2[b]	419	445	519	74	17
Stage 3	257	284	306	21	8
Subtotals	($1,010)	($1,147)	($1,185)	($38)	(3%)
Non-CalWORKs Child Care					
General Child Care[c]	$305	$308	$360	$52	17%
Alternative Payment Program	251	283	292	10	3
Migrant Child Care	29	31	35	4	12
Bridge program for foster children	—	—	19	19	—
Care for Children With Severe Disabilities	2	2	2	—[d]	12
Infant and Toddler QRIS Grant (one time)	4	—	—	—	—
Subtotals	($611)	($623)	($708)	($85)	(14%)
Preschool Programs[e]					
State Preschool—part day[f]	$425	$447	$503	$55	12%
State Preschool—full day	555	627	738	111	18
Transitional Kindergarten[g]	691	739	755	17	2
Preschool QRIS Grant	50	50	50	—	—
Subtotals	($1,721)	($1,863)	($2,046)	($183)	(10%)
Support Programs	$76	$89	$93	$4	4%
Totals	**$3,418**	**$3,722**	**$4,032**	**$310**	**8%**
Funding					
Proposition 98 General Fund	$1,576	$1,713	$1,878	$164	10%
Non-Proposition 98 General Fund	885	984	1,088	104	11
Federal CCDF	573	639	635	-4	-1
Federal TANF	385	385	427	42	11
Federal Title IV-E	—	—	4	4	—

[a] Reflects Department of Social Services' revised Stage 1 estimates. Reflects budget act appropriation for all other programs with adjustment for section letters. Specifically, reflects midyear $15.9 million fund shift from General Child Care and CalWORKs Stage 3 into the Alternative Payment Program.

[b] Does not include $9.2 million provided to community colleges for certain child care services.

[c] General Child Care funding for State Preschool wraparound care shown in State Preschool–full day.

[d] Less than $500,000.

[e] Some CalWORKs and non-CalWORKs child care providers use their funding to offer preschool.

[f] Includes $1.6 million each year used for a family literacy program at certain State Preschool programs.

[g] Reflects preliminary LAO estimates for 2016-17 and 2017-18.

QRIS = Quality Rating and Improvement System; CCDF = Child Care and Development Fund; and TANF = Temporary Assistance for Needy Families.

new rate for a full-day, center-based General Child Care slot for a preschool-aged child is $11,360 per year. The 11 percent rate increase applies to centers, family child care homes, and all age groups.

Increases Regional Market Rate (RMR) for Many Voucher Providers. The state also funds child care through the California Work Opportunity and Responsibility to Kids (CalWORKs) and Alternative Payment programs, which operate using a voucher system based on the RMR. The state conducts surveys of regional market costs for child care every two years and typically sets the RMR such that families in every county can use their vouchers to access a certain percentage of child care providers in their areas. Beginning January 1, 2017, the state increased the reimbursement rates for providers from rates based on a mix of data from the 2005 and 2009 surveys to the 75th percentile of the 2014 survey, ensuring subsidized families could access three-fourths of the child care providers in their areas. Beginning January 1, 2018, the rates are set to increase to the

Figure 6

2017-18 Child Care and Preschool Changes

(In Millions)

Change	General Fund: Prop. 98	General Fund: Non-Prop. 98	Federal Funds	Total
Reimbursement Rates				
Increases SRR 6 percent starting July 1, 2017	$61	$32	—	$93
Increases SRR to cover cost of rate increase adopted in 2016-17	44	24	—	68
Annualizes RMR increase initiated January 1, 2017	—	45	$12	57
Increases RMR to the 75th percentile of the 2016 regional market survey starting January 1, 2018[a]	—	32	8	41
Annualizes 5 percent license-exempt rate increase initiated January 1, 2017	—	9	2	11
Subtotals	($104)	($143)	($22)	($269)
Slots				
Annualizes State Preschool slots initiated April 1, 2017	$24	—	—	$24
Creates Emergency Child Care Bridge Program for Foster Children	—	$15	$4	19
Provides 2,959 full-day State Preschool slots at LEAs starting April 1, 2018	8	—	—	8
Subtotals	($31)	($15)	($4)	($51)
Caseload and Cost of Care				
Makes changes to eligibility and family reporting requirements	—	$25	—	$25
Adjusts Transitional Kindergarten for changes in attendance and LCFF	$17	—	—	17
Provides 1.56 percent COLA to certain child care and preschool programs	16	$13	—	29
Makes statutory adjustment to non-CalWORKs slots[b]	-4	-3	—	-7
Makes CalWORKs caseload and average cost of care adjustments	—	24	-$100	-76
Subtotals	($29)	($59)	(-$100)	(-$12)
Other Adjustments				
Increases funding for quality improvement activities	—	—	$9	$9
Funds YMCA of West San Gabriel Valley facility	—	$2	—	2
Replaces state funds with federal funds	—	-113	113	—
Removes one-time funding from prior year	—	-1	-6	-7
Subtotals	(—)	(-$113)	($116)	($3)
Totals	**$164**	**$104**	**$42**	**$310**

[a] Includes a temporary hold harmless provision so that no provider receives less in 2017-18 than it received in 2016-17.

[b] Reflects 0.4 percent decrease in the birth-through-four population.

SRR = Standard Reimbursement Rate; RMR = Regional Market Rate; LEA = local education agency; LCFF = Local Control Funding Formula; and COLA = cost-of-living adjustment.

75th percentile of the 2016 survey. Both of these rate increases were accompanied by temporary hold harmless provisions giving providers the higher of the new or old rates. Trailer legislation (Chapter 15) specifies that after December 31, 2018, all rates be set at the 75th percentile of the 2016 survey. The 2017-18 budget provides $57 million to fund the RMR rate increases initiated January 1, 2017 and $41 million for the RMR increases starting January 1, 2018.

Slots

Funds Additional State Preschool Slots. The budget provides $24 million to annualize the cost of 2,959 preschool slots added April 1, 2017. The budget also provides $8 million for 2,959 new full-day State Preschool slots at local education agencies (LEAs) starting April 1, 2018. This slot increase represents the second of three equal batches of State Preschool slots that the Legislature and the Governor agreed to add as part of the 2016-17 multiyear budget agreement.

Establishes Emergency Child Care Bridge Program for Foster Children. The budget provides $19 million ($15 million non-Proposition 98 General Fund and $4 million federal funds) to establish the Emergency Child Care Bridge Program for Foster Children, beginning January 1, 2018. This program will be jointly administered by the Department of Social Services (DSS) and county welfare departments. The program's overarching intent is to allow foster families to access immediate child care slots until ongoing slots become available in the regular subsidized child care system. On an ongoing annual basis, the program is to receive $38 million for three related purposes:

- Fund emergency child care vouchers lasting up to one year for participating foster families.
- Support additional staff at Resource and Referral (R&Rs) agencies. The additional staff are to help foster families access services on an ongoing basis through the state's regular subsidized child care programs.
- Fund R&Rs to offer training to child care providers on how best to serve the unique needs of foster children.

Trailer legislation (Chapter 24) does not specify how funds will be allocated across these three purposes or across counties. Participation in the program is optional at the county level.

Makes Changes to Eligibility Criteria and Family Reporting Requirements. The budget includes $25 million reflecting the combined effect of increasing the eligibility thresholds and changing reporting requirements for families. Currently, to be eligible for care, parents must be working or in school and earn below 70 percent of the State Median Income (SMI) as calculated in 2007-08. This threshold equates to $42,216 for a family of three. The budget package updates to using the most recent SMI as well as establishes different entry and exit eligibility thresholds. Families would be eligible to enter the program if they have below 70 percent of the 2015 SMI ($52,076 for a family of three) and continue receiving assistance as long as their income is below 85 percent of SMI ($63,235 for a family of three). This change increases the number of CalWORKs Stage 2 and Stage 3 slots. This is because some families that otherwise would have stopped receiving subsidized child care due to increases in their income will continue to be served. In addition to expanding income eligibility, the budget package allows families to report information necessary for determining eligibility only once a year unless changes in income make them ineligible. Under the new policy, families will not be required to report any changes in hours at work or in school between the annual eligibility determinations. Previously, families were required to report any change in income or work hours—even if the change did not affect their eligibility for care—within five days or lose their subsidy. This reporting change has the effect of increasing CalWORKs child care costs, as families with reduced work hours may access longer hours of care. (In the non-CalWORKs programs, which are capped, increasing the eligibility thresholds and changing reporting requirements have the effect of lengthening the time that some families receive care while increasing the number of other families that are waiting to receive care.)

Other Budget Actions

Makes Adjustments to CalWORKs Child Care. The budget adjusts CalWORKs child care down by $76 million compared to the revised 2016-17 level due to changes in caseload and the underlying cost of care. (Changes in the types of care families use affect the average cost of care, independent from the rate increases described above.) The bulk of the year-over-year decrease ($63 million) is due to changes in cost of care relative to 2016-17 budget estimates. The reduction results from lower average cost of care in Stage 1 and Stage 3, offset by a slight increase to average cost of care in Stage 2. The remaining year-over-year decrease ($13 million) is due to caseload changes. Specifically, Stage 1 and Stage 3 drop by a combined 3,048 cases, offset partly by an increase of 1,830 Stage 2 cases.

Makes Statutory Adjustments to Non-CalWORKs Child Care and Preschool Programs. The budget provides $29 million to fund a 1.56 percent cost-of-living adjustment (COLA) for non-CalWORKs child care programs and the State Preschool program. For the programs that receive the SRR, the COLA augments the rate that providers receive. In the Alternative Payment program, however, the COLA goes to create extra child care slots. The budget also makes a $7 million downward adjustment to these programs reflecting an estimated 0.4 percent decrease in the birth-through-four population in California.

Augments Transitional Kindergarten (TK). The budget adds $17 million for TK, reflecting a 2.7 percent increase funding from the Local Control Funding Formula, offset by a slight expected decrease in TK average daily attendance.

Swaps State With Federal Funds. The state receives federal funding for child care and preschool through the Temporary Assistance for Needy Families (TANF) program and the Child Care and Development Fund (CCDF). The budget allocates an additional net $113 million from these sources in 2017-18, offsetting a like amount of state General Fund expenditures. The change is due to a $120 million increase in TANF funds for the CalWORKs Stage 2 program offset by a $7 million decrease in available CCDF funds. The additional TANF funds are due to lower overall CalWORKs costs coupled with more realignment-related funding for CalWORKs. Both factors work to free up TANF funds for CalWORKs Stage 2 costs.

Policy Changes

Changes Licensing Requirements for State Preschool Programs Run by LEAs. Currently, all State Preschool programs are required to be licensed. To be licensed, providers must meet certain health and safety standards, referred to as Title 22 standards, which are established by DSS. State Preschool programs also are required to meet various other health, safety, and programmatic standards, referred to as Title 5 standards, which are established by the California Department of Education (CDE). Trailer legislation (Chapter 15) exempts State Preschool programs run by LEAs from Title 22 licensing standards beginning July 1, 2019. It also requires our office to convene a workgroup to discuss what Title 22 standards should be added to Title 5 to ensure LEAs continue to meet essential health and safety standards.

Allows Part-Day State Preschool Programs to Serve Children With Special Needs Over Income Threshold. Chapter 15 allows part-day State Preschool programs to serve children with special needs who do not meet the income-eligibility criteria as long as all eligible and interested children are served first. Under current law, part-day State Preschool programs are allowed to fill up to 10 percent of their slots with children from families with incomes up to 15 percent over the income-eligibility limit. Pursuant to Chapter 15, children with special needs from families above the income threshold would not count toward this existing limit.

Aligns the State Definition of Homelessness With the Federal Definition. Currently, children can be deemed eligible for subsidized child care if they are homeless and a parent needs to access child care while looking for permanent housing. Chapter 15 changes the definition of homelessness so that it is the same as the definition used for the federal McKinney-Vento Homeless Assistance Act. This change expands the definition of homelessness to include children who are temporarily staying with other people due to loss of housing as well as children who are sleeping in a shelter, in transitional housing, or places not designed as sleeping accommodations.

Allows Providers to Accept Electronic Applications for Child Care. Chapter 15 allows providers to accept electronic applications and signatures from families applying for subsidized child care or State Preschool. Previously, providers were required to collect paper applications with handwritten signatures.

HIGHER EDUCATION

In this section, we discuss notable budget changes for the California State University (CSU), University of California (UC), Hastings College of the Law (Hastings), California Student Aid Commission, and the California State Library.

California State University

Total Core Funding of $6.9 Billion in 2017-18. As Figure 7 shows, $3.7 billion (54 percent) is state General Fund, $3.1 billion (45 percent) is student tuition and fee revenue, and $55 million (0.8 percent) is lottery funding. Total core funding increases by $307 million (4.7 percent) over 2016-17.

Provides $243 Million (7 Percent) Ongoing General Fund Base Increase. As Figure 8 shows, $157 million is an unrestricted base augmentation, which CSU intends to use primarily to cover costs of collective bargaining agreements ratified by the CSU Board of Trustees in spring 2016. In addition, the budget designates a total of $85 million for the

Figure 7

California State University Core Funding by Source

(Dollars in Millions)

	2015-16 Actual	2016-17 Revised	2017-18 Enacted	Change From 2016-17 Amount	Change From 2016-17 Percent
General Fund					
Ongoing[a]	$3,271	$3,479	$3,722	$243	7.0%
One time	5	110	23	-87	-79.0
Subtotals	($3,276)	($3,589)	($3,745)	($156)	(4.3%)
Tuition and fees[b]	$3,022	$2,963	$3,115	$151	5.1%
Lottery	58	55	55	—	—
Totals	**$6,357**	**$6,607**	**$6,914**	**$307**	**4.7%**

[a] Includes funds for pensions and retiree health benefits.
[b] Includes funds that CSU uses to provide tuition discounts and waivers to certain students. In 2017-18, CSU plans to provide $704 million in such aid.

following augmentations: (1) $39 million for increased pension costs, (2) $21 million for higher retiree health care costs, (3) $20 million to serve 2,487 (0.7 percent) more resident FTE students in 2017-18 compared with 2016-17, and (4) $5 million for higher lease-revenue debt service for previously approved capital projects. The budget also provides CSU with $2 million ongoing from the State Transportation Fund for transportation research, pursuant to Chapter 5 of 2017 (SB 1, Beall).

Figure 8

2017-18 California State University General Fund Changes

(In Millions)

2016-17 Revised Spending	**$3,588.5**
Ongoing Augentations	
Unrestricted base increases:	
Funding per Governor's original long-term plan	$131.2
Redirected savings from Middle Class Scholarship modifications	26.0
Subtotal	($157.2)
Restricted base increase:	
Pension adjustment	$39.3
Retiree health benefits adjustment	21.0
Enrollment growth	20.0
Lease-revenue bond debt service adjustment	5.1
Subtotal	($85.4)
One-Time Initatives	
Graduation Initiative	$12.5
Palm Desert center	3.0
Hunger-free campus program	2.5
California Dream Loan Program	2.0
Equal employment opportunity programs	2.0
Open educational resources[a]	1.0
Subtotal	($23.0)
Remove one-time funding provided in prior year	-$87.0
Other adjustments	-22.6
Total Changes	**$156.1**
2017-18 Enacted Spending	**$3,744.6**

[a] Funding authorized pursuant to Chapter 633 of 2015 (AB 798, Bonilla).

Designates $23 Million General Fund for One-Time Initiatives. The budget also funds CSU for various one-time initiatives: (1) $12.5 million for CSU's Graduation Initiative; (2) $3 million for CSU San Bernardino's Palm Desert satellite campus to expand student outreach and faculty resources; (3) $2.5 million for campuses to address student hunger; (4) $2 million for campuses to create or expand equal employment opportunity programs, which represents the second consecutive year of funding; and (5) $1 million for open educational resources (a project previously authorized but receiving funding over multiple years). In addition, Chapter 254 amended the budget act to provide $2 million to augment funding for a CSU loan program for certain undocumented students.

Authorizes CSU to Fund 27 Capital Outlay Projects. The state authorizes CSU to undertake 27 projects totaling $1.6 billion. CSU indicates that it plans to fund 12 of these projects in the budget year using $1 billion in university revenue bonds. The associated annual debt service is estimated to be about $50 million. CSU indicates it will support this debt service using existing funds. This is possible because CSU freed up a like amount of monies from expiring debt on other projects as well as restructuring outstanding State Public Works Board debt.

Higher Tuition to Go Into Effect in Fall 2017. In March 2017, the CSU Board of Trustees adopted the following systemwide tuition levels for 2017-18: (1) $5,742 for resident undergraduate students, a $270 (4.9 percent) increase; (2) $6,660 for credential programs, a $312 (4.9 percent) increase; (3) $7,176 for graduate (master's level) programs, a $438 (6.5 percent) increase; and (4) $11,880 undergraduate nonresident supplemental tuition, a $720 (6.5 percent) increase. In addition, tuition for each of CSU's doctoral programs increases by 6.5 percent. CSU expects to collect an estimated $151 million in additional gross revenue ($109 million in net revenue) resulting from the tuition increases and enrollment growth. CSU intends to use $75 million of the increase for the Graduation Initiative, with the remainder used for various other operational purposes.

Requires CSU Trustees to Submit Report and Approve New Policies. The budget package requires the CSU Board of Trustees to report in the budget year on plans to (1) reduce excess course-taking by students; (2) change assessment and placement practices; and (3) enact policies that give first priority for impacted programs to local students, as well as automatically redirect admissions applications of students who are denied admission to an impacted program.

University of California

Total Core Funding of $8.5 Billion in 2017-18. As Figure 9 shows, $3.5 billion (42 percent) is state General Fund, $4.6 billion (54 percent) is student tuition and fees, and $396 million (4 percent) is from other revenue sources (such as lottery funds and indirect cost recovery on federal and state research grants) that UC allocates for its education programs. Total core funding increases $284 million (3.4 percent) over 2016-17.

Provides $131 Million (4 Percent) General Fund/Proposition 56 Base Increase. As Figure 10 shows, the budget provides UC $81 million in new unrestricted General Fund support. The remaining $50 million base increase is associated with a Proposition 56 (2016) implementation decision. Specifically, the budget package provides $50 million in Proposition 56 funding (including $10 million carried over from 2016-17) for graduate medical education at UC, freeing up $50 million in General Fund formerly dedicated for that purpose. The shift would change the mix of funding but not the total funding level for graduate medical education. The shift would result in unrestricted General Fund support increasing a total of $131 million.

Sets Expectations on Receiving $50 Million. The 2017-18 budget conditions $50 million of the base increase on UC meeting numerous expectations. Many of these expectations pertain to implementing recommendations made by the State Auditor in an April 2017 report. The audit report recommends that the UC Office of the President (UCOP) implement certain improvements relating to budgeting, transparency, and accountability by April 2018. The remaining budget expectations attached to the $50 million increase are enrolling at least one new transfer student for every two new freshmen, completing activity-based costing pilot programs at three campuses, adopting a policy that prohibits UC from making supplemental

Figure 9

University of California Core Funding by Source

(Dollars in Millions)

	2015-16 Actual	2016-17 Revised	2017-18 Enacted	Change Over 2016-17 Level	Change Over 2016-17 Percent
General Fund					
Ongoing	$3,135	$3,279	$3,367	$88	2.7%
One time	124	262	177	-85	-32.5
Subtotals	($3,259)	($3,541)	($3,544)	($3)	(0.1)
Tuition and fees[a]	$4,087	$4,393	$4,623	$229	5.2%
Other core funds	318	309	360[b]	51	16.6
Lottery	38	36	36	—	—
Totals	**$7,665**	**$8,243**	**$8,527**	**$284**	**3.4%**

[a] Includes funds that UC uses to provide tuition discounts and waivers to certain students. In 2017-18, UC plans to provide $1 billion in such aid.

[b] Includes $50 million in Proposition 56 funding designated for graduate medical education.

retirement payments for any newly hired senior managers, and disclosing more UCOP fiscal and program information. The Department of Finance is to release the $50 million if UC provides sufficient evidence by May 1, 2018 that it made a good faith effort to satisfy all of these expectations.

