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The 2016-17 Budget: California Spending Plan



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LAO 

2016-17 BUDGET

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Chapter 1: Key Features of the 2016-17 Budget

Each year, the Legislative Analyst’s Office publishes the *California Spending Plan* to summarize the annual state budget. This publication discusses the *2016-17 Budget Act* and other major budget actions approved during 2016. Unless indicated otherwise, figures and dollar amounts generally refer to budget actions passed as part of the June 2016 budget package, as signed into law on June 27 and July 1, 2016. In some cases,

as noted, we discuss later budget actions approved during August 2016 by the Legislature. During August, for example, the Legislature and the Governor agreed to spend certain cap-and-trade funds. The budget totals include \$400 million (General Fund) for affordable housing even though the Legislature and Governor have not reached agreement on this spending.

BUDGET OVERVIEW

State Spending

Figure 1 displays total state and federal spending in the 2016-17 budget package as of June 2016. As shown in the figure, the budget at that time assumed total state spending of \$167.1 billion (not including federal and bond funds), an increase of 3.2 percent over revised totals for 2015-16. General Fund spending in the budget package

is \$122.5 billion—an increase of \$6.9 billion, or 6 percent, over the revised 2015-16 level.

General Fund Revenues

Figure 2 (see next page) displays the revenue assumptions incorporated into the June 2016 budget package. The budget assumes \$120.3 billion in revenues and transfers in 2016-17, a 2.8 percent increase over 2015-16. The state’s “Big Three”

Figure 1
Total State and Federal Fund Expenditures^a

(Dollars in Millions)

Fund Type	Revised		Enacted 2016-17	Change From 2015-16	
	2014-15	2015-16		Amount	Percent
General Fund ^b	\$113,448	\$115,571	\$122,468	\$6,897	6.0%
Special funds	41,702	46,408	44,629	-1,779	-3.8
Budget Totals	\$155,149	\$161,979	\$167,097	\$5,118	3.2%
Selected bond funds	\$5,145	\$7,786	\$3,766	-\$4,020	-51.6%
Federal funds	90,049	96,129	95,908	-221	-0.2

^a Does not reflect budgetary actions after June 2016, such as spending legislation related to the cap-and-trade program. The budget totals include \$400 million (General Fund) for affordable housing even though the Legislature and Governor have not reached agreement on this spending.

^b Includes Proposition 30 Education Protection Account.

Figure 2
General Fund Revenue Assumptions^a

(Dollars in Millions)

	Revised		Enacted 2016-17	Change From 2015-16	
	2014-15	2015-16		Amount	Percent
Personal income tax	\$76,169	\$79,962	\$83,393	\$3,431	4.3%
Sales and use tax	23,682	25,028	25,727	699	2.8
Corporation tax	9,417	10,309	10,992	683	6.6
Subtotals, "Big Three" Taxes	(\$109,268)	(\$115,299)	(\$120,113)	(\$4,814)	(4.2%)
Insurance tax	\$2,445	\$2,486	\$2,345	-\$141	-5.7%
Other revenues	2,057	2,190	1,702	-488	-22.3
Transfer to BSA	-1,606	-1,814	-3,294	-1,479	—
Other transfers and loans	-374	-1,159	-556	603	—
Totals, Revenues and Transfers	\$111,789	\$117,001	\$120,310	\$3,308	2.8%

^a Includes Proposition 30 Education Protection Account revenues.
BSA = Budget Stabilization Account (Proposition 2 rainy day fund).

General Fund taxes—the personal income tax, sales and use tax, and corporation tax—are assumed to increase at a slightly higher rate (4.2 percent). The difference between these growth rates is attributable to a decline in other revenues. This includes more sizeable “negative transfers” in 2016-17 (the result of a larger deposit into the state’s rainy day fund) and a decline in proceeds from the insurance tax (which falls as a result of the managed care organization tax package adopted this year).

Proposition 2 (2014). As shown in the figure, the June 2016 budget package assumed that 2016-17 will end with \$8.5 billion in reserves. This total included required reserve deposits of \$1.3 billion, an optional deposit of \$2 billion in the BSA, and a discretionary increase in the SFEU of \$0.6 billion. As noted above, the budget numbers, including the reserve estimates in Figure 3, assume the expenditure of \$400 million from the General Fund on affordable housing. Absent an agreement

Reserves

Figure 3 displays a breakdown of the total reserves assumed in the 2016-17 budget package, as of June 2016. This figure includes both reserves in the Special Fund for Economic Uncertainties (SFEU), the state’s discretionary reserve, and the Budget Stabilization Account (BSA), the state’s rainy day reserve created by