Creates New Line Item for UCOP in State Budget. The state budget itemizes funding for UCOP, implementing one of the recommendations from the April 2017 audit report. Specifically, the budget earmarks $349 million General Fund for the office. This amount is an estimate of what UCOP would raise if it continued its recent practice of charging each campus an "assessment" to reimburse a portion of its costs. (The amount includes $52 million for UCPath, UC's new payroll system.) The state budget includes provisional language prohibiting UCOP from charging this assessment in 2017-18 and requiring UCOP to certify that overall campus revenue will be greater in 2017-18 than the prior year. The line item reflects less than half of UCOP's total budget, which is comprised of numerous other restricted and unrestricted revenue sources. Accounting for all funding, the budget for UCOP's administration and systemwide programs is $798 million in 2017-18.

Figure 10

2017-18 University of California General Fund Changes

(In Millions)

2016-17 Revised Spending	**$3,540.6**
Ongoing Augmentations	
Unrestricted base increase[a]	$81.2
Graduate student enrollment growth	5.0
San Joaquin Valley PRIME program[b]	1.9
Summer Institute for Emerging Managers and Leaders	0.3
Subtotal	($88.4)
One-Time Initiatives	
Pension liabilities	$169.0
Hunger-free campus program	2.5
Marine mammal rescue	2.1
Equal employment opportunity programs	2.0
California Dream Loan Program	1.0
Remove one-time funding provided in prior year	-261.6
Subtotal	(-$85.0)
Totals	**$3.4**
2017-18 Enacted Spending	**$3,544.0**

[a] Does not include additional $50 million in freed-up General Fund due to providing $50 million in Proposition 56 funds for graduate medical education.

[b] The original $1.9 million appropriation in the revised 2015-16 budget (pursuant to Chapter 2 of 2016, AB 133, Committee on Budget) was unspent and carried forward to 2016-17. The 2017-18 budget resumes base funding for the program.

PRIME = Program in Medical Education.

Sets Undergraduate and Graduate Enrollment Expectations. Regarding undergraduate enrollment, the budget expects UC to enroll 1,500 more students in 2018-19 over the 2017-18 level and to enroll at least one new transfer student for every two new freshmen. That is, the budget expects at least 500 of the 1,500 additional undergraduate students to be new transfer students. The budget does not designate funding this year to support 2018-19 enrollment growth but indicates that the state and UC are to share the associated cost in 2018-19. To cover UC's share of the 2018-19 cost, the budget expects UC to identify options for redirecting funds from UCOP's existing programs. To this end, UC is to consult with the Legislature and Department of Finance and submit redirection options by December 1, 2017. Regarding graduate enrollment, the budget provides $5 million for UC to enroll 500 more resident graduate students in 2017-18 over the 2016-17 level.

Authorizes UC to Undertake Seven New Capital Outlay Projects Totaling $111 Million in State Funding. Six of these projects (totaling $61 million in state funding) would correct seismic and life-safety deficiencies for specific academic building at the Los Angeles, San Francisco, and Berkeley campuses. The other project (associated with $50 million in state funding) is to construct a new science building at the Irvine campus. UC estimates the annual debt service for these projects to be $7.2 million. To finance these projects, UC will sell university bonds and then pay the associated debt service using its main state General Fund appropriation.

Authorizes Additional $50 Million for Deferred Maintenance. In addition to these seven projects, the administration authorizes UC to use $50 million in university bond funding for other facility efforts. Of the $50 million, $15 million would fund a team of experts to visit each campus and assess the current condition of academic facilities. The remaining $35 million would fund deferred maintenance projects. UC estimates the annual debt service for these projects to be $4.2 million. In an associated action, corresponding trailer legislation (Chapter 23) adds deferred maintenance to the list of allowable types of state-supported capital outlay projects.

Provides $177 Million for One-Time Initiatives. The bulk of this funding—$169 million—is to help address unfunded liabilities for UC's Retirement Plan. It reflects the third consecutive year of such payments. As with the previous two payments, the $169 million is scored as a Proposition 2 (2014) debt payment. The budget also provides one-time funding for four other purposes: (1) $2.5 million for campuses to address student hunger; (2) $2.1 million for a grant program at the Davis campus to assist marine mammal rescues, representing the third consecutive year of funding; (3) $2 million for equal employment best practices, representing the second consecutive year of funding; and (4) $1 million one time for the California Dream Loan Program, pursuant to Chapter 254.

Several Other Notable Augmentations. The budget includes various other General Fund, special fund, and policy adjustments affecting UC. Specifically, it includes two other notable General Fund adjustments: (1) $10 million one time (budgeted in the Office of Planning and Research) for precision medicine, reflecting the third year of funding; and (2) $300,000 ongoing for a summer business leadership seminar for undergraduate students from Historically Black Colleges and Universities and Hispanic-Serving Institutions. In addition, the budget makes three notable special fund augmentations: (1) $82 million (including $18 million carried over from 2016-17) in Proposition 56 funding for tobacco-related disease research; (2) pursuant to Chapter 249, $11 million one time (budgeted in the Office of Planning and Research) from the Greenhouse Gas Reduction Fund for research on reducing carbon emissions; and (3) $5 million from the State Transportation Fund for transportation research pursuant to Chapter 5.

UC Approved Student Tuition and Fee Increases. In January 2017, the UC Board of Regents approved tuition and fee increases. Specifically, for the 2017-18 academic year, it raised systemwide tuition to $11,502, a $282 (2.5 percent) increase; it raised the Student Services Fee to $1,128, a $54 (5 percent) increase; and it raised undergraduate nonresident supplemental tuition to $28,014, a $1,332 (5 percent) increase. In addition, the board increased supplemental tuition for several professional degree programs, including business, medicine, and nursing programs. For affected professional programs, increases ranged from $150 (1.9 percent) to $2,124 (5 percent). The board also began applying a supplemental tuition charge of $6,000 to two existing graduate programs (an engineering program at Berkeley and an urban planning program at Irvine), resulting in a $6,336 (52 percent) increase in total tuition and fees for resident students in those programs. UC expects to collect an estimated $229 million in additional gross revenue ($194 million in net revenue) resulting from the tuition increases and enrollment growth.

Hastings College of the Law

Total Core Funding of $56 Million in 2017-18. Of this amount, $41 million (74 percent) is gross tuition and fee revenue, $13 million (23 percent) is state General Fund, and $1.6 million (3 percent) is other funding, such as investment income, that the college allocates for its education programs. (The General Fund amount does not include debt service for general obligation bonds, which is estimated to be $1 million in 2017-18.) Though the 2017-18 budget provides the law school a $1.1 million (9.2 percent) unrestricted General Fund base increase, the increase is offset by a $2.6 million decline in other core funding. After accounting for all changes, core funding decreases $1.4 million (2.5 percent) over 2016-17.

Core Spending of $64 Million. Of this amount, $22 million (35 percent) is for instruction-related expenses, such as faculty salaries and benefits; $19 million (30 percent) is for tuition discounts to students; $12 million (19 percent) is for administration and executive management; and the remaining $10 million (16 percent) is for Hastings' other operating costs. Hastings' budget continues an initiative begun in 2015-16 to offer larger tuition discounts in an effort to attract additional higher-performing students. Hastings' tuition discounts are budgeted to increase by $2.9 million (17.9 percent) over 2016-17. This increase is largely offset by operational and other savings identified by the college, with overall core spending expected to increase $431,000 (0.7 percent) from the 2016-17 level.

Resulting Deficit of $8 Million. Due largely to the school's decision to increase spending on tuition discounts, Hastings has incurred operating deficits in recent years. The school anticipates running an $8.3 million deficit in 2017-18, a $1.9 million increase over the estimated deficit in the 2016-17. Hastings plans to fund this deficit by drawing down its reserve. The school projects it will end 2017-18 with a reserve of $10 million, a significant drop compared to its reserve of $26 million at the end of 2014-15.

Student Financial Aid

Provides $2.3 Billion for Student Financial Aid in 2017-18. As Figure 11 shows (see next page), $1.2 billion (53 percent) is state General Fund, $1.0 billion (46 percent) is federal Temporary Assistance for Needy Families (TANF) funding, and $23 million (1 percent) is state special funds and reimbursements. Financial aid spending from these sources increases a net of $143 million (7 percent) from the revised 2016-17 level. Ongoing spending increases $144 million and one-time spending increases $546,000. These increases are offset by $2.3 million in reductions to state operations due to backing out prior-year one-time funding. Year over year, General Fund support increases by $25 million whereas TANF support increases by $118 million.

Covers Higher Cal Grant Costs. The budget increases Cal Grant funding by a total of $125 million in 2017-18. Three factors comprise this increase. Updated Cal Grant participation estimates account for $74 million of the increase. Participation is expected to increase 6 percent in 2017-18 over 2016-17. Another $49 million reflects higher Cal Grant costs for students attending CSU ($28 million) and UC ($21 million). These changes conform to CSU's and UC's scheduled tuition increases (5 percent and 2.5 percent, respectively). Lastly, $1.7 million reflects a doubling of the Cal Grant C book and supply award for CCC students. The financial aid budget also includes $5.6 million from the College Access Tax Credit Fund. These monies provide a $2 increase to the Cal Grant B access award, raising this piece of the award to $24. This amount supplements the base Cal Grant B award of $1,648, bringing the total Cal Grant B access award to $1,672.

Maintains Private, Nonprofit Cal Grant Award Amount, Adds Reporting Requirement. The 2012-13 budget amended state law to lower Cal Grant A and B awards for students attending private, nonprofit institutions from $9,084 to $8,056 starting in 2014-15. Subsequent budget actions have postponed the scheduled reduction. Trailer legislation (Chapter 23) again postpones the reduction for one additional year. Chapter 23, however, adds intent language that private, nonprofit colleges and universities participating

Figure 11

California Student Aid Commission Budget

(Dollars in Millions)

	2015-16 Actual	2016-17 Revised	2017-18 Enacted	Change From 2016-17 Amount	Change From 2016-17 Percent
Expenditures					
Local Assistance					
Cal Grants	$1,861	$1,986	$2,111	$125	6%
Middle Class Scholarships	44	74	96	22	30
Assumption Program of Loans for Education	14	10	7	-3	-27
Chafee Foster Youth Program	11	14	14	—	—
Student Opportunity and Access Program	8	8	8	—	—
National Guard Education Assistance Awards	2	2	2	—	—
Other programs[a]	1	1	1	—[b]	-7
Subtotals	($1,941)	($2,095)	($2,240)	($144)	(7%)
State Operations	$14	$17	$15	-$2	-11%
Totals	**$1,955**	**$2,112**	**$2,255**	**$143**	**7%**
Funding					
General Fund	$1,419	$1,163	$1,188	$25	2%
Federal TANF	521	926	1,043	118	13
Other[c]	16	23	23	—[b]	—[b]

[a] Includes Cash for College, Child Development Teacher and Supervisor Grants, Graduate Assumption Program of Loans for Education, John R. Justice Program, Law Enforcement Personnel Dependents Scholarships, and State Nursing Assumption Program of Loans for Education for Nursing Faculty.

[b] Less than $500,000 or 0.5 percent.

[c] Includes College Access Tax Credit Fund, Student Loan Authority Fund, and other federal funds.

TANF = Temporary Assistance for Needy Families.

in the Cal Grant program make a good faith effort to enroll more low-income students, enroll more transfer students, and offer more online courses. Chapter 23 requires these institutions to report on progress towards meeting these goals by March 15 of each year.

Maintains Middle Class Scholarship. The state first funded the Middle Class Scholarship program in 2014-15. The program provides partial tuition coverage for students who do not qualify for Cal Grants but have household incomes and assets each under $156,000. The program was designed to be phased in over four years, with award amounts gradually increasing over the period. Trailer legislation (Chapter 250) includes $96 million for full implementation of the program, up from $74 million in 2016-17.

Funds College Savings Program. The budget provides $3 million one-time funding to the ScholarShare Investment Board to implement a new college savings program. Trailer legislation (Chapter 250) requires the board to consider options for encouraging low-income families to participate in the program, including automatically enrolling students in the program through partnerships with school districts, nonprofits, and other entities.

Makes Various Other Changes and Adjustments. The budget package also:

- Includes $546,000 one-time funding for the California Student Aid Commission (CSAC) to continue working on replacing its online grant delivery system. Of the proposed $546,000, $296,000 is to allow CSAC to continue contracting with an external project management team and $250,000 is for required contracting with the Department of Technology.

- Contains small adjustments in participation and award amounts to several financial aid programs, including the Assumption Program of Loans for Education, the State Nursing Assumption Program of Loans for Education, the Child Development Teacher and Supervisor Grant Program, the John R. Justice Loan Assumption Program, and the Law Enforcement Personnel Dependent Grant Program. The budget decreases by a total of $3 million due to these adjustments.

California State Library

Total State Library Funding of $55 Million. Of this amount, $34 million (almost two-thirds) is state General Fund, $18 million is federal funds, and $2.5 million is special funds. Of state General Fund, $16.9 million is for assistance to local libraries and $17.5 million is for state operations and facilities. The budget includes $6.5 million in new General Fund spending—$6 million for local library assistance and $541,000 for state operations. This spending increase is offset by $5.4 million in various downward technical adjustments, resulting in a net year-to-year General Fund increase of $1.1 million (3 percent).

Funds Two One-Time Initiatives for Local Libraries. The entire $6 million increase in local library assistance is for one-time initiatives. Of the $6 million, $3 million is for grants to community groups and other organizations participating in the California Civil Liberties Public Education Program. The grants are to help groups develop education resources relating to the internment of Japanese Americans during World War II, with priority for projects that link this experience with other populations facing civil rights violations. The State Library may allocate these funds over the next three fiscal years. The state has provided one-time funding for these grants five times over the past ten years. The remaining $3 million is for local libraries to expand the Career Online High School program—a high school diploma program for adults that the state first funded with one-time monies in 2015-16. (As mentioned earlier, the budget also provides $3 million ongoing Proposition 98 funding for the State Librarian via Riverside County Office of Education to make online educational resources publicly available.)

Three Increases to State Operations. Of the $541,000 increase for state operations, $326,000 is ongoing and $215,000 is one time. Specifically, the budget provides $137,000 ongoing to fund an assistant bureau chief position in the State Library Services Bureau. The budget also provides $189,000 ongoing to cover subscription costs associated with the State Library's data management system. In addition, the budget provides $215,000 one time to upgrade the State Library's cataloging and search-engine functionalities.

HEALTH

Overview of Spending. The spending plan provides $21.7 billion General Fund for health programs. This is a relatively modest increase of about $200 million, or 1 percent, compared to the revised 2016-17 spending level, as shown in Figure 12 (see next page). This year-over-year net increase reflects a number of major actions and policy changes adopted by the Legislature as part of the 2017-18 spending plan, as shown in Figure 13 (see next page). These include, among others, (1) the creation of General Fund savings through the use of Proposition 56 (2016) resources to support some of the anticipated spending increases from year-over-year growth in the Medi-Cal program, (2) increased General Fund spending in the Children's Health Insurance Program (CHIP) due to an assumed loss of federal funding, (3) the restoration of previously eliminated adult dental

Figure 12

Major Health Programs and Departments—Spending Trends

General Fund (Dollars in Millions)

	2016-17	2017-18	Change From 2016-17 to 2017-18 Amount	Percent
Medi-Cal—local assistance	$18,940	$19,518	$577	3%
Department of State Hospitals	1,795	1,502	-293	-16
Department of Public Health	153	136	-17	-11
Other Department of Health Care Services (DHCS) programs	365	265	-100	-27
Office of Statewide Health Planning and Development	—	33	33	—[a]
Emergency Medical Services Authority	9	9	—	—
DHCS—state administration	207	210	3	1
Totals	**$21,469**	**$21,673**	**$204**	**1%**

[a] Infinite Increase.

benefits under Medi-Cal, and (4) savings generated in the Department of State Hospitals (DSH) due to the transfer of responsibility and funding for inpatient psychiatric programs from DSH to the California Department of Corrections and Rehabilitation (CDCR).

Department of Health Care Services (DHCS)—Medi-Cal

Overview. The spending plan provides $19.5 billion General Fund for Medi-Cal local assistance expenditures administered by DHCS.

Figure 13

Major Actions—State Health Programs

2017-18 General Fund Effect (In Millions)

Program	Amount
Medi-Cal—Department of Health Care Services	
Uses Proposition 56 monies to pay for year-over-year program growth	-$711.0
Assumes reduction in federal Children's Health Insurance Program funding	369.0[a]
Repeals scheduled transition of Newly Qualified Immigrants into Covered California	48.0
Restores full adult dental benefits	34.8
Funds CA-MMIS continuing operations and replacement	2.7
Establishes medically-tailored meals pilot program	2.0
Implements Palliative Care Program	1.3
Abolishes Major Medical Risk Insurance Fund	-47.0
Office of Statewide Health Planning and Development	
Maintains the expansion of residency programs for primary care physicians[b]	$33.3
Department of Public Health	
Provides one-time funding for operation of Parkinson's Disease Registry	$1.7
Department of State Hospitals	
Transfers inpatient psychiatric programs to CDCR	-$254.0
Expands incompetent-to-stand-trial treatment capacity	10.3
Activates additional beds at Metropolitan State Hospital	7.8

[a] Includes a small portion of special funds from the Perinatal Insurance Fund.

[b] The Legislature initially appropriated $100 million General Fund over three years, starting in 2016-17, for this program. The spending plan instead reflects the expenditure of these funds beginning in 2017-18. The Governor had proposed to repeal the full $100 million appropriation.

CA-MMIS = California Medicaid Management Information System and CDCR = California Department of Corrections and Rehabilitation.

This is an increase of $577 million, or 3 percent, compared to the revised 2016-17 spending level. Spending in 2016-17 was about $1.2 billion higher than the 2016-17 budget appropriation. The higher spending in 2016-17 compared to the appropriation is the net result of a variety of factors, including (1) a miscalculation of the costs and savings associated with the Coordinated Care Initiative (CCI) and (2) the unanticipated payment in 2016-17 of funds to the federal government for prescription drug rebates.

Medi-Cal General Fund spending between 2016-17 and 2017-18 would have grown at a higher rate if not for the availability of higher special fund revenues used to support the Medi-Cal program in 2017-18 compared to 2016-17. These special funds include revenues from the managed care organization tax, the hospital quality assurance fee, and Proposition 56. A portion of these higher revenues reflects the timing of payments, rather than an increase in ongoing revenues. We discuss some of the major policies that were adopted as part of the 2017-18 Medi-Cal budget below.

Proposition 56 Spending Package. Pursuant to the requirements of Proposition 56, a voter-approved initiative that raised state taxes on tobacco products, the spending plan allocates around $1.3 billion in Proposition 56 revenue to Medi-Cal in 2017-18. Of this amount, $546 million is dedicated to fund increases to provider payments, and the remaining $711 million will support anticipated spending increases from year-over-year growth in the Medi-Cal program. Figure 14 summarizes the Proposition 56 Medi-Cal spending package.

The plan for distributing the physician and dental services provider payment increases has been developed by DHCS and submitted for federal approval, which at the time of this publication remains pending. These payment increases will take the form of supplemental payments targeted toward certain provider types and certain physician and dental services.

We note that budget-related legislation stipulates that all increases to provider payments using Proposition 56 funding in 2018-19—that are intended to total up to $800 million—may be adjusted by the Department of Finance based on the state's fiscal condition.

Restores Full Adult Dental Benefits Beginning January 1, 2018. The spending plan restores full adult dental benefits in Medi-Cal beginning January 1, 2018—by restoring benefits (such as gum treatments and partial dentures) that had been eliminated—at a cost of $34.8 million General Fund ($73 million ongoing). (In 2013-14, some adult dental

Figure 14

Proposition 56 Medi-Cal Spending Plan

(In Millions)

	2017-18
Increases to provider payments	
Physician services[a]	$325
Dental services[a]	140
Women's health[b]	50
Intermediate Care Facilities for the Developmentally Disabled[b]	27
HIV/AIDS Waiver Program[b]	4
Subtotal	($546)
Revenue dedicated to fund growth in existing Medi-Cal program	$711
Total	**$1,257**

[a] Physician and dental services provider payments could be increased to up to about $720 million in 2018-19 (bringing total 2018-19 Proposition 56 funding for increased provider payments to $800 million). After 2018-19, physician and dental services provider payments will be reevaluated.

[b] Payment increases are intended to be ongoing.

benefits that had been eliminated, such as cleanings and fillings, were restored.) The spending plan also schedules the restoration of optical benefits in Medi-Cal beginning January 1, 2020, at an ongoing cost of $26.3 million General Fund. Both of these benefits are optional Medi-Cal benefits—meaning the state is not required to provide the benefit, but may do so with a federal financial participation, under federal Medicaid law—that were fully eliminated during the recession.

Repeals the Scheduled Transition of Newly Qualified Immigrants (NQIs) From Medi-Cal to Covered California. Legislation enacted in 2013 required that, in addition to conforming state law to several Patient Protection and Affordable Care Act (ACA) regulations, NQIs eligible for full-scope Medi-Cal as a result of the ACA optional expansion transition from the state-only Medi-Cal program into subsidized coverage through Covered California. (This transition had been delayed until January 1, 2018.) The spending plan reflects the Legislature's decision to no longer pursue the transition of all NQIs to Covered California, at a cost of $48 million General Fund in 2017-18 ($100 million ongoing).

Abolishes the Major Risk Medical Insurance Fund (MRMIF), While Continuing the Major Risk Medical Insurance Program (MRMIP). MRMIP, which was originally conceived as the state's high-risk pool, provides health insurance coverage to individuals who, prior to the ACA, could not obtain coverage or were charged unaffordable premiums in the individual health insurance market because of their preexisting conditions. MRMIF pays for any MRMIP costs in excess of what MRMIP enrollees pay in the form of premiums, deductibles, and copayments. As a result of the ACA's prohibition on health insurers denying coverage based on preexisting conditions, MRMIP enrollment has steadily declined in recent years. The spending plan abolishes the MRMIF and transfers its remaining fund balance and any ongoing revenue from the Managed Care Administrative Fines and Penalties Fund into a newly created Health Care Services Plans and Penalties Fund, also administered by DHCS. Once the Health Care Services Plans and Penalties Fund covers all estimated MRMIP expenses, the spending plan estimates a General Fund savings of $47 million in 2017-18 from using the fund's remaining balance and ongoing revenue to cover overall Medi-Cal expenses.

Assumes Reduction in Federal CHIP Funding. CHIP is a joint federal-state program that provides health insurance coverage to children in low-income families, but with incomes too high to qualify for Medicaid. Beginning in federal fiscal year (FFY) 2015-16, the ACA authorized an increased federal medical assistance percentage (FMAP)—or federal cost share—for CHIP through FFY 2018-19. (An FFY runs from October 1 through September 30.) Under the ACA, California's CHIP FMAP increased from 65 percent to 88 percent. The ability of California to draw down federal CHIP funds at this higher FMAP, however, is dependent on Congress' decision regarding the appropriation of funding for CHIP beyond FFY 2016-17, as Congress has only appropriated funding for CHIP through FFY 2016-17. The spending plan assumes CHIP funding is reauthorized in FFY 2017-18, but at a 65 percent FMAP in California instead of the 88 percent FMAP authorized by the ACA. At this lower FMAP, DHCS estimates the state will spend an additional $369 million (mostly General Fund) in 2017-18 (relative to what it would have spent at the ACA-enhanced FMAP of 88 percent).

Provides Funding for Continued Operation of Existing California Medicaid Management Information System (CA-MMIS) and for Early-Stage Development of a Replacement System. The spending plan provides $2.1 million General Fund to convert 21 limited-term positions to permanent positions for maintenance and operations for CA-MMIS, Medi-Cal's fee-for-service payment processing system. In addition, the spending plan provides $575,000 General Fund to support seven permanent positions at DHCS to begin early-stage development of a CA-MMIS replacement system. The spending plan also gives the administration increased expenditure authority of up to $2.5 million General Fund to implement the Advantage Collections Application module of the replacement project, which will assist Third Party Liability business processes within DHCS.

Behavioral Health

Revises State Policy Related to Reversion of Unused Local Mental Health Services Act (MHSA) Funding. The spending plan includes budget-related legislation revising the state's reversion policy for unused county MHSA funding. The MHSA, approved by voters in 2004, generally requires unused county MHSA funding to revert to the state after three years and be made available for use by other counties. To date, the state's MHSA reversion policy has not been enforced and counties have built up large balances of MHSA funding potentially subject to the state's reversion policy. The budget-related legislation would make a number of changes to the state's MHSA reversion policy. Among other changes, these include: (1) holding counties harmless for unused MHSA funds potentially subject to reversion for fiscal years prior to 2017-18, (2) requiring counties to submit a plan to spend down current balances of unused MHSA funds by July 1, 2020, (3) extending the reversion period from three years to five years for small counties, (4) requiring reverted funds to be reallocated to other counties for the same purposes for which they were originally allocated, and (5) resetting the reversion period start date for county innovation funding to the date that the state approves a county's innovation plan, rather than date in which the funds are allocated.

Department of Public Health (DPH)

The spending plan provides approximately $3.2 billion from all fund sources for DPH programs, up from about $2.9 billion in 2016-17 (a 10 percent increase). Under the budget plan, General Fund spending for DPH will decline from $153 million to $136 million, or by 11 percent. This year-over-year decrease in General Fund spending is largely the result of one-time spending augmentations in 2016-17 that are ending. In addition, $3.4 million in Proposition 56 revenues will offset General Fund spending in DPH's Oral Health Program. (The spending plan also reflects various funding and policy changes for DPH to implement regulations and issue manufacturer licenses under the state's medical and recreational marijuana laws, which we describe in the "Other Major Provisions" section of this report.)

Expenditure of Proposition 56 Revenues. The spending plan includes $226.1 million and 57 positions from Proposition 56 (tobacco tax) revenues to implement the provisions of Proposition 56 related to DPH programs, as follows:

- $181.1 million for the Tobacco Control Branch to fund media campaigns, provide grants to local health departments and other organizations, and conduct program evaluation in an effort to prevent and reduce tobacco use.
- $37.5 million for the Oral Health Program to develop a statewide infrastructure to promote oral health education and disease prevention and treatment.
- $7.5 million for tobacco law enforcement efforts, specifically DPH's Stop Tobacco Access to Kids Enforcement (STAKE) Program. Funding will enable DPH to double the number of annual retailer compliance checks (to 5,600) that it conducts to prevent tobacco sales to minors and establish a grant program and training program for local law enforcement agencies.

Office of AIDS. The spending plan reflects various policy changes and an increase of $5.2 million from federal funds and drug rebate funds for the Office of AIDS to: (1) improve client health outcomes by implementing standards of care at HIV Care Program providers and a Clinical Quality Management Program and (2) increase the number of enrollment workers and improve the enrollment process for Office of AIDS program participants. In addition, budget-related legislation clarifies eligibility for the HIV Pre-Exposure Prophylaxis Program (PReP)—a program to prevent HIV infections—to include those who are uninsured.

Department of State Hospitals (DSH)

Under the budget plan, General Fund spending for DSH will be about $1.5 billion in 2017-18, a decrease of $293 million, or 16 percent, from the revised 2016-17 level. The year-over-year net decrease is largely due to the transfer of responsibility and funding for inpatient psychiatric programs from DSH to CDCR. For more information on this transfer, please see the "Judiciary and Criminal Justice" section of this report.

Additional Incompetent- to-Stand-Trial (IST) Treatment Capacity. The budget provides a $10.3 million General Fund augmentation to expand IST patient treatment capacity. This includes (1) $7.2 million to activate a 60-bed Admission, Evaluation, and Stabilization (AES) Center in the Kern County jail and (2) $3.1 million to expand Jail-Based Competency Treatment (JBCT) programs to additional counties. In addition, the budget package includes budget trailer legislation to authorize DSH—rather than trial court judges—to place IST patients in the AES Center and JBCT programs.

Other Adjustments. The budget provides $7.8 million from the General Fund to activate additional beds at DSH-Metropolitan. In addition, the budget provides $5.7 million from the General Fund to construct a new courtyard at DSH-Coalinga, as well as reappropriates $11.5 million that was appropriated in prior years to renovate existing units at two DSH hospitals into Enhanced Treatment Units designed specifically for violent patients.

HUMAN SERVICES

Overview of Spending. The 2017-18 spending plan provides over $13 billion from the General Fund for human services programs. As shown in Figure 15, this is only $13 million more than revised estimates for these programs in 2016-17. This relatively flat year-over-year General Fund support for human services programs is largely the result of various fund shifts that have had the effect of reducing General Fund support for the programs in 2017-18 without reducing their overall funding levels. The General Fund savings achieved by these fund shifts is offset by increases in human services caseloads, costs per case, and targeted programmatic augmentations. Figure 16 (see page 42) shows the major policy changes adopted by the Legislature as part of the 2017-18 spending plan. These changes are discussed in more detail below.

California Work Opportunity and Responsibility to Kids (CalWORKs)

The spending plan provides a total of $5.2 billion from all funds to support the CalWORKs program in 2017-18, a decrease of $21 million (0.4 percent) relative to estimated spending in 2016-17. This small year-over-year decrease reflects the net effect of roughly $120 million in costs from new augmentations, an additional $120 million in costs from the full-year implementation of previously approved policy changes (primarily the repeal of the maximum family grant rule), and roughly $260 million in savings due to declining caseloads. Within the total funding amount, the spending plan provides $445 million from the General Fund to support

CalWORKs in 2017-18, a decrease of $284 million (39 percent) relative to 2016-17. This decrease largely reflects a funding shift as additional local funds from realignment are estimated to be available to offset General Fund costs. Major changes in CalWORKs funding and policy included in the 2017-18 spending plan are described in greater detail below.

Single Allocation Augmented Pending Revised Budgeting Methodology. The Governor's May Revision proposed a year-over-year reduction in 2017-18 of $245 million (13 percent) in county funding for CalWORKs administration and services—referred to as the "single allocation"—to reflect the declining number of families receiving assistance as the state's economy has improved. In response to concerns that this significant reduction would underfund county costs, the final spending plan provides an augmentation of $109 million for the single allocation above the Governor's May Revision, resulting in a smaller year-over-year net reduction of $136 million (7 percent) in 2017-18. Budget legislation additionally directs the development of a revised single allocation budgeting methodology.

Funding Provided for New Educational Incentives. The spending plan provides $4 million from all funds on a one-time basis in 2017-18 to provide educational incentive payments in the CalWORKs program. Budget legislation specifies that, beginning in January 2018, CalWORKs recipients may receive a one-time incentive award of $500 for completing a high school diploma or its equivalent. CalWORKs recipients enrolling in programs leading to a career technical education certificate, an associate's degree, or bachelor's degree may receive a one-time stipend of $1,000. Incentive payments will be limited to the amount appropriated in the budget, and funding for additional incentives in later years will be contingent on appropriations in future budgets.

Online CalWORKs Appraisal Tool (OCAT) to Be Integrated With County Case Management Systems. The OCAT is a standardized appraisal used by all counties to identify CalWORKs recipients' barriers to employment when they begin participating in employment services. The OCAT is currently not integrated with other county case management systems, which has led to duplicative data entry and limited how information from the

Figure 15

Major Human Services Programs and Departments—Spending Trends

General Fund (Dollars in Millions)

	2016-17	2017-18	Change From 2016-17 to 2017-18: Amount	Change From 2016-17 to 2017-18: Percent
SSI/SSP	$2,795.3	$2,890.8	$95.5	3.4%
Department of Developmental Services	4,032.3	4,207.8	175.5	4.4
CalWORKs	728.8	445.0	-283.8	-38.9
In-Home Supportive Services	3,506.2	3,476.4	-29.8	-0.9
County Administration/Automation	810.8	773.5	-37.3	-4.6
Department of Child Support Services	315.0	314.3	-0.7	-0.2
Department of Rehabilitation	62.6	62.8	0.2	0.4
Child welfare services[a]	335.4	433.9	98.5	29.4
Department of Aging	36.0	33.8	-2.1	-6.0
All other social services (including state support)	450.0	447.1	-2.9	-0.6
Totals	**$13,072.3**	**$13,085.5**	**$13.2**	**0.1%**

[a] This includes state funding for nonrealigned child welfare services, such as the Kinship Guardianship Assistance Payment Program, Approved Relative Caregiver Program, and funding for the Continuum of Care Reform efforts.

OCAT can be used for program administration. The spending plan includes $3.7 million from all funds in 2017-18 to begin the process of integrating OCAT with county case management systems over the next few years.

New Performance Measurement System Adopted. Budget legislation creates a new performance measurement system for CalWORKs, to be known as the CalWORKs Outcomes and Accountability Review (Cal-OAR). Pursuant to this legislation, performance indicators related to program goals will be developed and data on these performance indicators will be collected and published regularly. On a three-year cycle,

Figure 16

Major Actions—Human Services Programs

2017-18 General Fund Effect (In Millions)

Program	Amount
CalWORKs	
Augments county "single allocation" funding for services and administration	$108.9
Provides one-time funding for CalWORKs educational incentives	4.0
Integrates Online CalWORKs Appraisal Tool with county automation systems	3.7
Establishes CalWORKs Outcomes and Accountability Review system	0.6
Discontinues fingerprint imaging requirement[a]	—
In-Home Supportive Services (IHSS)	
Provides support to counties for their share of IHSS costs	400.0
Codifies existing IHSS overtime exemptions	3.1
Child Welfare Services	
Funds continuation of Child Welfare Services-New System IT project	25.6
Establishes Emergency Child Care Bridge Program	15.5
Converts Approved Relative Caregiver Progam into statewide entitlement program	4.1
Increases number of public health nurses who oversee foster youth's health care	3.8
Funds training to prevent unintended pregancies for foster youth	2.9
Creates psychotropic medication review program for foster youth	0.1
Immigration	
Expands Immigration Services Funding program	50.0
Food Assistance	
Augments funding for food banks through CalFood program[b]	8.0
Establishes drinking water pilot program	5.0
Other Department of Social Services	
Provides one-time disaster assistance related to Coyote Creek flooding	5.4
Provides one-time assistance for Poverello House social services agency	1.0
Developmental Services	
Covers lost federal funding for BHT for children without autism diagnosis	16.5
Provides one-time funding for Community Placement Plan program activities for DC movers	13.6
Provides one-time augmentation for development of safety net services and supports	7.5
Removes cap on respite services	5.6
Funds installation of a nitrate removal system at Porterville DC	3.7
Provides one-time augmentation for Best Buddies Program	1.6
Provides one-time funding for psychologist positions at RCs to provide BHT referrals	1.0
Increases departmental oversight of housing development projects	0.6

[a] Budget legislation discontinues the fingerprint imaging requirement no later than July 2018. The spending plan reflects no changes in funding related to this action in 2017-18.

[b] Previously known as the State Emergency Food Asssitance Program.

IT = information technology; BHT = Behavioral Health Treatment; DC = Developmental Center; and RC = Regional Center.

each county will use performance indicator data to (1) conduct a self-assessment to identify strengths and weaknesses in current practice and other factors that affect the county's performance, (2) develop a system improvement plan that describes actions the county will take to improve its performance relative to the indicators, and (3) provide annual progress reports to DSS on the implementation of the system improvement plan. Budget legislation requires the Cal-OAR to be established by July 2019, and directs DSS to convene a workgroup beginning in the fall of 2017 to develop plans for how Cal-OAR will operate. The spending plan includes $600,000 from all funds in 2017-18 to begin the development of Cal-OAR.

Fingerprint Imaging Requirement Discontinued. The state currently requires adults applying for CalWORKs to have their fingerprint images taken and matched against those of other applicants through the Statewide Fingerprint Imaging System (SFIS) in order to identify instances where individuals might receive assistance under more than one case at a time (referred to as "duplicate aid"). Budget legislation requires DSS, by November 2017, to provide options to the Legislature for implementing a new system of verifying the identity of CalWORKs applicants that is "non-biometric" (does not rely on the physical characteristics of applicants, such as fingerprints) as a way to detect potential duplicate aid. Pursuant to budget legislation, following the department's report, the Legislature would adopt a new system that would be implemented by April 2018, at which point the fingerprint imaging requirement and the state's operation of SFIS would be discontinued. In the event that a new identity verification system is not implemented by April 2018, the fingerprint imaging requirement and state's operation of SFIS could continue until no later than July 2018. Due to uncertainty about when the SFIS system would be decommissioned and the potential costs of an alternative identity verification system, the spending plan assumes costs from a full year of operating SFIS in 2017-18.

In-Home Supportive Services (IHSS)

The 2017-18 spending plan includes $3.5 billion General Fund for IHSS, similar to revised estimates of 2016-17 costs. The major changes to the IHSS program include the (1) establishment of a new IHSS state-county cost sharing structure and state-level collective bargaining appeals process, and (2) codification of existing IHSS overtime exemptions.

Changes to IHSS Cost Sharing Structure and Collective Bargaining Appeals Process. The budget includes a number of changes to the IHSS cost sharing arrangement between the state and counties, including shifting some costs from the state to counties, establishing a new county IHSS maintenance-of-effort (MOE), and providing some General Fund assistance to counties to meet the new MOE. In addition, trailer legislation allows counties and unions to appeal to the Public Employment Relations Board if they cannot reach a bargaining agreement, under certain conditions. For background on the IHSS cost-sharing structure and a discussion of the 2017-18 changes, see the "Action on the Coordinated Care Initiative" section.

Codification of Existing IHSS Overtime Exemptions. The 2017-18 budget provides $3 million General Fund for various changes to the IHSS overtime exemption policy. These changes include (1) codifying the existing IHSS overtime exemption policy, (2) removing a current time restriction on eligibility for one of the exemptions, (3) requiring a one-time notification to providers potentially eligible for each exemption, and (4) increasing the state's role in processing exemption requests. In addition, trailer bill legislation allows recipients who were denied a provider exemption to request a state hearing if the denial puts them at risk of losing services.

Child Welfare Services

Establishes Emergency Child Care Bridge Program. The spending plan provides half-year funding of $15.5 million General Fund to establish the Emergency Child Care Bridge Program. For greater detail on this program, please see the Child Care section earlier in this report.

Converts Approved Relative Caregiver (ARC) Funding Option Program Into a Statewide Entitlement Program. In 2014-15, the Legislature established the ARC program to equalize foster care payment levels for foster caregivers regardless of whether the child in a foster caregiver's care is eligible for federal foster care payments. Prior to ARC, relative caregivers for foster children who were not eligible for federal foster care payments—"ARC cases"—received CalWORKs child-only payments, which are significantly less than foster care payments. Initially, the ARC program provided counties around $30 million General Fund annually to equalize foster care payments between ARC cases and non-ARC cases. Participation in the program was optional at the county level. Although the ARC program generally equalized foster care payments, ARC recipients remained ineligible for two elevated foster care rates that were available for non-ARC cases—(1) the dual agency rate for individuals with developmental disabilities and (2) the infant supplement available to foster children who have a child or children. The 2017-18 spending plan converts the ARC program from an optional program into a required statewide program, making it available in all counties and tying total state ARC funding to statewide ARC caseload. Additionally, budget-related legislation extends eligibility for the dual agency rate and the infant supplement to ARC families. In 2017-18, the administration estimates ARC expenditures to be $36 million General Fund.

Immigration Assistance

Immigration Services Expanded. The Immigration Services Funding program provides grants to nonprofit organizations in the state to assist individuals applying for naturalization, deferred action, and other immigration remedies, and to conduct outreach and education in immigrant communities relative to these remedies. The spending plan provides an augmentation of $30 million from the General Fund on top of base funding of $15 million for the Immigration Services Funding program, for a total of $45 million from the General Fund in 2017-18, and assumes that this augmentation will be maintained through 2019-20. Budget legislation provides additional flexibility in what services can be funded through the program's grants (for example, legal defense of individuals subject to deportation proceedings will be an allowable activity for grant recipients) and also prohibits grant funds from being used to provide services to individuals convicted of serious or violent felonies. Further budget legislation provides an additional $20 million augmentation from the General Fund (one time) for grants specifically to assist individuals who have (or are seeking) immigration status under Deferred Action for Childhood Arrivals (DACA).

Food Assistance

Funding for CalFood. The CalFood program purchases food grown or produced in California to distribute to food banks in the state. The CalFood program has received several one-time allocations since it was created in 2011, most recently $2 million provided from the General Fund on a one-time basis in 2016-17. The spending plan provides $8 million from the General Fund for the CalFood program in 2017-18, with an expectation of ongoing annual funding of $6 million.

Department of Developmental Services

Under the budget plan, General Fund spending for DDS will increase more than 4 percent from about $4 billion in 2016-17 to about $4.2 billion in 2017-18. This year-over-year increase is largely the result of caseload increases, changes in service utilization, and costs associated with state minimum wage step increases. The budget includes several policy changes as well as capital outlay at Porterville Developmental Center (DC), together comprising about $50 million in General Fund spending.