Figure 3
\$8.5 Billion in Reserves in June 2016 Budget Package^a

(In Billions)

Reserves Assumed in 2015-16 Budget	\$4.6
Required Reserves	
BSA true up deposit for 2015-16	— ^b
BSA initial deposit for 2016-17	1.3
Subtotal, Required Deposits	(\$1.3)
Optional Reserves	
2016-17 proposed increase in SFEU ^c	\$0.6
2016-17 additional BSA deposit	2.0
Subtotal, Optional Reserves	(\$2.6)
Total Reserve Balances	\$8.5

^a Reflects reserves assumed in June 2016 budget package. As described in the text, SFEU balance may be \$400 million higher as the Legislature and the Governor have not reached agreement to spend \$400 million on affordable housing, as had been assumed in June 2016 budget package.

^b Budget act estimates a “true down,” resulting in a reduction of \$39 million.

^c Amount by which SFEU grows relative to the 2015-16 budget plan.

BSA = Budget Stabilization Account and SFEU = Special Fund for Economic Uncertainties.

to spend this amount, reserves may be higher at the end of 2016-17 by a corresponding amount.

The Condition of the General Fund

Figure 4 displays the condition of the General Fund under the revenue and spending assumptions in the June 2016 budget package, as estimated by the Department of Finance. As described above, 2016-17 ends with \$8.5 billion in total estimated reserves—up by \$1.1 billion from the amount now estimated at the end of 2015-16. This shows that estimated state General Fund revenues (\$124.2 billion) exceed total General Fund expenditures (\$122.5 billion). Spending includes both ongoing program costs and one-time items, such as \$1 billion in state office building replacements. To the extent that revenues and spending differ from the June 2016 budget

Figure 4
General Fund Condition as of June 2016 Budget Package^a

<i>(In Millions)</i>		
	Revised 2015-16	Enacted 2016-17
General Fund Condition		
Prior-year fund balance	\$3,444	\$4,875
Revenues and transfers	117,001	120,310
Expenditures	115,571	122,468
Ending fund balance	\$4,875	\$2,717
Encumbrances	966	966
SFEU balance	3,909	1,751
Reserve Balances		
SFEU balance	\$3,909	\$1,751
BSA balance	3,420	6,714
Total Reserves	\$7,329	\$8,465
Revenues and Transfers		
Personal income taxes	\$79,962	\$83,393
Sales and use taxes	25,028	25,727
Corporation taxes	10,309	10,992
Other revenues	4,676	4,047
Subtotals, Revenues	(\$119,976)	(\$124,159)
Transfers to BSA	-\$1,814	-\$3,294
Other transfers (net)	-1,159	-556
Totals	\$117,001	\$120,310
Spending		
Proposition 98 (General Fund)	\$49,722	\$51,050
Non-Proposition 98	65,849	71,418
Totals	\$115,571	\$122,468

^a Reflects Department of Finance estimates as of June 2016. Assumes the expenditure of \$400 million (General Fund) for affordable housing even though the Legislature and Governor have not reached agreement on this spending. Includes Education Protection Account created by Proposition 30 (2012). BSA = Budget Stabilization Account and SFEU = Special Fund for Economic Uncertainties.

estimates—for example, if 2016-17 revenues are higher or lower than the assumed level in Figure 2—reserves will differ from this total.

MAJOR FEATURES OF THE 2016-17 SPENDING PLAN

The major features of the 2016-17 budget plan are summarized below.

Discretionary General Fund Spending

In constructing the budget, the Legislature was faced with decisions over how to allocate over \$6 billion in discretionary resources.

(“Discretionary” in this context excludes billions of dollars controlled by constitutional funding requirements, such as Proposition 98 and Proposition 2, and added costs to maintain existing policies.) This allocation includes proposals made by the Governor in January and May, which were later approved by the Legislature, as well

as legislative choices made in putting together the final budget package. Figures 5 and 6 show how the June 2016 budget package allocated over \$6 billion in discretionary General Fund resources, prioritizing reserves and temporary spending.

Allocated \$2.6 Billion to Increasing Reserve Funds. In addition to the required reserves under Proposition 2, the budget makes an additional deposit of \$2 billion into the BSA, the state’s constitutional rainy day fund. The June 2016 budget package also grows budget reserves in the state’s discretionary reserve fund, the SFEU, by an additional \$0.6 billion. Together, the June budget

package allocates \$2.6 billion in discretionary General Fund resources toward reserves.