"Safety Net" Development. The spending plan provides a one-time augmentation of $7.5 million General Fund for DDS to develop crisis stabilization and other safety net resources for individuals with developmental disabilities. The department's safety net plan will also be supported with $13.7 million repurposed from existing sources—$9.4 million from Community Placement Plan (CPP) resources (primarily funded by the General Fund), $1.3 million in rental proceeds from the Harbor Village apartment complex adjacent to Fairview DC in Costa Mesa, and $3 million from existing Regional Center (RC) purchase-of-service funding. The overall plan includes development of two DDS-operated mobile acute crisis teams, five DDS-operated acute crisis homes, seven vendor-operated homes—three for people transitioning from the secured treatment program (STP) at Porterville DC and four for people transitioning from Institutions for Mental Disease (IMDs)—and intensive wrap-around services for people transitioning from Porterville STP or from IMDs. Crisis stabilization and safety net services take on particular importance for the system as the three remaining DCs set to close between 2018 and 2021 (except for the STP at Porterville DC). The DC closures mean there will no longer be state-operated "placements of last resort" for consumers with the most challenging service needs.

Other Spending Changes Related to DC Closures. DDS is in the process of completing the final phase of a decades-long transition from an institutionally based system of service delivery to a more integrated community-based system. Costs have been incurred during the transition—developing resources in the community for former DC residents (including safety net services), facilitating closure of DC facilities, providing bonus incentives to retain DC staff for remaining DC residents, and offsetting the loss of federal funding at the DCs. The spending plan provides $13.6 million one-time General Fund ($25.7 million total funds) to support the transition of consumers at Sonoma, Fairview, and Porterville DCs to community living situations. (This is in addition to $67.9 million in total "base" CPP funding that has historically been provided.)

Removal of Cap on Respite Services. The spending plan provides $5.6 million General Fund ($10.3 million total funds) to remove—beginning January 1, 2018—the cap on respite services that was implemented in 2009 as part of a package of solutions to close the budget deficit at that time. In 2018-19 and ongoing, the increased full-year cost is estimated at $11.7 million General Fund ($21.6 million total funds). The cap limited in-home respite to 90 hours per quarter and out-of-home respite to 21 days per fiscal year. The amount of respite care needed will continue to be determined through the individual program planning (IPP) process.

Changes to Federal Funding for Behavioral Health Treatment (BHT) Resulting in Increased General Fund Costs. For children under 22 whose IPP indicated a need for BHT (it is state policy to provide such services to this group of children), DDS historically has received a federal share of cost to pay for these services. A recent change made by the federal government in 2016 means that federal funding for BHT will now be provided through Medi-Cal; however, to receive the benefit, a doctor must deem BHT as medically necessary. The new determination has led to an increase of $16.5 million ongoing General Fund to pay for BHT for children (about 4,000 in 2017-18) for whom a doctor has not deemed BHT medically necessary, but whose IPPs indicate a need for BHT.

Porterville DC Capital Outlay. The spending plan includes $3.7 million one-time General Fund to install a nitrate removal system at Porterville DC (where the STP will remain open even after the general treatment area closes in 2021). Porterville DC relies on groundwater wells for its drinking water supply, yet the regional groundwater basin is subject to unhealthy levels of nitrate contamination. After completing a contracted study of mitigation alternatives, the Department of General Services (DGS) concluded the nitrate removal system is the most effective solution. DGS estimates a May 2020 completion date.

ACTION ON THE COORDINATED CARE INITIATIVE

The Coordinated Care Initiative (CCI) was a joint state-federal demonstration project implemented beginning in 2012-13 designed to improve the coordination of health care and long-term services, as well as reduce the cost of providing care, for seniors and persons with disabilities. As part of the CCI, the state implemented a statewide maintenance-of-effort (MOE) for In-Home Supportive Services (IHSS), thereby limiting counties' costs for the program. Prior to CCI, counties paid 35 percent of the nonfederal share of IHSS costs. Statute gave the Department of Finance (DOF) the authority to terminate the CCI if it did not generate net General Fund savings. The administration exercised this authority in January, thereby terminating CCI and the IHSS MOE—returning counties to the original 1991 cost-sharing ratios for IHSS. Although the administration terminated the CCI, as part of the Governor's January budget proposal, it proposed the continuation of certain components of the CCI. In recognition of the increased cost on counties due to the termination of the IHSS MOE, the Governor's 2017-18 May Revision included a proposal for a new, revised county IHSS MOE.

The *2017-18 Budget Act* adopts the Governor's January proposal for maintaining certain components of the CCI as well as the Governor's May Revision proposal for a new IHSS cost-sharing plan. In this section, we describe the continuation of certain CCI components and the new state-county cost-sharing arrangement for IHSS.

Continuation of Major Components of the CCI

Efforts to Coordinate Care Maintained. Recognizing the merits of the policy goals behind the CCI, the Governor proposed and the Legislature approved the continuation of major components of the CCI. The *2017-18 Budget Act* continues the following CCI components:

- ***Two-Year Continuation of Cal MediConnect.*** Cal MediConnect is a joint federal-state demonstration program that integrates Medi-Cal and Medicare benefits under Medi-Cal managed care for seniors and persons with disabilities enrolled in both programs who opt to participate in the demonstration. Without this extension, Cal MediConnect would end in January 2018.

- ***Two-Year Extension of Mandatory Enrollment of Dual Eligibles in Managed Care for Their Medi-Cal Benefits.*** Without this extension, this component of the CCI would end in January 2018.

- ***Continued Integration of Long-Term Service and Supports (LTSS) Other Than IHSS Under Medi-Cal Managed Care.*** This includes skilled nursing facility care, community-based adult services, and the multipurpose senior services program (MSSP). Integration of MSSP under managed care will occur in January 2020.

Changes to IHSS Cost Sharing

Rather than return to the original 1991 realignment cost-sharing ratios for IHSS, the budget package adopts the May Revision proposal to create a new MOE for counties' share of IHSS costs. The new MOE significantly increases counties' costs in 2017-18 relative to 2016-17. The budget provides ongoing state General Fund support and additional realignment revenue to partially offset this increase. The budget package also requires DOF to reexamine 1991 realignment as part of its 2019-20 budget proposal. We discuss the specifics of the new MOE, the revenue supporting the new MOE, and other related changes below.

New IHSS MOE

New MOE Uses Historical Cost-Sharing Ratio. Counties' new IHSS MOE for 2017-18 is roughly $1.8 billion (compared to $1.1 billion in 2016-17). Specifically, the new MOE roughly reflects 35 percent of the nonfederal share of estimated IHSS services costs and 30 percent of the nonfederal share of estimated administrative costs in 2017-18. These percentages reflect the historical 1991 realignment cost-sharing ratios for IHSS. (If 2017-18 actual costs are lower than estimated, the new MOE will be adjusted downwards. If actual costs in 2017-18 are higher, however, the MOE will not be adjusted upwards.) The enacting statute includes adjustments to the new MOE for the following:

- ***Wage Costs.*** The 2017-18 budget increases the county IHSS MOE by the incremental county share of locally negotiated wage increases. Counties' share of cost for locally negotiated wages will vary based on certain conditions. (More information on county wage increases and share of cost is discussed below.)

- ***Administrative Costs.*** The 2017-18 spending plan limits the portion of the county MOE obligation that can be met by county administrative costs. To the extent that actual county IHSS administrative costs exceed MOE administrative costs limits, counties are responsible to pay the difference, resulting in total county IHSS costs in excess of their MOE. (The portion of county MOE costs that can be met by administrative costs in 2017-18 was calculated on a one-time basis. Moving forward, the state and counties will work together to determine an appropriate budgeting methodology for setting county administrative cost limits.)

- ***Future Increases in Cost.*** As shown in Figure 17 (see next page), the new MOE will be increased in future years by adjustment factors that vary based on the year-to-year growth in realignment sales tax revenues, which generally reflect overall economic conditions. In years that realignment revenues decline—like during recessions—there will be no increase to the new MOE and counties' costs will be the same year to year.

Revenues Supporting New MOE

General Fund Support and Additional Realignment Revenues Support New MOE Costs. As seen in Figure 17, General Fund support to offset counties' costs starts at $400 million in 2017-18 and goes down to $150 million over several years. In addition, the budget package redirects some 1991 realignment revenues to partially cover increased county IHSS costs. As seen in Figure 18 (see page 49), and described in detail in the box on page 50, under the existing 1991 realignment fiscal structure, IHSS only receives sales tax growth, while vehicle license fee (VLF) growth is provided to other realignment programs. (Other realignment programs also receive sales tax growth when available.) To increase realignment funding for IHSS, the implementing statute redirects VLF growth from other realignment programs to IHSS for five years. For the first three years, almost all VLF revenue growth is redirected to IHSS. In the last two years, half of VLF revenue growth is redirected to IHSS.

Despite Additional Revenue, Counties Will Face Some Costs. While these additional sources of revenue significantly reduce the cost increase to counties due to the new MOE, the budget does

Figure 17

Main Features of the Proposal

	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23 And Onwards
General Fund support to partially offset increased county IHSS costs	$400 million	$330 million	$200 million	$150 million	$150 million	$150 million
Realignment revenue growth to partially offset increased county IHSS costs[a]	All sales tax and VLF growth	All sales tax and VLF growth	All sales tax and VLF growth	All sales tax growth and half of VLF growth	All sales tax growth and half of VLF growth	All sales tax growth
Adjustment factor to maintenance-of-effort[b]	0%	2.5 or 5%	0, 3.5, or 7%	0, 3.5, or 7%	0, 3.5, or 7%	0, 3.5, or 7%

[a] A small portion of VLF growth will still be provided to the Child Poverty and Family Supplemental Support Subaccount in 1991 realignment.

[b] Starting in 2018-19, the adjustment factor will depend on the rate of growth in realignment revenues. If realignment revenues are negative, the adjustment factor will be zero. If the realignment revenues are less than 2 percent, the adjustment factor will be half of the highest possible percentage in that year. If the realignment revenues exceed 2 percent, the adjustment factor will be the highest possible percentage in that year. DOF forecasts the adjustment factor will be 5 percent in 2018-19 and 7 percent in 2019-20 and 2020-21.

IHSS = In-Home Supportive Services; VLF = vehicle license fee; and DOF = Department of Finance.

not cover *all* of counties' IHSS costs. Counties will need to find other revenue sources—likely their county general funds—to cover these amounts. The DOF estimates that these costs will be less than $200 million in 2017-18 and will increase in future years.

Other 1991 Realignment Programs Will Not Receive Any Growth Funding Until 2020-21. Due to the increased costs in IHSS and redirection of VLF growth, no realignment revenue growth will be available for some other 1991 realignment programs until 2020-21 (the Child Poverty and Family Supplemental Support Subaccount would continue to receive some VLF growth). The revenue growth these programs received in prior years—VLF revenue growth—will be redirected temporarily to cover IHSS costs (Steps Three and Four in Figure 18). Starting in 2020-21, VLF growth funding for these programs—Health and Mental Health—will be partially restored. Growth funding from the VLF will be fully restored in 2022-23 and onwards. Sales tax growth, however, likely will not be provided to these programs for many years. Absent these changes, counties would have received roughly $50 million in VLF growth for Health and Mental Health in 2017-18 (and these revenues would have grown in the out years). Due to the decreased realignment funding to these programs, counties may have to provide local general fund to support costs in these programs or make program reductions. Any additional county general fund support would be in addition to the increased county costs for IHSS described above.

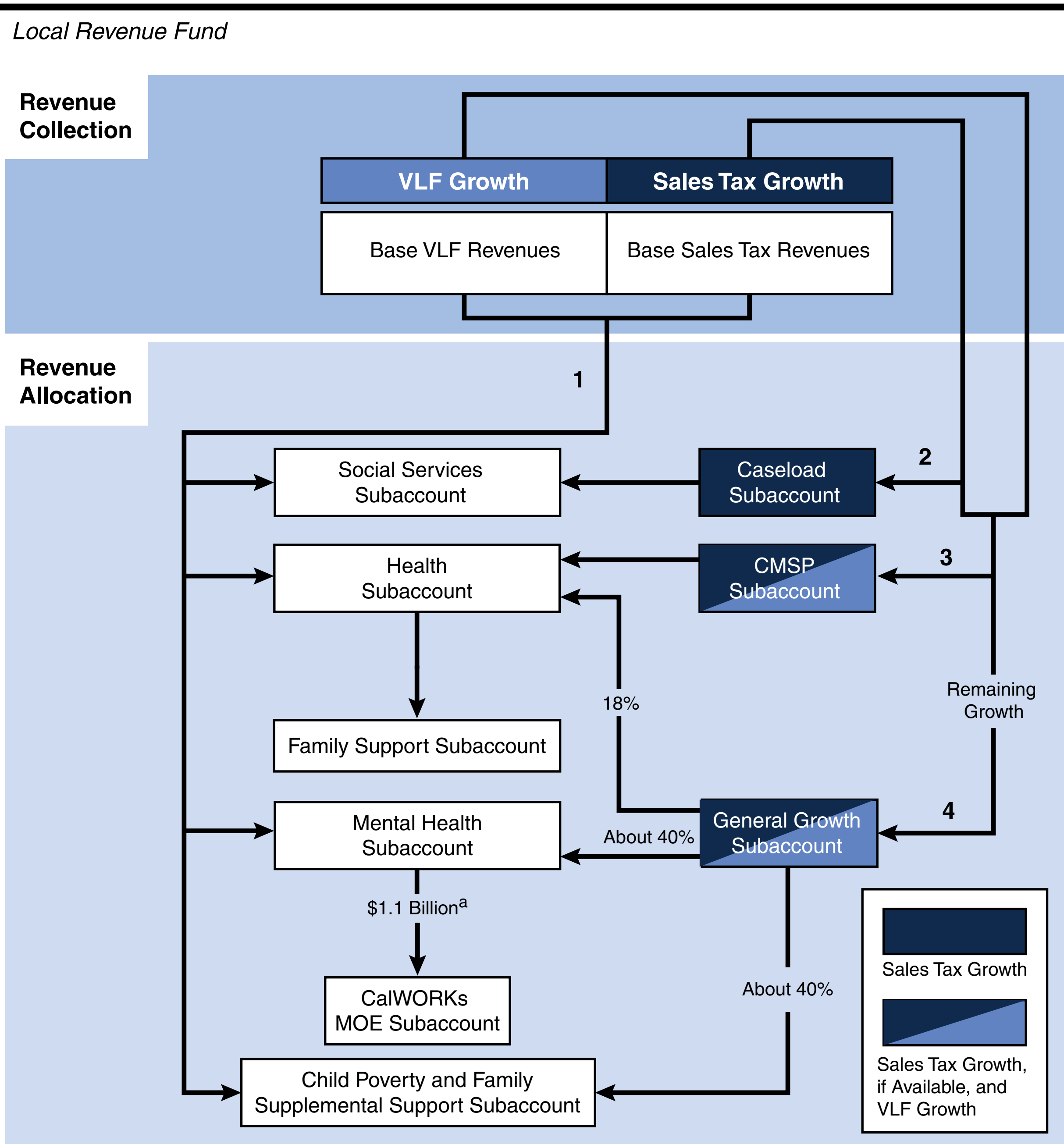
Other Changes

Changes to Cap on State Participation in IHSS Wages and Benefits. Currently, state participation in total IHSS county wage and benefit costs is capped at $12.10. The 2017-18 budget package increases the state contribution cap to $1.10 above the state minimum wage once state minimum wage equals or exceeds $12.00. The enacting legislation applies historical state and county cost-sharing ratios (65 percent state and 35 percent county) for nonfederal wage and benefit costs at or below the state contribution cap. If county wage and benefit levels exceed the state contribution cap, however, counties are fully responsible for the nonfederal portion of wage and benefit costs above the cap. In 2017-18, counties' individual MOEs reflect their estimated share of the nonfederal cost of wages and benefits based on their locally negotiated wages. In future years, counties' MOEs will be increased to reflect their share of cost for any additional locally negotiated wages increases.

Transition Phase for Counties Currently Above $12.10 in IHSS Wages and Benefits. The 2017-18 budget package institutes a temporary, alternative cost-sharing structure for wage increases in counties with wages and benefits

Figure 18

1991 Realignment Before 2017-18



[a] Funds transferred to the CalWORKs MOE Subaccount are provided from 2011 realignment funds.

VLF = vehicle license fee; CMSP = County Medical Services Program; and MOE = maintenance-of-effort.

How 1991 Realignment Funds Flow Before and After 2017-18

How Funds Flowed Before 2017-18. Figure 18 shows how funds flow under 1991 realignment before 2017-18:

- ***Step One: Fund the Base.*** Sales tax and vehicle license fee (VLF) revenues dedicated to 1991 realignment fund the "base." Generally, the base reflects the funding the realigned programs received in the prior year.

- ***Step Two: Sales Tax Growth to the Caseload and Social Services Subaccounts.*** Growth in sales tax revenue funds prior-year increases in county costs for the Social Services Subaccount programs (through the Caseload Subaccount).

- ***Step Three: Growth to County Medical Services Program (CMSP).*** A portion of the remaining sales tax growth (if any) and the growth in the VLF goes to the CMSP, which then is allocated to the Health Subaccount. (The proportion of sales tax and VLF growth allocated to CMSP is based on formulas set in statute.)

- ***Step Four: General Growth.*** The remaining growth from the sales tax (if any) and VLF is allocated to the General Growth Subaccount. Of the funds allocated to the General Growth Subaccount, 18 percent goes to the Health Subaccount, roughly 40 percent goes to the Mental Health Subaccount, and the remainder goes to the Child Poverty and Family Supplemental Support Subaccount (hereafter the Child Poverty Subaccount).

In some years, the growth in sales tax revenue is not sufficient to fully fund changes in county costs for social services programs through the Caseload and Social Services Subaccounts (Step Two). As a result, in those years, counties do not receive sufficient funding through 1991 realignment to cover the growth in costs for those programs. Those unmet county costs are carried forward to the next year and any sales tax growth first goes to pay off that balance before paying any new growth. When the cost growth in the Caseload and Social Services Subaccounts equals or exceeds the amount of sales tax growth, the Health, Mental Health, and Child Poverty Subaccounts receive growth only from VLF.

How Things Change in 2017-18. The 2017-18 budget package affects Steps Two, Three, and Four (described above) for five years. In particular, rather than only allocating sales tax growth to the Caseload Subaccount, In-Home Supportive Services (IHSS) also will receive almost all of VLF growth for three years. (A small portion of VLF growth will continue to flow to the Child Poverty Subaccount.) As a result, for three years, Health and Mental Health will receive no growth funds (Steps Three and Four). After three years, half of VLF growth will be allocated to IHSS. At that time, the Mental Health and Health Subaccounts will receive some growth funds. After two years of allocating half of VLF growth to IHSS, the 1991 realignment fiscal structure would revert to its pre-2017-18 form. Furthermore, 2016-17 sales tax growth for Health and Mental Health will be redirected to the Caseload Subaccount.

In addition to allocating VLF growth to the Caseload Subaccount, sales tax growth will be allocated to counties in the year in which it is received to reimburse costs incurred in that year. (As seen in Step Two above, prior to 2017-18, sales tax growth paid prior year cost increases.) This sales tax payment acceleration will be ongoing.

currently above $12.10. For these counties, the state will share a portion of costs associated with wage increases that, in sum, do not exceed 10 percent of their current wage and benefit level. For example, if a county is currently at $13 the state will participate in wage increases up to an additional $1.30 over the next three years.

County Share of Costs Significantly Less for Local Wage Supplements to the State Minimum Wage. Budget-related legislation limits the wage and benefit costs for counties with bargaining contracts that provide "local wage supplements." Specifically, if a county links its local IHSS wage increases to increases in the state minimum wage, this will be considered a local wage supplement. In the first year of a local wage supplement, counties will pay their share of the wage increase and their MOE will increase accordingly. All subsequent local wage supplements will be paid entirely by the state General Fund (as long as wages do not exceed the state cap—minimum wage plus $1.10).

Loans to Counties Facing "Significant Financial Hardship." In response to the increased costs to counties as a result of the new MOE, the budget-related legislation allows DOF to provide loans to counties that demonstrate that they are experiencing significant financial hardship. The loans will be low interest (not to exceed the rate earned by the Pooled Money Investment Account) and are not to exceed $25 million statewide annually. Loans are only available through 2019-20.

Forgiveness for Sales Tax Misallocations. Recently, DOF and others have identified issues in the Board of Equalization's distribution of sales tax revenue. The enacting MOE statute does not require counties to repay any over-allocation provided to 1991 realignment through 2015-16.

Appeals to Public Employment Relations Board (PERB) Available. The 2017-18 budget package gives counties and unions the ability to appeal to PERB and engage in mediation or a fact-finding process if a bargaining agreement is not reached by January 1, 2018. In addition, the department shall update the Legislature on the status of all IHSS bargaining contracts by April 1, 2018. This provision is effective until January 1, 2020.

Reexamination of 1991 Realignment. The 2017-18 budget-related legislation requires DOF, in consultation with the California State Association of Counties and other affected parties, to reexamine 1991 realignment as part of its development of the 2019-20 budget. Enacting statute requires DOF to report on a variety of metrics including whether the realigned revenues are sufficient to meet the costs of the programs within 1991 realignment.

NATURAL RESOURCES AND ENVIRONMENTAL PROTECTION

The budget package provides a total of $10 billion from various fund sources—the General Fund, bond funds, and various special funds—for programs administered by the California Natural Resources and Environmental Protection Agencies. This is a net decrease of about $2.9 billion (22 percent) compared to 2016-17 estimated expenditures. This reduction in spending primarily is related to a $3.6 billion decrease in the amount of bond funds budgeted. (We note that estimated bond expenditures for 2016-17 are somewhat inflated because of how prior-year bond appropriations are reflected in budget documents, making year-over-year comparisons of bond spending difficult.)

Cross-Cutting Issues

Cap-and-Trade Expenditures

Chapter 135 of 2017 (AB 398, E. Garcia) extended authority for the Air Resources Board (ARB) to implement the state's cap-and-trade program from 2020 to 2030. State cap-and-trade auction revenue is deposited in the Greenhouse Gas Reduction Fund (GGRF). The spending plan, as revised in September 2017 legislation, allocates nearly $2.6 billion from the GGRF for various programs. We discuss the major parts of this expenditure plan in more detail below.

Continuous Appropriations ($1 Billion). The budget assumes the state collects nearly $1.8 billion in auction revenue 2017-18. Under legislation passed in 2014, 60 percent of this revenue is continuously appropriated to high-speed rail (25 percent), affordable housing and sustainable communities (20 percent), transit and intercity rail capital (10 percent), and low carbon transit operations (5 percent). The 2017-18 budget makes one minor change to this calculation. It specifies that the $80 million from the GGRF used to backfill lost revenue from the suspension of the State Responsibility Area (SRA) fee in 2017-18 (discussed below) be subtracted before the calculation of the continuous appropriations. After this adjustment, the budget assumes about $1 billion would be continuously appropriated to these programs in 2017-18. However, this amount ultimately depends on future auction revenue, which is subject to uncertainty.

Discretionary Spending ($1.6 Billion). Revenue that is not continuously appropriated—sometimes referred to as discretionary spending—is available to be allocated through the annual budget act or other legislation. The budget includes nearly $1.6 billion in discretionary GGRF spending for various programs. This amount includes (1) over $700 million of discretionary revenue collected in 2017-18 and (2) over $800 million that was collected, but unallocated, in prior years. As shown in Figure 19, most of the spending is for programs intended to reduce mobile source emissions—particularly from heavy duty vehicles—forestry-related activities, or programs intended to reduce emissions from agricultural activities. Many of the programs receiving funding in 2017-18 have been allocated GGRF in prior years. Some of new GGRF allocations include:

- ***Local Air District Programs for Cleaner Engines and Equipment.*** The budget provides $250 million to local air districts as follows: 43 percent to the South Coast Air Quality Management District, 32 percent to the San Joaquin Valley Unified Air Pollution Control District, 20 percent to the Bay Area Air Quality Management District, and 5 percent to the other smaller air districts. The air districts must use the funds for programs to encourage clean trucks and equipment, such as the existing Carl Moyer Program.

- ***State and Local Fire Prevention Activities.*** Consistent with AB 398, which suspended the SRA fee and stated the Legislature's intent to use GGRF to backfill the lost revenue, the budget provides $80 million for SRA fire prevention activities. It also includes $25 million for grants to local fire departments for fire prevention and response activities.

- ***Emission Reductions From Agricultural Equipment and Food Processors.*** The cap-and-trade expenditure plan includes $85 million for incentives to reduce emissions from agricultural equipment and $60 million for a new program to encourage emission reductions from food processors.

Drought and Drinking Water Expenditures

Provides Total of $94 Million to Address Lingering Impacts From Multiyear Drought.

Figure 19

2017-18 Cap-and-Trade Discretionary Spending

(In Millions)

Program	Department/Agency	Amount
Mobile Source Emissions		**$810**
Freight and heavy duty vehicle incentives	Air Resources Board	$320
Local air district programs for clean engines	Air Resources Board	250
Clean Vehicle Rebate Project	Air Resources Board	140
Low-income light duty vehicles and school buses	Air Resources Board	100
Forestry		**$325**
Forest health and fire prevention	CalFire	$200
SRA fee backfill	CalFire/Conservation Corps	80
Local fire prevention grants	Office of Emergency Services	25
Urban forestry	CalFire	20
Agriculture		**$250**
Methane reductions from dairies	Food and Agriculture	$99
Agricultural equipment	Air Resources Board	85
Incentives for food processors	Energy Commission	60
Agricultural renewable energy	Energy Commission	6
Other Programs		**$187**
Waste diversion	CalRecycle	$40
Urban greening	Natural Resources Agency	26
Natural lands climate adaptation	Wildlife Conservation Board	20
Low income weatherization and solar	Community Services and Development	18
AB 617[a] implementation	Air Resources Board	17
Wetland restoration	Department of Fish and Wildlife	15
Climate and energy research	Office of Planning and Research	11
Transformative Climate Communities	Office of Planning and Research	10
Coastal climate adaptation	Various agencies	6
Other administration	Various agencies	24
Total Expenditures		**$1,572**

[a] Chapter 136 of 2017 (AB 617, C. Garcia).

SRA = state responsibility area; CalFire = Department of Forestry and Fire Protection; and CalRecycle = Department of Resources Recycling and Recovery.

While a series of winter storms significantly increased the amount of water available for both human and environmental uses—and led the Governor to declare an end to the drought emergency—they were not sufficient to eliminate all of the impacts from the state's multiyear drought. For example, high rates of groundwater pumping and depletion during the drought left some communities—primarily in the Central Valley—without a safe drinking water supply. The budget therefore includes a total of $94 million to respond to lingering drought impacts and drinking water issues, as shown in Figure 20 (see next page).

Nearly all of the funding in this drought package is provided from the General Fund on a one-time basis. The only ongoing funding is $2.6 million for the Department of Fish and Wildlife to continue operating a network of fish and wildlife monitoring systems, in order to protect at-risk species during future droughts.

Figure 20

2017-18 Drought Response and Drinking Water Funding

(In Millions)

Activity	Department	Amount[a]
Fire Protection and Tree Mortality		
Expand/enhance fire protection	CalFire	$41.7[b]
Provide grants for fire protection	CalFire	10.0[c]
Provide grants for counties to remove dead trees	CalFire	6.0[d]
Subtotal		($57.7)
Drinking Water		
Establish permanent drinking water solutions	DWR	$9.0
Provide grants for drinking/wastewater solutions	SWRCB	8.0
Provide emergency drinking water	OES	6.5
Provide CalFresh subsidies for drinking water	DSS	5.0
Subtotal		($28.5)
At-Risk Fish Protection		
Assist Delta smelt	DWR	$3.5[e]
Monitor at-risk fish	DFW	2.6[f]
Subtotal		($6.1)
Conservation and Water Rights		
Conduct Save Our Water conservation campaign	DWR	$1.0
Manage and enforce water rights	SWRCB	0.6
Subtotal		($1.6)
Total		**$93.9**

[a] One-time General Fund unless otherwise noted.
[b] Includes $3 million from State Responsibility Area Fund.
[c] From State Responsibility Area Fund.
[d] Would cover some local funding requirements for the California Disaster Assistance Act program, and would be supplemented by some amount of additional funding through OES.
[e] Includes $900,000 from Harbors and Watercraft Fund.
[f] Ongoing General Fund.
CalFire = California Department of Forestry and Fire Protection; DWR = Department of Water Resources; SWRCB = State Water Resources Control Board; OES = Office of Emergency Services; DSS = Department of Social Services; and DFW = Department of Fish and Wildlife.

As shown, the largest single expenditure ($42 million) is for the California Department of Forestry and Fire Protection (CalFire) to respond to continuing above-average fire danger related in part to the estimated 102 million trees that have died during the drought. (As discussed below, CalFire received additional ongoing resources to combat wildfire and tree mortality that were not part of the drought package.) The budget also provides $10 million for CalFire to provide grants for fire prevention in State Responsibility Areas, and $6 million to help counties meet their local funding requirement associated with the California Disaster Assistance Act (CDAA) program—administered by the Office of Emergency Services (OES)—to remove dead and dying trees. (Please see the write-up on OES in the "Other Major Provisions" section of this report for more information about the CDAA program.)

Funding to Improve Access to Safe Drinking Water Can Be Used to Address More Systemic Issues. As shown in the figure, $28.5 million is for four departments to implement both temporary and permanent solutions to drinking water problems such as dry or contaminated residential wells. While many of these problems have been caused or exacerbated by the recent drought, the funding may also be used in communities facing more systematic issues with their drinking or wastewater systems. For example, the package includes $5 million for a new pilot program at the Department of Social Services to provide supplemental CalFresh food benefits for families living in communities with contaminated drinking water to purchase bottled water.

Sustainable Groundwater Management Act (SGMA) Implementation

Enacted in 2014, SGMA represents the first comprehensive statewide requirement to monitor and operate groundwater basins, with the goal of achieving long-term groundwater resource sustainability. The budget includes $17.3 million to continue implementing SGMA in 2017-18, of which $15.8 million is ongoing. The funding is allocated across the two state departments charged with overseeing SGMA—the Department of Water Resources (DWR) and State Water Resources Control Board (SWRCB).

DWR—Support Local Agencies in Planning and Implementation ($15 Million). The budget provides an ongoing $15 million General Fund augmentation for DWR to both continue and expand its SGMA implementation activities. In 2017-18 and 2018-19, DWR will use the funding to assist in the formation of local Groundwater Sustainability Agencies (GSAs), review alternative management plans submitted by qualifying GSAs, and collect and disseminate the data GSAs need to develop their local groundwater management plans. In future years, the funds will be used for ongoing activities such as providing technical assistance to GSAs, reviewing and evaluating local plans, monitoring groundwater levels, and continued data collection and dissemination. The department will accomplish the proposed activities within its existing position authority.

SWRCB—Intervene in Areas That Fail to Comply With SGMA ($2.3 Million). The budget includes five new positions and $2.3 million ($750,000 ongoing and $1.5 million on a one-time basis) for SWRCB to assume management responsibilities of groundwater basins that failed to meet the statutory deadline to form GSAs by June 30, 2017. The ongoing funding and new staff will be used to establish a new SGMA Reporting Unit within SWRCB that will (1) identify groundwater users and usage rates within these "unmanaged" basins, (2) issue and collect fees, and (3) conduct enforcement efforts for noncompliance.

In 2017-18, these activities will be funded by a loan from the Underground Storage Tank Clean-Up Fund to the Water Rights Fund. The budget assumes revenue from fees paid by groundwater extractors in unmanaged basins will be used to repay the loan to the Water Rights Fund in 2019 and provide ongoing support for program activities beginning in 2018-19. (These fees are required under SGMA.)

Timber Regulation and Forest Restoration Program

The budget provides $15.2 million for various activities supported from the Timber Regulation and Forest Restoration Fund (TRFRF) in 2017-18.

Forest Restoration and Accountability ($9 Million). The budget provides $9 million and 15 positions in 2017-18 (declining to $1.2 million and seven positions in 2019-20 and thereafter) to support activities in three departments:

- ***Forest Restoration Grants ($7 Million).*** The budget includes $5 million for CalFire to support the California Forestry Improvement Program (CFIP), which extends for one additional year the same level of resources that CFIP has received for the past two years. The budget also extends existing SWRCB grants for another two years at their current funding level of $2 million annually.

- ***State Operations ($2 Million).*** The budget includes about $1 million ($472,000 ongoing) for the California Natural Resources Agency (CNRA) and CalFire to support development of an online timber harvest permitting system, $549,000 to convert four limited-term positions at SWRCB to permanent status, $300,000 annually for CNRA to continue existing pilot projects for an additional two years, and $149,000 for one additional support position at CNRA to assist in the development of ecological metrics and monitoring protocols.

Restore Nursery Operations ($4.9 Million). The budget includes $4.9 million ($2.1 million ongoing) for CalFire to resume state nursery operations at the L.A. Moran Reforestation Center, which has been used in the past to support the reforestation of public and private forest lands, especially those that have been damaged by fire, flood, drought, insects, and disease. The center is expected to provide 300,000 seedlings annually.

Monitoring Exemptions and Emergency Notice Provisions ($1.4 Million). The budget includes $1.4 million ($1.2 ongoing) from TRFRF for CalFire to implement and subsequently monitor the effects of the following recent legislation: (1) Chapter 583 of 2016 (AB 1958, Wood), which exempts the removal of non-oak trees for the purpose of restoring or conserving oak woodlands from being subject to a Timber Harvest Plan (THP); (2) Chapter 563 of 2016 (AB 2029, Dahle), which requires the department to evaluate the Forest Fire Prevention Pilot that provides a THP exemption for specific tree removal activities that could reduce fire risk; and (3) Chapter 476 of 2016 (SB 122, Jackson), which requires CalFire to prepare a record of proceedings—an official record of all project application materials, reports, and related documents—concurrently with a THP or other type of harvest permit at the request of the applicant (with costs reimbursed by the applicant).

Natural Resources

As shown in Figure 21, the budget includes $5.7 billion (including $2.9 billion from the General Fund) for the support of various resources programs in 2017-18. This is a decrease of $1.8 billion, or 23 percent, from the revised 2016-17 spending level. Most of this reduction in year-over-year spending is attributable to lower bond spending in 2017-18, particularly for DWR (described in more detail below). The budget also reflects a reduction of $221 million from the General Fund for resources programs, which primarily reflects reduced spending to address the effects of the state's multiyear drought because of the additional precipitation brought by winter storms in 2016-17.

Figure 21

Natural Resources Budget Summary

(Dollars in Millions)

	2015-16 Actual	2016-17 Estimated	2017-18 Budgeted	Change From 2016-17 Amount	Change From 2016-17 Percent
Expenditures					
Department of Forestry and Fire Protection	$1,306	$1,513	$1,636	$122	8%
General obligation bond debt service	970	1,027	1,011	-15	-1
Department of Parks and Recreation	466	613	719	106	17
Department of Water Resources	916	2,009	572	-1,437	-72
Energy Resources Conservation	436	664	556	-108	-16
Department of Fish and Wildlife	408	496	468	-28	-6
Wildlife Conservation Board	116	502	145	-358	-71
California Conservation Corps	95	96	120	24	25
Department of Conservation	87	152	118	-33	-22
Coastal Conservancy	44	142	73	-69	-48
Other resources programs	157	256	298	42	16
Totals	**$5,002**	**$7,470**	**$5,716**	**-$1,754**	**-23%**
Funding					
General Fund	$2,600	$3,078	$2,857	-$221	-7%
Special funds	1,280	1,643	1,774	131	8
Bond funds	983	2,443	795	-1,648	-67
Federal funds	139	307	291	-16	-5

The Legislature also approved Chapter 852 of 2017 (SB 5, de León), which places a $4 billion general obligation bond on the June 2018 ballot. If approved by voters, the bond would provide additional funding—to be repaid from the General Fund in future years—for a variety of natural resources-related projects, including to expand or improve state and local parks, protect watersheds and coastal habitats, improve flood protection, provide clean drinking water, and protect against the effects of climate change.

Department of Fish and Wildlife (DFW)

The budget includes $468 million from various sources for DFW. This is a decrease of $28 million (6 percent) compared to 2016-17, reflecting the removal of several one-time expenditures.

Fish and Game Preservation Fund (FGPF). As shown in Figure 22, the budget includes $18.7 million from various sources to address an ongoing shortfall in the nondedicated account of the FGPF. This additional revenue will allow the department to sustain current activities supported by this account through the budget year, including enforcing the state's laws and regulations, protecting fish and wildlife resources, managing department-owned lands, and regulating recreational hunting and fishing and commercial fishing activities. Of the total amount provided, only $1.6 million—the $900,000 increase to commercial landing fees and $750,000 of the $8.7 million in lifetime license revenues—represents ongoing funding. The budget package also includes statutory changes associated with these two new sources of revenue: (1) a schedule detailing the new commercial landing fees for each species and (2) elimination of the Lifetime License Trust Account and transfer of the existing account balance and future revenues from lifetime license purchases directly into the FGPF nondedicated account and other relevant accounts.

Figure 22

2017-18 Solution to FGPF Shortfall

(In Millions)

Source	Amount
Transfer from Lifetime License Trust Account	$8.7
General Fund	5.1
Environmental License Plate Fund	4.0
Increase in commercial landing fees	0.9
Total	**$18.7**

FGPF = Fish and Game Preservation Fund.

Department of Water Resources (DWR)

The 2017-18 budget includes $572 million for DWR, which represents a $1.4 billion decrease compared to the prior year. (These totals do not include the roughly $1.8 billion in annual payments from water contractors for DWR's work on the State Water Project, as those funds are not appropriated through the annual budget act.) This year-to-year decrease is primarily due to the way bond funds are accounted for in the annual budget. Specifically, DWR had $1.7 billion in 2016-17 spending authority from bond funds appropriated over the past several years, compared to the roughly $400 million actually appropriated in the *2017-18 Budget Act*.

Flood Management. The budget appropriates $111 million from Proposition 1 (2014) to DWR for flood management projects. As shown in Figure 23 (see next page), these funds are spread across seven different expenditure categories, with roughly half of the total to be spent within the Sacramento-San Joaquin Delta region. This amount represents just over one-quarter of the total funding ($395 million) set aside within Proposition 1 for flood management projects, leaving the remainder available for appropriations in future years.

In addition to the Proposition 1 funding, the budget approves $2.2 million from the General Fund annually for three years and nine new positions for the Central Valley Flood Protection Board to inspect and permit state-regulated levees. Budget trailer legislation also authorizes the

Figure 23

Proposition 1 Funding for Flood Management Projects

(In Millions)

Program Category	Amount
Statewide	
Central Valley tributary projects	$40.0
Coastal watershed projects	9.0
Central Valley systemwide projects	7.0
Subtotal	($56.0)
Delta	
Systemwide projects	$20.0
Delta Levee Subventions Program	20.0
Delta Special Projects Program	10.0
Emergency response projects	5.0
Subtotal	($55.0)
Total	**$111.0**

board to set and charge fees to cover the cost of its regulatory activities.

Dam Safety. Spurred by damage to the Oroville Dam spillway that occurred in February 2017, the budget package includes provisions to improve the safety of dams across the state.

- Budget trailer legislation requiring owners of state-regulated dams to develop more extensive emergency response plans and inundation maps, including for emergency scenarios other than a total dam failure. The new statute also provides DWR with additional authority to enforce compliance with these requirements, including to impose fines.

- $6.5 million and 12 positions for DWR to conduct more extensive dam and spillway inspections and review the aforementioned emergency response plans and inundation maps. In 2017-18 these activities would be supported by a General Fund loan to the Dam Safety Fund, to be repaid and sustained on an ongoing basis through increased fees paid by dam owners. (The budget also provides $1.9 million from the General Fund and four positions for the Office of Emergency Services to review emergency response plans and inundation maps, and to coordinate emergency response drills.)

San Joaquin River Fish Projects. The budget provides $21 million from Proposition 13 (2000) for DWR to spend over five years for projects to improve fish populations in the San Joaquin River watershed. Such projects could include restoring river beds, banks, or floodways or removing barriers within the river or its tributaries, with the goal of facilitating fish migration and improving spawning habitats. The budget also includes provisional language requiring DWR to report to the Legislature on how these funds are being utilized by March 1, 2018.

These funds could be used for projects that implement voluntary settlement agreements between the state and water users (such as irrigation districts and water agencies). Such agreements are related to implementing the Bay-Delta Water Quality Control Plan and are intended to both improve ecological flow and habitat for fish *and* create water supply and regulatory certainty for water users. The budget package also includes two other appropriations that could be used to support such voluntary settlement agreements: (1) $40 million from Proposition 1 for DWR to undertake multibenefit flood management projects within Central Valley tributaries (as described earlier), and (2) $1.1 million ongoing General Fund for DFW to help negotiate and implement projects resulting from such agreements.

Los Angeles River Conservancies

The budget package includes $98 million from Proposition 1 (2014) for two conservancies to undertake projects to restore the Los Angeles River. This fully appropriates the funding specified in the 2014 water bond for this purpose. Specifically, the budget includes $49 million each for the Santa Monica Mountains Conservancy and the San Gabriel and Lower Los Angeles Rivers and

Mountains Conservancy, which focus on the upper and lower segments of the river, respectively. Additionally, budget bill language requires that each conservancy use $6.5 million of its allotment on planning and implementation of projects jointly agreed upon by both conservancies.

Department of Parks and Recreation (DPR)

The budget includes $719 million from various fund sources to support DPR, a net increase of about $106 million, or 17 percent, from the estimated 2016-17 level. This is primarily due to (1) $52 million in increased revenue to the State Parks and Recreation Fund (SPRF) under Chapter 5 of 2017 (SB 1, Beall), which directed any additional revenue from increased motor vehicle fuel tax revenue attributable to off-highway recreational vehicles to SPRF; (2) one-time Proposition 40 (2002) funding of $26 million for local assistance grants through the Youth Soccer and Recreation Development Program and Outdoor Environmental Education Facilities Program; and (3) an increase of $14.5 million from the General Fund for hazardous mine remediation at three parks under cleanup and abatement orders.

Improving State and Local Parks. The budget provides an additional $52 million from SPRF and $1 million each from the Off-Highway Vehicle Trust Fund and the Abandoned Watercraft Abatement Fund to improve state and local parks. Specifically, this funding will be used for: (1) a local assistance program to Jurupa Area Recreation and Park District ($18 million), (2) repairs at state parks caused by recent storm damage ($16.4 million), (3) capital outlay projects that improve state park units ($15.1 million), (4) off-highway recreation and the reduction of boating hazards ($2 million), (5) a pilot project intended to improve access and transportation to state parks ($1.5 million), and (6) the establishment of a recruitment and training program ($1 million).

Baseline Funding to Maintain Operations. The budget includes two, one-time funding sources totaling $16.6 million in order to maintain park operations at 2016-17 levels. Of that amount, $12.6 million is from the SPRF fund balance. The remaining $4 million in funding is provided from Environmental License Plate Fund.

Department of Forestry and Fire Protection (CalFire)

The budget includes $1.6 billion from various fund sources to support CalFire, a net increase of about $122 million, or 8 percent, from the estimated 2016-17 level. This is primarily due to increased Greenhouse Gas Reduction Fund (GGRF) funding for forest health and fire prevention, partially offset by decreased emergency drought spending and estimated Emergency Fund expenditures. The 2016-17 budget also included several one-time expenditures for CalFire, such as the procurement of a new helicopter and equipment replacements.

Extended Fire Season. The budget provides an increase of $42.4 million and 18.5 ongoing positions as well as 276 ongoing seasonal firefighters in order to expand the fire season for CalFire staffing earlier into the spring and later into the fall, as well as provide increased coverage for winter fire suppression and fuel reduction activities.

Hiring and Training Staff. The budget provides $14.2 million and 55 positions to address increased hiring and training demands. The *2015-16 Budget Act* included a similar level of funding on a two-year, limited-term basis in order to determine ongoing workload and appropriate corresponding staff demands.

California Energy Commission (CEC)

The budget provides $556 million for CEC in 2017-18, a net decrease of $108 million (16 percent) compared to estimated prior-year expenditures. This year-over-year decrease largely reflects a difference between when funds are allocated and when they are spent. A significant amount of estimated spending in the prior year was from funds that were allocated, but unspent, in earlier years.

Energy Resources Program Account (ERPA) Shortfall. The budget includes several adjustments—totaling $15.4 million—intended to address a structural shortfall in ERPA, which is the main fund that supports CEC operations. These adjustments are:

- ***Shift Funding Source for Certain Activities ($5.5 Million).*** The budget shifts $4.8 million and 35 positions related to alternative fuel and vehicle activities from ERPA to the Renewable Fuel and Vehicle Technology Fund. The budget also shifts $622,000 and 3 positions related to energy efficiency compliance from ERPA to the Appliance Efficiency Enforcement Subaccount.

- ***Align Expenditure Authority With Actual Spending ($9.9 Million).*** The budget reduces contracting authority for power plant siting activities by $4.9 million and includes a $5 million general reduction in expenditure authority to more closely align expenditure authority with actual expenditures in recent years.

Even with these adjustments, annual ERPA expenditure authority is still about $8 million more than annual revenue. The fund is projected to have a balance of about $11 million at the end of 2017-18.

Environmental Protection

As shown in Figure 24, the budget includes $4.6 billion (mostly special funds) for the support of various environmental protection programs in 2017-18. This is a net decrease of $1.2 billion, or 20 percent, from the revised 2016-17 spending level. Most of this reduction in year-over-year spending is attributable to lower bond spending in 2017-18 by the State Water Resources Control Board. (As noted earlier, much of this reduction reflects how prior-year bond appropriations are reflected in budget documents, making year-over-year comparisons of bond spending difficult.) In addition, the budget includes an increase of $746 million in special fund resources for environmental programs. Most of this change is related to increased spending from the GGRF particularly for the Air Resources Board (ARB).

Figure 24

Environmental Protection Budget Summary

(Dollars in Millions)

	2015-16 Actual	2016-17 Estimated	2017-18 Budgeted	Change From 2016-17	
				Amount	Percent
Expenditures					
Air Resources Board	$698	$845	$1,629	$784	93%
Resources Recycling and Recovery	1,687	1,588	1,601	13	1
State Water Resources Control Board	910	2,945	949	-1,996	-68
Department of Toxic Substances Control	220	249	280	31	12
Department of Pesticide Regulation	91	96	100	4	5
Environmental Health Hazard Assessment	18	21	22	1	5
General obligation bond debt	3	3	3	—	-4
Totals	**$3,627**	**$5,746**	**$4,583**	**-$1,163**	**-20%**
Funding					
General Fund	$225	$90	$95	$5	5%
Special funds	2,669	3,335	4,079	744	22
Bond funds	396	1,936	25	-1,911	-99
Federal funds	337	384	384	—	—

Air Resources Board

The budget provides $1.6 billion for ARB in 2017-18, a net increase of $784 million (93 percent) compared to estimated prior-year expenditures. This year-over-year increase is largely because of higher programmatic expenditures from the GGRF, which receives revenues generated by the state's cap-and-trade auctions. The budget includes over $900 million from cap-and-trade expenditures for ARB.

Implementation of Volkswagen (VW) Settlement. In 2016 and 2017, ARB reached various legal settlements with VW related to the discovery of "defeat devices" in VW diesel vehicles, which were designed to control nitrogen oxide (NOx) emissions during vehicle smog certification but then to illegally turn off those emissions controls during on-road driving. The budget provides the following resources to implement the settlement:

- ***2-Liter Vehicle Settlement ($2.3 Million).*** The budget includes $2.3 million (Air Pollution Control Fund [APCF] and Reimbursements) and 14 positions to implement the 2-liter vehicle settlement, including (1) testing and monitoring VW vehicle modifications, (2) reviewing and approving VW's plans for investing $800 million in zero-emission vehicle infrastructure over ten years, and (3) allocating roughly $400 million over three years to programs that reduce NOx emissions. Budget-related legislation also directs ARB, to the maximum extent allowable under the settlement, to ensure that at least 35 percent of funds benefit low-income and disadvantaged communities disproportionately affected by air pollution.

- ***3-Liter Vehicle Settlement ($25 Million).*** The budget also includes $25 million (APCF) from the 3-liter settlement to be used for the Enhance Fleet Modernization Plus-Up Program, which provides incentives to low-income households in certain areas of the state to retire old vehicles and replace them with zero-emission vehicles.

- ***Civil Penalties ($154 Million).*** The budget provides $154 million (APCF) from the civil penalties settlement to pay for a portion of a new mobile source testing facility in Southern California.

Southern California Consolidation Project. The budget includes $413 million, including $154 million from the APCF and $259 million from lease revenue bonds, to design and construct a new mobile source emissions testing laboratory in Riverside. The estimated project includes over $100 million in vehicle testing equipment. Construction is scheduled to begin February 2018 and the project is expected to be complete in February 2022.

Zero- and Near-Zero Emission Warehouse Program ($50 Million). The budget includes $50 million (Trade Corridor Enhancement Account) for a competitive funding program to encourage zero- and near-zero emission technologies at warehouses. Funding will require a one-to-one match. This program was part of the transportation funding package discussed in the transportation section of this report.

Agricultural Emission Reduction Program ($50 Million). The budget allocates $50 million—including $35 million from the Alternative and Renewable Fuels and Vehicle Technology Fund and $15 million from the Air Quality Improvement Fund—to provide incentives for cleaner agricultural equipment, such as harvesting equipment, heavy duty trucks, and agricultural water pump engines. (As discussed above, part of the cap-and-trade expenditure plan includes an additional $85 million for these activities.)

Local Air District AB 617 Implementation ($27 Million). The budget provides $27 million (APCF) to support local air districts' implementation of Chapter 136 of 2017 (AB 617,

C. Garcia), which, among other things, requires additional air pollution planning, monitoring, and emission reduction activities in certain communities. These resources are primarily intended to fund local air district operations and monitoring equipment. It does not include incentive funding for programs to encourage emission reduction activities. However, the cap-and-trade expenditure plan includes $250 million for local air district emission reduction activities, which could be used to achieve the emission reductions envisioned in AB 617. The cap-and-trade expenditure package also includes an additional $17 million for ARB administrative activities ($12 million) and technical assistance grants for local communities ($5 million) related to AB 617 implementation.

Department of Toxic Substances Control (DTSC)

The budget includes $280 million from various funds to support DTSC, which is a net increase of $31 million, or 12 percent, from the revised 2016-17 level. This net increase primarily reflects an augmentation of $43 million in spending from the Toxic Substances Control Account (TSCA) for the Exide Technologies Facility Contamination Cleanup Program, partially offset by a $12 million General Fund reduction to reflect one-time funding provided in 2016-17 to retrofit the Argonaut Mine dam in Jackson.

Exide Cleanup Implementation. Exide Technologies operated a lead-acid battery recycling plant in the city of Vernon that ceased operations in 2014 when DTSC notified Exide that its application for a new permit would be denied. Testing indicates that releases of lead dust from the facility contaminated areas up to 1.7 miles from the facility and impacted thousands of properties including private residences, parks, and schools.

Chapter 9 of 2016 (SB 93, de León) allows the loan of up to $177 million from the General Fund to the TSCA to use for activities related to the lead contamination in the communities surrounding the Exide facility. (To the extent that DTSC recovers costs for investigation and cleanup from the parties responsible for the contamination, these funds will be used to repay the loan from the General Fund.) These funds are available for transfer from the General Fund to TSCA until June 30, 2018. The Department of Finance projects that $24 million will be transferred in 2016-17 and $67 million will be transferred in 2017-18. The budget also provides a $1.4 million loan annually for three years from the Lead-Acid Battery Cleanup Fund (LABCF) for a third-party quality assurance contractor—as specified in the final closure plan agreement—to oversee the Exide closure implementation.

National Priorities List and State Orphan Sites. The budget includes $14.6 million to support (1) the state's share of cost for federal National Priorities List (NPL) sites and (2) the cleanup of state-only orphan sites. This total is an increase of $5 million from 2016-17 and includes $10.9 million from the Site Remediation Account and a one-time appropriation of $3.7 million from penalty assessment revenues in the APCF ($2.7 million), the Department of Pesticide Regulation Fund ($500,000), and the Waste Discharge Permit Fund ($500,000). This funding level complies with Chapter 704 of 2016 (AB 2891, Committee on Environmental Safety and Toxic Materials) which (1) expressed the Legislature's intent that funding for hazardous waste cleanups be in an amount that is sufficient to pay for estimated costs at both federal NPL sites and at high-priority state-only orphan sites. In addition, DTSC submitted to the Legislature a report on DTSC's estimated hazardous waste cleanup costs, as required by Chapter 704.

Lead-Acid Battery Recycling Act Implementation. The budget includes $610,000 from the LABCF to begin the investigation, evaluation, and cleanup of contamination from lead-acid battery recycling facilities. Chapter 666 of 2016 (AB 2153, Garcia), known as the Lead-Acid Battery Recycling Act of 2016, generally requires lead-acid battery purchasers and manufacturers to pay a $1 per battery fee. Fee revenues are deposited in the LABCF and may be used for certain purposes such as (1) investigation, site evaluation, cleanup, remedial action, removal, monitoring, or other response actions at any area of the state that is reasonably suspected to have been contaminated by the operation of a lead-acid battery recycling facility and (2) to repay a $177 million General Fund loan to provide funding for Exide-related activities.

TRANSPORTATION

The spending plan provides $19.7 billion from all fund sources for transportation programs. As shown in Figure 25, this is a net increase of $3.1 billion, or 19 percent, when compared to the revised level of spending in 2016-17. This largely reflects increased spending resulting from the transportation funding package contained in Chapter 5 of 2017 (SB 1, Beall), as we discuss below.

2017 Transportation Funding Package. In April, the Legislature enacted SB 1 to increase state funding for California's transportation system. The legislation increases existing fuel taxes and creates two new vehicle charges to support existing and new transportation programs. It also repays monies loaned in the past to the General Fund from various transportation accounts. As reflected in the spending plan, the legislation is expected to provide $2.8 billion from the new revenues and loan repayments in 2017-18 as follows:

- $846 million for state highway maintenance and rehabilitation.
- $646 million for local streets and roads.
- $635 million for transit.
- $450 million for congested and trade corridors.
- $100 million for bicycle and pedestrian projects.
- $71 million for state parks ($54 million) and agricultural programs ($17 million) from fuel tax revenues from off-highway vehicles.
- $66 million for other transportation-related programs—such as local planning grants, freeway service patrols, and university transportation research.

Figure 25

Transportation Program Expenditures[a]

(Dollars in Millions)

Program/Department	2015-16	2016-17	2017-18	Change From 2016-17 Amount	Change From 2016-17 Percent
Department of Transportation	$9,493	$9,637	$12,210	$2,573	27%
California Highway Patrol	2,338	2,398	2,485	87	4
Shared revenues (local streets/roads)	1,422	1,343	1,835	493	37
Department of Motor Vehicles	1,128	1,080	1,112	32	3
High-Speed Rail Authority	1,111	1,171	1,096	-75	-6
State Transit Assistance	486	383	674	290	76
Other transportation programs[b]	110	582	313	-269	-46
Totals	**$16,088**	**$16,594**	**$19,725**	**$3,131**	**19%**

[a] Includes state General Fund, state special funds, state bond funds, federal funds, and reimbursements.

[b] Includes California State Transportation Agency, California Transportation Commission, and Board of Pilot Commissioners.

In conjunction with SB 1, the Legislature passed separate legislation to amend the 2016-17 budget to provide an additional $927 million from various existing fund sources for specific transportation projects located in Riverside County and certain parts of the Central Valley. The budget assumes expenditures of $112 million in 2017-18, with the balance occurring in future years. (Please see our recent report *Overview of the 2017 Transportation Funding Package* for more detailed information regarding SB 1.)

Caltrans

The budget plan for the California Department of Transportation (Caltrans) includes total expenditures of $12.2 billion from all fund sources, an increase of $2.6 billion (or 27 percent) from the revised 2016-17 level of expenditures. The increase from 2016-17 to 2017-18 primarily reflects the new funding provided from SB 1.

Senate Bill 1 Implementation. The budget provides Caltrans with a $1.9 billion increase from various fund sources related to SB 1 implementation. This includes $905 million for local assistance and $593 million for capital projects. It also includes $421 million and 48 positions for maintenance, $17 million and 75 positions for project initiation documents, and $1 million and 8 positions for administration. (All the positions are redirected from baseline reductions to the capital outlay support program, which we discuss further below.)

Capital Outlay Support. The budget makes two adjustments related to capital outlay support. First, it makes a $29 million baseline reduction to Caltrans' capital outlay support program for non-SB 1 workload. This includes an associated reduction in 283 personnel-year equivalents (PYE), including 243 state staff. Second, the budget provides $38 million and 218 PYEs, including 112 state staff, for capital outlay support related to SB 1 workload. The net change is a $9 million increase and a reduction of 65 PYEs, including 131 state staff. (Funding increases while PYEs decrease due to certain cost increases such as for contract staff.) Additionally, budget bill language authorizes (1) Caltrans to reestablish 88 state staff positions abolished in recent years and (2) the Department of Finance (after notification to the Joint Legislative Budget Committee) to increase funding and positions if Caltrans fills at least 400 unfilled capital outlay support positions.

Other Budget Augmentations. The budget also includes a total of $24.5 million in various other funding increases from the State Highway Account. This includes (1) $12 million (one time) to replace information technology infrastructure, (2) $5.5 million (one time) for increased vehicle insurance premiums, (3) $4 million ($2.2 million limited term) to improve cyber security, (4) $2.3 million in reimbursement authority and 14 two-year limited-term positions for legal services provided to the California High Speed Rail Authority, and (5) $737,000 in reappropriated funds to match a federal grant for a study of a pay-at-the-pump road usage charge.

In addition, the budget includes provisional language allowing Caltrans, upon the approval of the Department of Finance and notification to the Joint Legislative Budget Committee, to spend up to $20 million in state funds (with up to $20 million in matching federal funds) on zero-emission vehicle charging stations.

California Highway Patrol (CHP)

The budget provides $2.5 billion to fund CHP operations. This is an increase of $87 million, or about 4 percent—mainly due to increases in funding for capital outlay projects—compared to the revised level of spending in 2016-17. Nearly all of this funding is from the Motor Vehicle Account (MVA), which derives the majority of its revenue from vehicle registration fees and driver license fees.

Field Office Replacement Projects. The budget includes $144 million from the MVA to fund site acquisition for new CHP offices in Humboldt and Quincy, and to construct new offices in El Centro, Hayward, Ventura, and San Bernardino.

In addition, the budget provides $500,000 for advanced planning and site selection to replace up to two unspecified CHP offices. This funding is part of the administration's ongoing plan to replace deficient CHP area offices.

Drug Recognition Expert Training. The budget includes $3 million from the Cannabis Control Fund to be used for training drug recognition experts. For more information on cannabis-related spending, please the "Other Major Provisions" section of this report.

Department of Motor Vehicles

The budget provides $1.1 billion for Department of Motor Vehicles (DMV) operations, about the same amount as in 2016-17. Nearly all of this funding is from the MVA.

Driver License and Identification Card Federal Compliance. The budget provides an increase of $23 million and 218 positions in 2017-18 (and $46.6 million and 550 positions in 2018-19) for the issuance of new driver licenses and identification cards that comply with federal standards for identity verification and security features. Such federally compliant licenses and cards are required to access federal facilities or to provide identification for boarding federally regulated commercial aircraft. Full compliance is expected to be completed over the next six years.

AB 60 Ongoing Workload. Chapter 524 of 2013 (AB 60, Alejo) requires the DMV to accept driver license applications from persons who are unable to submit satisfactory proof of legal presence in the U.S., provided they meet all other application requirements and provide proof of identity and California residency. The budget includes $8.6 million and 91 positions on an ongoing basis for workload from issuing AB 60 licenses. This level is significantly less than the resources initially provided on a temporary basis for AB 60 workload.

Motor Voter Program. The budget provides $7 million ($1.8 million from the General Fund and $5.2 million from the MVA) and ten positions on a one-time basis in 2017-18 to develop and implement an automated electronic application process for new driver's licenses and identification cards. These funds would also be used to implement recent legislation requiring the electronic submission of specified voter registration information to the Secretary of State that is collected from individuals seeking new or renewed driver's licenses or identification cards or requesting a change of address. Beginning in 2018-19, the department will receive $3.2 million from the General Fund on an ongoing basis and 14 positions (two of which would be limited to two years).

Field Office Replacement and Renovation Projects. The budget includes $23 million to initiate or continue the replacement and renovation of the Reedley, Oxnard, Inglewood, Grass Valley, and San Diego Normal Street DMV field offices. The budget also includes $300,000 to plan for up to three future renovation projects, as well as $4 million for the design and construction of perimeter fencing at nine existing DMV field offices.

Other Transportation Programs

California Transportation Commission (CTC). The budget provides CTC from various special fund sources (1) $1.1 million and four positions for workload related to SB 1, and (2) $395,000 and two positions for workload associated with recent legislative changes to the Active Transportation Program. Additionally, budget trailer legislation authorizes the commission to allow local agencies to pay up-front for certain state-funded projects and later be reimbursed by the state.

California State Transportation Agency. The budget provides the California State Transportation Agency with $3.5 million (one time) from the General Fund for a grant to the Contra Costa Transportation Authority for planning, constructing, and operating an expanded autonomous vehicle testing facility.

JUDICIARY AND CRIMINAL JUSTICE

The 2017-18 budget provides $13.1 billion from the General Fund for judicial and criminal justice programs, including support for ongoing programs and capital outlay projects, as shown in Figure 26. This is an increase of $190 million, or 1 percent, above the revised 2016-17 General Fund spending level.

Judicial Branch

The budget provides $3.6 billion for support of the judicial branch—an increase of $23 million (less than 1 percent) from the revised 2016-17 level. This amount includes $1.7 billion from the General Fund and $499 million from the counties, with most of the remaining balance from fine, penalty, and court fee revenues. The General Fund amount is a net decrease of $87 million, or 5 percent, from the revised 2016-17 amount. Funding for trial court operations is the single largest component of the judicial branch budget, accounting for around four-fifths of total spending.

Trial Court Operations. The budget provides $1.3 billion General Fund for the support of trial court operations—a decrease of $44 million (or 3 percent) from the revised 2016-17 level, generally due to the expiration of one-time augmentations provided in 2016-17. This General Fund amount includes the following augmentations:

- ***Fine and Fee Backfill ($55 Million).*** The budget provides $55 million (one time) to backfill an expected decline in 2017-18 fine and fee revenue collected to support trial court operations.

- ***Dependency Counsel ($22 Million).*** The budget provides a $22 million augmentation to reduce court-ordered dependency counsel caseloads.

- ***Equal Access Fund Program ($10 Million).*** The budget provides $10 million annually in 2017-18 and 2018-19 to the Equal Access Fund Program for the provision of legal services and assistance to indigent individuals in civil case types. (Budget trailer legislation also requires that 25 percent of residual class action lawsuit funds be allocated to the Equal Access Fund Program.)

- ***Health Benefits and Retirement Costs ($5 Million).*** The budget includes $5 million for increased trial court health benefit and retirement costs.

- ***Case Management System Replacement ($4.1 Million).*** The budget provides two-year limited-term funding of

Figure 26

Judicial and Criminal Justice Budget Summary

General Fund (Dollars in Millions)

	2015-16	2016-17	2017-18	Change From 2016-17 Amount	Change From 2016-17 Percent
Department of Corrections and Rehabilitation	$10,041	$10,827	$11,149	$322	3%
Judicial branch	1,585	1,764	1,678	-87	-5
Department of Justice	198	223	227	3	2
Board of State and Community Corrections	68	109	63	-46	-42
Other criminal justice programs[a]	16	21	19	-2	-10
Totals	**$11,906**	**$12,945**	**$13,135**	**$190**	**1%**

[a] Includes Office of the Inspector General, Commission on Judicial Performance, Victim Compensation Board, Commission on Peace Officer Standards and Training, State Public Defender, funds provided for trial court security, and debt service on general obligation bonds.

$4.1 million in 2017-18 and $896,000 in 2018-19 to replace the Sustain Justice Case Management System currently used in nine courts with the new eCourt Case Management System.

In addition, the budget includes a $46 million reduction in General Fund support for trial court operations in 2017-18 in order to reflect the availability of property tax revenue in accordance with Control Section 15.45 and Section 2578 of the Education Code. Such funds are remitted to the state by counties that collect more property tax than state law allows them to spend on education.

Capital Outlay. The budget provides $31.3 million for various court construction projects. This amount consists of (1) $18.2 million from the Immediate and Critical Needs Account (ICNA) for design and/or construction activities for three projects, (2) $7.9 million from the Public Buildings Construction Fund for the final payments for four completed projects, and (3) $5.2 million in 2017-18 (declining to $3.2 million in 2018-19 and ongoing) from ICNA for the payment of debt service for the New Santa Clara Family Justice Center. (ICNA receives revenue from certain court fee and fine increases.)

Corrections and Rehabilitation

The budget act provides $11.1 billion from the General Fund for support of the California Department of Corrections and Rehabilitation (CDCR). This is a net increase of $322 million, or 3 percent, above the revised 2016-17 level of spending. This increase primarily reflects additional costs related to (1) a shift of responsibility for operating inpatient psychiatric programs in prisons from the Department of State Hospitals (DSH) to CDCR, (2) debt service payments for construction projects, and (3) one-time roof repairs at three prisons. This additional spending is partially offset by various spending reductions, including reduced spending for contract beds due to a decline in the inmate population.

Inpatient Psychiatric Programs. In recent years, DSH provided intensive 24-hour inpatient psychiatric care to inmates in three CDCR facilities. The budget package transfers the responsibility for providing this care, as well as $254 million from the General Fund and nearly 2,000 positions, from DSH to CDCR. In addition, the budget provides $11.4 million from the General Fund to staff 74 inpatient psychiatric program beds at the California Medical Facility in Vacaville that were recently activated by CDCR using existing resources.

Adult Correctional Population. Figure 27 (see next page) shows the recent and projected changes in the inmate and parolee populations. As shown in the figure, the prison population is projected to decline slightly from about 130,000 inmates at the end of 2016-17 to about 125,000 inmates by the end of 2017-18. The parole population is projected to increase slightly from about 45,500 to about 48,800 parolees by the end of 2017-18. These trends are primarily due to the estimated impact of Proposition 57 (2016), which we discuss in more detail below.

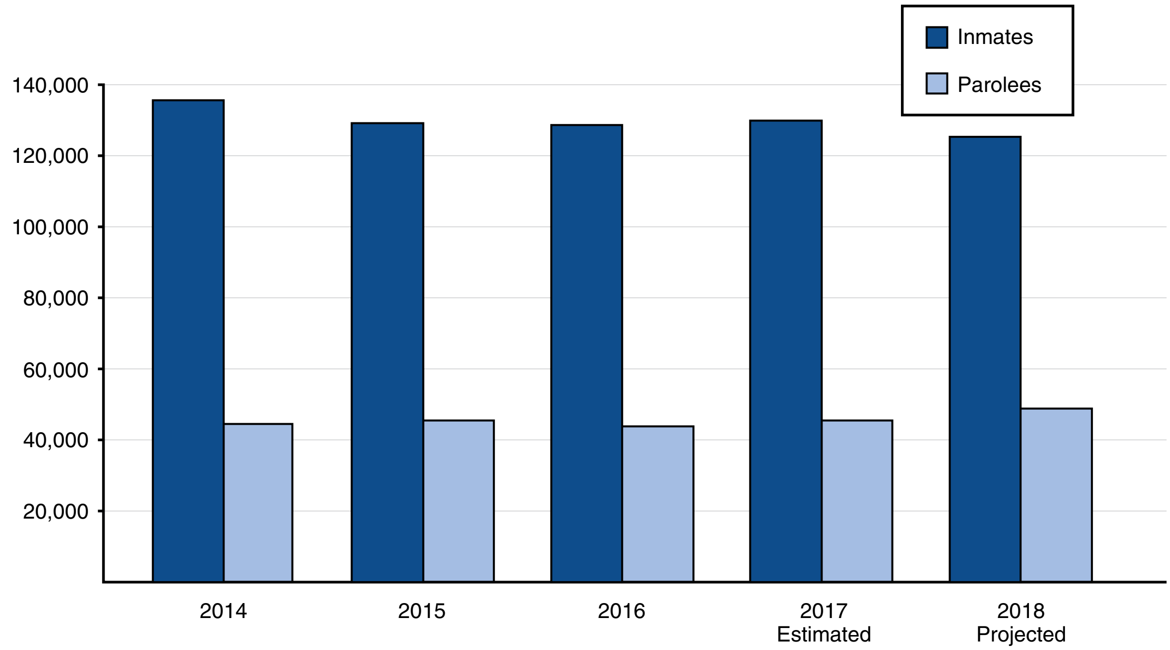
Proposition 57. Proposition 57 made all nonviolent offenders eligible for parole consideration, expanded CDCR's authority to award sentencing credits to inmates, and requires that judges decide in all cases whether juveniles should be tried in adult court. In April 2017, the Office of Administrative Law approved emergency regulations allowing CDCR to begin the nonviolent offender parole consideration process in July 2017 and to expand sentencing credits (effective May 2017 for good conduct credits and August 2017 for credits inmates earn through rehabilitation programs). The budget includes various funding adjustments to reflect the administration's implementation plan and its anticipated population impacts. Figure 28 (see next page) summarizes these adjustments, which in total reflect a net reduction of $32.8 million.

Inmate Medical Care. The budget includes $2 billion from the General Fund for inmate medical care to comply with the federal court in the *Plata v. Brown* case, an increase of $46 million, or 2 percent,

Figure 27

Adult Inmate and Parolee Populations Projected to Change Slightly

As of June 30 Each Year



above the revised 2016-17 level of spending. This includes (1) $7.8 million to provide janitorial services to new medical spaces at state prisons, (2) $7.7 million for additional medical positions needed because of an increase in patient acuity levels, (3) $7 million to implement various strategies intended to improve the department's ability to retain physicians, (4) $6.7 million for additional nurses to distribute inmate medications, and (5) $5.4 million to implement a new health care appeals process.

Resources for Prison Enforcement Activities. The budget includes an $18 million General Fund augmentation to increase enforcement activities within state-operated prisons. This includes $11.7 million to implement comprehensive video surveillance programs at High Desert State Prison in Susanville and Central California Women's Facility in Chowchilla to assist in investigations into staff misconduct, violent incidents, contraband trafficking, and attempted suicides. The remaining $6.7 million is for CDCR to expand canine

Figure 28

Proposition 57-Related Adjustments to CDCR Budget

(In Millions)

	2017-18
Staff and resources to implement new parole consideration process and credit policies	$9.2
Inmate population reduction	-54.5
Parolee population increase	10.6
Juvenile population increase	1.9
Total	**-$32.8**

teams used for the detection of drugs and other contraband to all state-operated prisons.

Other Budget Adjustments The budget includes $35 million from the General Fund to replace roofs that were damaged by severe storms at California Correctional Institution in Tehachapi, Pleasant Valley State Prison in Coalinga, and Salinas Valley State Prison in Soledad. The budget also includes a $15 million increase to convert various housing units to different missions and security levels, in order to accommodate changes in the security requirements and needs of the inmate population. In addition, the budget provides a one-time $5 million General Fund augmentation for additional resources and equipment for career technical education programs.

Capital Outlay. The budget provides an additional $81 million from the General Fund to support various capital outlay projects in state prisons. Some of the most significant projects are to (1) renovate and upgrade medical clinic space at Calipatria State Prison ($16.1 million), (2) develop preliminary plans to construct mental health crisis bed facilities at Richard J. Donovan Correctional Facility in San Diego and the California Institution for Men in Chino ($7.3 million), and (3) construct a new potable water tank at Calipatria State Prison ($6.9 million).

Department of Justice (DOJ)

The budget provides $630 million for support of DOJ in 2017-18—an increase of $66 million, or 12 percent, from the revised 2016-17 level of spending. This amount includes $227 million from the General Fund—a net increase of $3 million, or 2 percent, from the revised 2016-17 level of spending. This net increase primarily reflects increased General Fund support for legal resources related to federal actions (as discussed later below), which is partially offset by a one-time $5 million General Fund unallocated reduction.

Proposition 56. The budget provides a total of $45 million of Proposition 56 revenues to the department for various law enforcement activities required by the measure. This includes (1) $9 million in revenues from 2016-17 that were deposited after the enactment of Proposition 56 in November 2016 and (2) $36 million in revenues for 2017-18. Of the $45 million total, the budget provides $7.5 million to enforce tobacco-related sale and distribution laws and $37.5 million to allocate to local law enforcement agencies for the support and hiring of peace officers for various activities (such as investigations intended to reduce the illegal sale of tobacco products to minors).

Legal Resources Related to Federal Actions. The budget provides two-year limited-term funding of $6.5 million from the General Fund and 31 positions for legal workload related to state responses to actions taken by the federal government. In addition, budget trailer legislation specifies that if federal litigation involving the California Secure Choice Retirement Savings Program arises and DOJ lacks sufficiently qualified attorneys as defined by state law, the department must contract with qualified attorneys to represent the state. The budget also provides $1 million from the General Fund for DOJ to review county, local, or private detention facilities in California that hold individuals pending their federal immigration proceedings. DOJ must complete the first review and submit a report summarizing its findings to the Legislature by March 2019. Subsequent reviews are to be conducted through July 2027.

Board of State and Community Corrections

The budget includes $157 million ($63 million from the General Fund and $94 million from other funds) for the Board of State and Community Corrections. This is a decrease of $63 million (28 percent) relative to the revised 2016-17 level of funding, largely due to an expiration of various limited-term grants provided in prior years.

Grants to Local Law Enforcement. The budget includes a $20 million one-time General Fund augmentation to support a four-year violence reduction pilot project in Orange County. In addition, the budget includes a one-time

$11 million General Fund augmentation to assist counties with a temporary increase in the population supervised by county probation departments due to the release of prison inmates as a result of Proposition 57.

New Restrictions on Local Detention Facilities. The Legislature adopted budget trailer legislation that places various restrictions and requirements on local detention facilities. For example, the legislation prohibits a facility that provided in-person visitation as of January 1, 2017 from converting to only video visitation. The legislation also prohibits local law enforcement agencies from entering into a new contract or expanding an existing contract with the federal government to house certain individuals involved in federal immigration hearings.

Criminal Fines and Fees

State Penalty Fund (SPF). In order to address the continued decline of criminal fine and fee revenue deposited into the SPF and the expiration of one-time offsets provided in 2016-17, the budget package eliminates existing statutory formulas dictating how SPF revenues are distributed and instead appropriates specific dollar amounts directly to programs. As shown in Figure 29, the budget provides a total of $296 million for the support of various programs ($90.5 million from the SPF and $205.5 million from other sources) in 2017-18—a reduction of $9.5 million from the total 2016-17 funding level. This includes the elimination of SPF funding support for three programs as well as a one-time $10.5 million General Fund backfill for two of these three programs.

Figure 29

State Penalty Fund (SPF) Program Expenditures for 2016-17 and 2017-18

(In Thousands)

	2016-17[a]			2017-18			Change From 2016-17
Program	**SPF**	**Other Funds[b]**	**Total**	**SPF**	**Other Funds**	**Total**	**Total**
Victim Compensation	$15,114	$105,120	$120,234	$9,100	$111,367	$120,467	$233
Various OES Victim Programs[c]	12,494	63,403	75,897	11,800	73,021[d]	84,821	8,923
Peace Officer Standards and Training	32,132	30,734	62,866	46,567	3,787	50,354	-12,512
Standards and Training for Corrections	17,418	3,717	21,135	17,209	100	17,309	-3,826
CalVIP (previously known as CalGRIP)	9,519	—	9,519	—	9,500[e]	9,500	-19
CalWRAP	5,217	—	5,217	3,277	—	3,277	-1,940
Motorcyclist Safety	250	2,941	3,191	—	3,191	3,191	—
DFW employee education and training	401	2,526	2,927	450	2,688	3,138	211
Bus Driver Training	1,364	247	1,611	838	551	1,389	-222
Traumatic Brain Injury	998	64	1,062	800	314	1,114	52
Internet Crimes Against Children	1,008	—	1,008	—	1,000[e]	1,000	-8
Local Public Prosecutors and Public Defenders Training	850	33	833	450	—	450	-433
Totals	**$96,765**	**$208,786**	**$305,551**	**$90,491**	**$205,519**	**$296,010**	**-$9,541**

[a] Estimated expenditures based on current law, historical budgeting practices, and best available data.

[b] Includes one-time funding to backfill reduction in SPF revenues—$19.6 million from the General Fund and $4.2 million from the Restitution Fund.

[c] Includes Victim-Witness Assistance Program, Victim Information and Notification Everyday Program, Rape Crisis Program, Homeless Youth and Exploitation Program, and Child Sex Abuse Treatment Program.

[d] Includes one-time $10 million General Fund augmentation for the Homeless Youth and Exploitation Program.

[e] One-time funding from the General Fund to backfill elimination of SPF support.

OES = Office of Emergency Services; CalVIP = California Violence Intervention and Prevention Grant Program; CalGRIP = California Gang Reduction, Intervention, and Prevention Program; CalWRAP = California Witness Relocation and Assistance Program; and DFW = Department of Fish and Wildlife.

Driver's License Holds and Suspensions. Prior to 2017-18, state law authorized collection programs to use various collection tools or sanctions against individuals who fail to pay their criminal fines and fees or appear in court. Budget trailer legislation eliminates collection programs' ability to use driver's license holds and suspensions as a sanction for such individuals. This sanction would remain available for individuals who fail to appear in court.

OTHER PROVISIONS

Earned Income Tax Credit (EITC)

State EITC Adopted in 2015. The EITC is a personal income tax (PIT) credit that is intended to reduce poverty among California's poorest working families by increasing their after-tax income. California adopted the state EITC in the 2015-16 budget package. The state EITC builds on the similarly structured federal EITC. The budget package modifies the existing EITC in two ways.

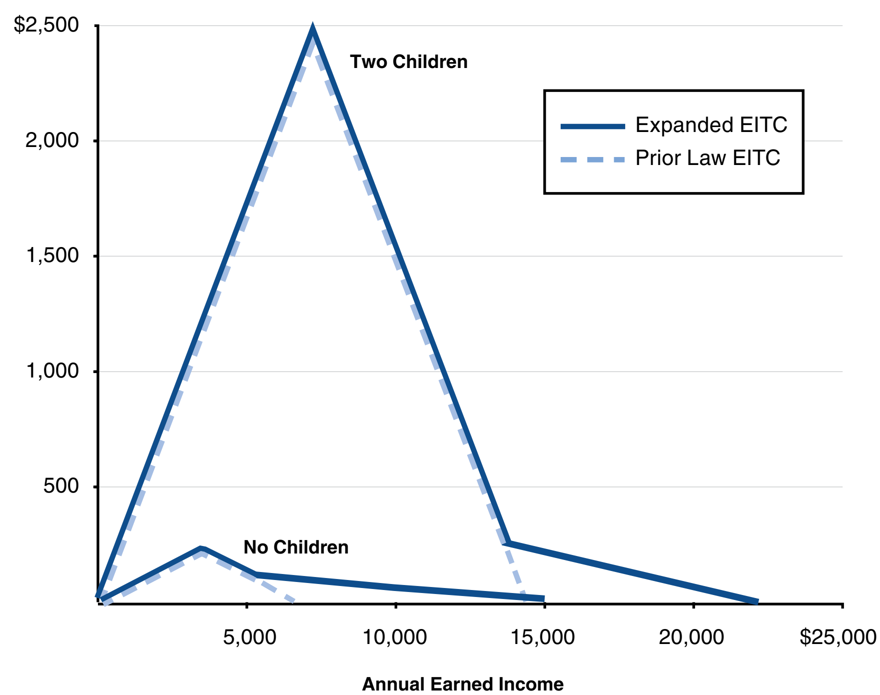
Expanded to Higher Income Families. Figure 30 shows the amount of credit available to single filers under the prior law EITC and the expanded EITC structures. As shown in the figure, the prior law state EITC focused on families with the lowest incomes. Specifically, the credit phased out at $6,892 for single filers with no qualifying children and $14,529 for single filers with two children. (The Franchise Tax Board [FTB] annually adjusts these amounts for inflation.) The 2017-18 budget plan expands income eligibility to $15,009 for filers with no children and $22,310 for filers with two qualifying children. Generally, the expanded EITC keeps the structure at the lower end of the income range, but phases out the credit more slowly for those tax filers with relatively higher annual incomes. The administration assumes that this provision of the expanded state EITC will extend eligibility to approximately 800,000 additional tax filers and reduce PIT revenues by roughly $70 million in 2017-18.

Expanded to Include Self-Employment Income. Previously, the state EITC was limited

Figure 30

Expansion of the California EITC

State Credit Amount for Single Filers, 2017 Tax Year



EITC = Earned Income Tax Credit.

to wage income subject to withholding. This meant that, under prior law, several hundred thousand self-employed tax filers were ineligible to claim the prior California EITC. The 2017-18 budget plan expands the state EITC to include self-employment income. Because it can be more difficult for tax agencies to verify self-employment income than wages, the budget plan directs FTB to take measures to prevent improper payments. The administration estimates this provision of the EITC expansion will reduce revenues by an additional $70 million, for a total reduction in PIT revenues of about $140 million in 2017-18.

Statewide Infrastructure

Debt Service. The budget provides $8.1 billion from various funds for debt service payments in 2017-18. This represents an increase of 5 percent from 2016-17, which primarily reflects additional debt service costs related to bonds issued for K-12 education, judicial branch, and criminal justice projects. The total includes $7.1 billion for general obligation bonds ($4.8 billion from the General Fund), and $1 billion for lease revenue bonds ($642 million from the General Fund).

Employee Compensation

Labor Agreements Increase State Annual Costs. The state now has active memoranda of understanding with all 21 state rank-and-file employee bargaining units. These agreements include provisions that will significantly increase state annual costs for years to come to fund scheduled employee pay increases, the state's contributions to prefund retiree health benefits as a percentage of pay, increases in health care costs, and other benefit cost increases. In 2017-18, the budget assumes that state costs to pay for salary and benefits (excluding retirement benefits) for rank-and-file employees and their managers will increase by $1.2 billion ($598 million General Fund).

State Pensions

State Annual Contributions to CalPERS Expected to Increase. At its December 2016 meeting, the California Public Employees' Retirement System (CalPERS) board voted to change a key assumption used in calculating how much money employers and employees must contribute to the pension system each year. Specifically, the board voted to lower the discount rate from 7.5 percent to 7.0 percent over the next three years. This lower discount rate means that CalPERS calculations of plan assets and liabilities will assume investments have lower returns. By assuming less money comes into the system through investment gains, the state will be required to contribute more money over the next few decades to pay for higher normal costs and a larger unfunded liability. In 2017-18, the budget assumes the state contributes about $5.2 billion (about one-half General Fund) to pay for non-higher education state employee pension costs. (In addition to pension costs, the budget assumes the state spends about $2 billion in 2017-18 to pay for health benefits received by retired state employees.)

Makes Loan-Funded $6 Billion Supplemental Payment to CalPERS. In addition to the pension costs discussed above, the budget package makes a one-time $6 billion supplemental payment to CalPERS to reduce the state's unfunded liabilities associated with pension benefits earned by current and past state employees. To make this payment, the budget uses a loan from the state's cash balances in the Pooled Money Investment Account, the state's checking account. Over the long term, this plan is expected to reduce annual state pension costs—relative to what they otherwise would be—by lowering employer contributions.

Budget Plan Begins Repaying the Loan in 2017-18. Under the plan laid out in the budget package, the General Fund and special funds with pension liabilities would share the costs of repaying the loan with interest. In 2017-18, the budget makes an initial repayment of $146 million from the General Fund, which is counted toward annual required debt payments under Proposition 2 (2014). Under the plan, special funds will repay the General Fund in future years for their respective shares of this repayment.

Funding for Information Security

Strengthens Information Security Across Various Departments. The 2017-18 spending plan provides $4 million from the General Fund ($13.9 million total funds) and 58 positions across 12 departments to address identified information security vulnerabilities. The resources will support various approaches to strengthening information security based on the specific security vulnerabilities identified by each of the departments. For example, departments will establish continuously operating security centers to monitor threats, develop mitigation plans to reduce the risk of threats, and establish department policies and procedures to achieve security compliance and train staff on information security procedures.

State Board of Equalization (BOE)

Narrowed BOE's Duties. The 2017-18 budget package removed most of BOE's administrative and appellate functions. BOE will retain its constitutionally assigned duties, which are:

- Adjustment of property tax assessments.
- Assessment of property taxes on certain types of property.
- Assessment and collection of excise taxes on alcoholic beverages.
- Assessment of the insurance tax.

Assigned Duties to Two New Entities. Starting on July 1, 2017, the new California Department of Tax and Fee Administration assumed administrative responsibilities for all of BOE's tax and fee programs except those listed above. Starting on January 1, 2018, the new Office of Tax Appeals will assume appellate responsibilities for those programs and for taxes administered by FTB. Staff and funding supporting the transferred functions also will move to these new entities.

Cannabis Regulation

In 2015, the Legislature passed three state laws (Chapter 688 [AB 243, Wood], Chapter 689 [AB 266, Bonta], and Chapter 719 [SB 643, McGuire])—known collectively as the Medical Cannabis Regulation and Safety Act (MCRSA)—to provide a statutory framework for the state to regulate the cultivation and sale of medical cannabis. In November 2016, voters approved Proposition 64, which legalized the use of cannabis for nonmedical purposes by adults age 21 and over, (2) created a new regulatory structure for the licensing and enforcement of nonmedical cannabis similar to the one created for medical cannabis under MCRSA, (3) included new excise taxes on medical and nonmedical cannabis cultivation and retail sales to be administered by the Department of Tax and Fee Administration (previously BOE), and (4) created a new state entity—the Cannabis Control Appeals Panel (Appeals Panel)—to hear licensing appeals. Under these laws, state regulation of commercial cultivation and retail sales of medical and nonmedical cannabis would begin January 2018.

Additional Funding for Multiple Departments. The budget provides 373 new positions and $101 million mostly from the Cannabis Control Fund—using loans from the General Fund—as well as various other special funds for cannabis regulation-related activities. Of this amount, $95 million is provided on a three-year, limited-term basis and $6 million is provided on a one-year, limited-term basis. Figure 31 (see next page) summarizes the allocation of these additional resources across nine state departments. As shown in Figure 31, this is in addition to the baseline funding of $23 million initially provided in the 2016-17 budget. The $101 million increase mainly supports (1) licensing and enforcement activities for medical and nonmedical cannabis by the Department of Consumer Affairs (DCA), the California Department of Food and Agriculture (CDFA), and the Department of Public Health (DPH); (2) development and implementation of cannabis-related information technology (IT) systems by DCA, CDFA, and DPH; and (3) efforts to reduce the environmental impacts of cannabis cultivation by the Department of Fish and Wildlife and the State Water Resources Control Board. The budget package also includes provisional language that (1) allows DCA and DPH to augment their resources upon notification to the Joint Legislative Budget Committee and (2) requires DCA, CDFA, and DPH to provide quarterly briefings on their cannabis-related IT projects.

Budget Trailer Legislation. The budget package makes various statutory changes largely intended to bring MCRSA and Proposition 64 into conformity and address various other issues related to the implementation of medical and nonmedical cannabis regulations. Some of the major provisions of Chapter 27 of 2017 (SB 94, Committee on Budget and Fiscal Review)—amended by Chapter 253 of 2017 (AB 133, Committee on Budget)—provide the following:

- ***Allows for Vertical Integration, Including Self-Distribution.*** Generally allows for entities to hold multiple license types (such as cultivation, distribution, and retail), with the exception of testing laboratories. Also includes language intended to prevent monopolies.

Figure 31

Summary of Cannabis-Related Funding in 2017-18

(In Millions)

Department	Funding Level: Base	Funding Level: Augmentation	Funding Level: Total	Primary Responsibilities
Food and Agriculture	$3.4	$28.6	$31.9	• License cultivators. • Implement track and trace information technology system.
Consumer Affairs	4.1	26.4	30.5	• License distributors, testing laboratories, and retailers.
Fish and Wildlife	5.8	17.2	23.0	• Monitor and reduce environmental impacts of cultivation.
State Water Resources Control Board	6.7	9.8	16.5	• Regulate water-related environmental impacts of cultivation.
Public Health	2.5	10.6	13.1	• License manufacturers.
Highway Patrol	—	3.0	3.0	• Train officers to become Drug Recognition Experts.
Tax and Fee Administration	—	2.7[a]	2.7	• Administer cannabis taxes.
Pesticide Regulation	0.7	1.3	2.0	• Develop pesticide use guidelines for cultivation and conduct associated outreach.
Cannabis Control Appeals Panel	—	1.0	1.0	• Hear cannabis licensing-related appeals.
Totals	**$23.1**	**$100.6**	**$123.8**	

[a] Department will redirect similar amount of existing resources to administer cannabis taxes.

- ***Creates System for Verification of Local Permission to Operate.*** Requires state licensing authorities to communicate with local governments to determine whether an applicant for licensure is compliant with local ordinances.

- ***Addresses Testing and Quality Assurance.*** Includes various provisions related to the testing and quality assurance process, including creating a quality assurance compliance monitor employed by DCA to conduct random quality control inspections and verify compliance with state standards.

- ***Amends Tax Collection Provisions.*** Requires all the cannabis excise taxes—including the excise taxes on cultivation and retail sales—to be remitted by the cannabis distributor. Clarifies that this tax collection will happen when the product enters the commercial market (after the product complies with quality assurance). Also specifies that the excise tax on retail sales shall be collected based on the average market price rather than on gross receipts.

- ***Addresses Challenges of Cannabis-Related Cash Payments.*** Requires the Secretary of Business, Consumer Services, and Housing to work with various entities to ensure that there is a safe and viable way to collect cash payments for taxes and fees related to cannabis. Requires the establishment of a state office to collect fees and taxes in the County of Humboldt, Trinity, or Mendocino.

Sacramento Infrastructure Projects

State Project Infrastructure Fund (SPIF) Transfers. In adopting the 2016-17 budget package, the Legislature established the SPIF and provided $1.3 billion from the General Fund to the SPIF over two years—$1 billion that was appropriated in 2016-17 and an additional $300 million to be provided in 2017-18. This funding was expected to fund three projects in Sacramento: (1) a new building at the current Food and Agriculture Annex site on O Street (O Street Building), (2) a new Resources Building, and (3) either replacement or renovation of the State Capitol Annex. These three buildings reflect the first step of the administration's larger regional strategy to expand and improve state office buildings in the Sacramento area over the next ten years.

The 2017-18 budget transfers $851 million of the $1 billion that was appropriated to the SPIF in 2016-17 to the General Fund. The budget also approves the use of an equivalent amount of lease revenue bonds to finance the construction of the O Street and new Resources buildings. The budget package also eliminates the $300 million transfer from the General Fund to the SPIF that was scheduled for 2017-18.

Printing Plant Demolition. The budget provides $909,000 from the General Fund to complete preliminary plans for a project to demolish the state's existing printing plant. The total cost of the demolition is estimated to be $16.4 million. Once the existing printing plant is demolished, the Governor plans to develop the site into a new state office building consistent with his plans for state office buildings in the Sacramento region described above.

Department of Food and Agriculture

The budget plan includes $525 million from various funds for support of CDFA in 2017-18. This is a net increase of $74 million, or 16 percent, from the revised 2016-17 spending level. The net increase is mainly due to increased spending of (1) $21.2 million for various pest prevention programs, and (2) $28.6 million for cannabis-related regulatory activities (discussed in more detail elsewhere in this section).

Pest Prevention Staffing Increase. The budget includes a total of $4.4 million ($1.8 million General Fund and $2.6 million Department of

Food and Agriculture Fund) in 2017-18, increasing to $5.4 million ($1.9 million General Fund, $2.9 million Department of Food and Agriculture Fund, and $570,000 reimbursements) annually beginning in 2018-19, to enhance various elements of the Plant Health and Pest Prevention Services (PHPPS) division's pest prevention program. CDFA will establish 190.5 permanent positions (25.5 new positions and 165 positions shifted from temporary to permanent status) in 2017-18 and an additional 3.5 permanent positions in 2018-19.

The budget plan also provides $1.8 million in federal funds for 20 positions to enhance the PHPPS division's exotic pests mitigation capabilities by establishing emergency plant health response teams.

Asian Citrus Psyllid (ACP) and Pierce's Disease. The budget includes a one-time increase of $10 million from the General Fund to expand the state's response to ACP—an insect that spreads the disease Huanglongbing to citrus trees. The budget also includes a one-time increase of $5 million from the General Fund to expand the Pierce's Disease Control Program to address the disease's impact on grapevines.

Office of Emergency Services (OES)

The budget provides OES with $1.3 billion (more than three-quarters from federal funds) in 2017-18. This is a net decrease of $114 million, or about 8 percent, compared to the estimated spending level for 2016-17. (Most of this decrease is related to the completion of the Proposition 1B bond program.)

Disaster- and Drought-Related Local Assistance. The budget provides an additional (1) $28.4 million from the General Fund for California Disaster Assistance Act (CDAA) to provide disaster-related assistance to local communities, such as for the 2017 winter storms and for the removal of dead and dying trees that pose a risk to public infrastructure; (2) $25 million from the Greenhouse Gas Reduction Fund for grants to local fire departments in high fire-risk areas; and (3) $6.5 million from the General Fund on a one-time basis for OES to provide temporary water to communities that continue to suffer from effects of the drought. (The fire and drought funding provided in the budget are described further in the "Resources and Environmental Protection" section of this report.)

Victim Services and Other Non-Disaster Related Local Assistance. The budget provides an additional $17 million on a one-time basis to various victims programs operated by OES. This includes (1) $10 million from the General Fund for a Homeless Youth Housing Program, as well as provisional language specifying how the funding shall be used; (2) $5 million from the General Fund for the Human Trafficking Victim Assistance Program, which provides grants to providers of comprehensive services for victims of human trafficking; and (3) $2 million ($1.5 million from the General Fund and $500,000 from the Anti-Terrorism Fund) for the Nonprofit Security Grant Program, which provides grants to nonprofits at high risk of terrorist attack to pay for physical security enhancements. The budget also modifies the funding level for various other local assistance programs operated by OES that have historically been funded by the State Penalty Fund. (The changes to State Penalty Fund-related programs are described in greater detail in the "Judiciary and Criminal Justice" section of this report.)

Department of Consumer Affairs

The budget provides DCA with $653 million. This is a net increase of $13 million, or about 2 percent, compared to the estimated spending level for 2016-17. This includes $30.5 million for regulation of commercial medical and nonmedical cannabis as described in an earlier section of the report.

BreEZe. The budget provides a total of $19.8 million on a one-time basis in 2017-18 from various DCA special funds for the BreEZe project. The BreEZe project was proposed to be an integrated, web-enabled enforcement and licensing information technology (IT) system that would replace various systems that have been in place at all of the entities within DCA. It was proposed to be completed in three phases (or "releases"), with roughly half of the entities in the third release. In 2015, the state decided to cancel the project after the second release. The funding provided will support 43 positions and various contract and other costs related to maintaining the BreEZe IT system for the first two releases.

California Military Department (CMD)

The budget provides CMD with $184 million, about two-thirds from federal funds. This is a net reduction of $29 million, or about 13 percent, compared to the estimated spending level for 2016-17. The budget for CMD also includes $142 million in lease revenue bond authority to construct a new headquarters facility. The total estimated cost of the project—including previously funded acquisition and performance criteria phases—is $159 million. The project will consolidate headquarters staff that are currently divided among three leased buildings in the Sacramento region and address the security deficiencies of those facilities.

Labor Programs

Interest Payment for Federal Unemployment Insurance (UI) Loan. California's UI trust fund reserve was exhausted in 2009, requiring the state to borrow from the federal government to continue payment of UI benefits. The balance of California's outstanding federal loans is declining and is estimated to be $1.4 billion at the end of 2017. The state is required to make annual interest payments on these federal loans. The 2017-18 spending plan includes $52 million from the General Fund to make the interest payment due in the fall of 2017. The federal loans are projected to be fully repaid in 2018.

Increased Funding for Labor Law Enforcement. The spending plan includes an increase of $4.6 million from special funds in 2017-18 and 31 positions, growing to an ongoing amount of $11 million (special funds) and 82.5 positions by 2019-20, for the Division of Labor Standards Enforcement (DLSE) within the Department of Industrial Relations (DIR). This significant increase in funding and positions is intended to allow DLSE to expand efforts to enforce wage and hour requirements in labor law.

Funding for Implementation of Recent Workers' Compensation Reforms. The spending plan includes an increase of $14.7 million from special funds in 2017-18 ($13.6 million ongoing) and 73 positions for the Division of Workers Compensation in DIR to implement the provisions of recent legislation related to workers' compensation—Chapter 852 of 2016 (AB 1244, Gray) and Chapter 868 of 2016 (SB 1160, Mendoza). Funding will be primarily used to support activities related to (1) a new process for suspending certain medical providers, including those convicted of fraud, from the workers' compensation system; (2) a new process for staying claims for payment (liens) of medical providers that have been indicted or charged with fraud; and (3) various changes to "utilization review" practices that workers' compensation insurance providers and employers use to ensure that injured employees receive treatment that is consistent with treatment guidelines and to limit overutilization of medical services.

One-Time Funding for Employment Services for Supervised Populations. The spending plan includes $2 million on a one-time basis from the General Fund for the Employment Development Department to support the Supervised Populations Workforce Training Grant program. Funding will be distributed based on a competitive application process to local grantees that provide workforce training for supervised populations (such as individuals on parole or probation).

Department of Veterans Affairs

The spending plan for the California Department of Veterans Affairs (CalVet) includes $391 million from the General Fund in 2017-18, a decrease of $13 million over revised estimates for 2016-17. This amount is expected to be offset by $75 million from federal reimbursements for Veterans Homes.

Changes to Veterans Homes Admissions and Level of Care Services. The State of California runs eight residential Veterans Homes designed to serve older or disabled veterans, whose needs range from independent living with minimum supervision to advanced medical care for residents with significant disabilities. State law and regulations prioritize certain veterans for admissions, including Medal of Honor recipients, homeless veterans, and former prisoners of war. The budget plan expands priority admissions to veterans with a 70 percent or higher service-connected disability. These veterans, if placed in certain levels of care in the Veterans Homes, receive an increased federal reimbursement rate. There is potential for increased revenues to the state resulting from the increased admission of veterans with a higher federal reimbursement rate. The legislation also specifies legislative intent that any increased revenues resulting from these changes remain in the CalVet budget. However, the exact amount and timing of the increased revenue is uncertain.

Capital Outlay. The 2017-18 budget includes funding for various capital outlay projects in CalVet, using a combination of funding sources:

- ***Veterans Home of California, Yountville.*** The 2017-18 spending plan provides a total of about $40 million in lease revenue bonds, Veterans Homes bonds, and federal funds to renovate the steam distribution and chilled water system and upgrade the central power plant in the Yountville Veterans Home.

- ***Southern California Cemetery.*** The 2017-18 spending plan includes $5 million from the General Fund for the construction of a Southern California Veterans Cemetery, with $500,000 of the funding being used to conduct preliminary studies of a potential cemetery site.

- ***Central Coast Veterans Cemetery.*** The 2017-18 spending plan provides $1.5 million from the General Fund to expand the existing Central Coast Veterans Cemetery, estimated to result in about 3,700 in-ground burial sites.

Housing

Increases Funding for Housing Programs. The budget provides $28.25 million for various housing-related programs: $20 million for local navigation centers, which provide temporary housing and case management for homeless individuals; $8 million for affordable housing for homeless and low-income individuals and families in Los Angeles; and $250,000 for migrant worker housing in Napa County.

Housing Package. In September, the Legislature passed a package of bills aimed at ameliorating the state's housing crisis. The package includes two new sources of funding for affordable housing programs. First, the package creates a $75 charge on certain real estate documents. The bulk of the proceeds would be allocated to cities and counties to fund affordable rental and ownership housing for low-income and middle-income households. Second, the package places a $4 billion general obligation bond on the November 2018 ballot. Should voters approve the bond, $1.5 billion of the funds will go to low-income multifamily housing, $1 billion to veterans' housing assistance, and the remainder divided amongst various programs to fund a variety of housing and related infrastructure. The housing package also includes a variety of bills aimed at making it easier for housing developments to gain local approval. Changes include requiring streamlined approval of certain multifamily housing in localities failing to meet state housing goals and strengthening rules that prohibit localities from denying or scaling back projects that comply with local land use rules.

Sales and Use Tax (SUT) Exemption

Since 2014, California has exempted certain sales of manufacturing or research and development (R&D) equipment from the General Fund portion of the SUT. Assembly Bill 395 expands this exemption to new types of equipment and businesses, effective January 1, 2018. It also delays the exemption's expiration date from 2022 to 2030. The administration estimates that the expansion of the exemption will reduce General Fund SUT revenue by $45 million in 2017-18 and $89 million on an ongoing basis. Assembly Bill 395 and AB 131/SB 116 establish an annual transfer from the Greenhouse Gas Reduction Fund to the General Fund that would offset this revenue loss.

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