Sets Aside \$1.8 Billion for One-Time Infrastructure Spending. The budget sets aside \$1.3 billion over two years (\$1 billion in 2016-17 and \$0.3 billion in 2017-18) for a new State Project Infrastructure Fund. These funds will be continuously appropriated for the replacement and renovation of various state office buildings. The budget package also includes \$485 million in non-Proposition 98 General Fund resources to fund various statewide deferred maintenance projects on a one-time basis.

Repeals the Maximum Family Grant (MFG) Policy. The budget includes legislation repealing the MFG policy, which specified that a family enrolled in California Work Opportunity and Responsibility to Kids (CalWORKs) does not receive a higher grant to reflect the birth of a child born after ten continuous months of assistance. The expected General Fund cost of the repeal of the MFG policy in 2016-17 is \$97 million. These General Fund costs are anticipated to increase in 2017-18, but to eventually decline to zero as growth in certain county realignment funds are used to pay these costs.

Increases Funding for Affordable Housing

**Figure 5
June 2016 Budget Package Allocates Over \$6 Billion in Discretionary General Fund Resources**

<i>General Fund Budget Commitments by Type (In Billions)</i>	
Reserves	
Makes extra rainy day fund deposit	\$2.0
Grows discretionary reserve balance	0.6
Subtotal	(\$2.6)
Temporary Spending	
Replaces and renovates state office buildings	\$1.0
Funds statewide deferred maintenance projects	0.5
Increases funding for affordable housing-related programs ^a	0.5
Funds the IHSS service restoration	0.3
Augments funding for drought-related activities	0.2
Provides funding for local public safety package	0.1
Repeals maximum family grant policy ^b	0.1
Provides grants for community services infrastructure	0.1
Adopts various other Conference Committee proposals	0.2
Subtotal	(\$2.9)
Ongoing Spending Commitments	
Augments funding for UC and CSU	\$0.3
Sets aside funds for future collective bargaining processes	0.2
Makes augmentations for CDCR and courts	0.1
Makes augmentations for SSI/SSP and DDS	0.1
Subtotal	(\$0.7)
Total	\$6.2

^a Assumes the expenditure of \$400 million (General Fund) for affordable housing even though the Legislature and Governor have not reached agreement on this spending.
^b Budget-related legislation specifies that growth in certain dedicated realignment funds be used in future years to reduce and eventually end the General Fund costs of this action.
 Note: Excludes spending on K-14 education, reserves, and debt (required by the California Constitution) and added costs to maintain existing policies. Figure also excludes some smaller spending proposals.
 IHSS = In-Home Supportive Services; CDCR = California Department of Corrections and Rehabilitation; and DDS = Department of Developmental Services.

Programs. The budget provides one-time funding of \$45 million for temporary housing assistance for homeless individuals. While the June 2016 budget passage set aside \$400 million for affordable housing programs, this funding was contingent on changes to state law to streamline local approval processes of certain multifamily housing projects that contain affordable housing units. Because these changes to state law were not adopted by the end of the 2015-16 legislative session, there is currently no budgetary authority to spend this \$400 million. Without additional legislative action, this \$400 million essentially will remain in the state's discretionary budget reserve, the SFEU.

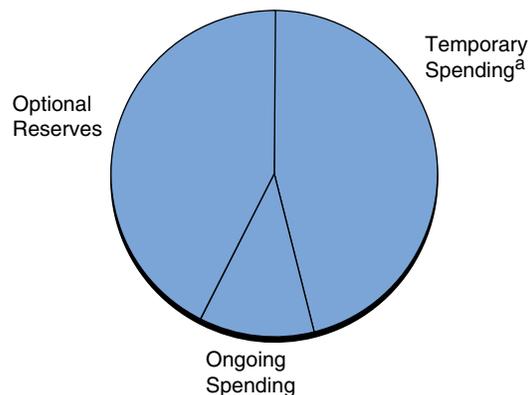
Increase in University Funding. The budget provides \$299 million in new ongoing state General Fund support for the University of California (UC) and the California State University (CSU) combined. Of this amount, \$144 million is for UC and \$155 million is for CSU. The additional funding is primarily for general purpose base increases and resident enrollment growth.

Provides Public Safety Funding. The budget provides funding for various public safety programs on a one-time basis. This includes: \$20 million for city law enforcement grants; \$15 million for a Law Enforcement Assisted Diversion program; \$10.2 million for Uninhabitable Police Station grants; and \$10 million for mental health treatment, substance abuse treatment, and diversion programs otherwise funded through Proposition 47. The budget package also includes some other one-time and ongoing spending for trial court security, counter-violence and gang activity prevention, and services for ex-offenders. (As discussed below, the budget package authorizes \$270 million in lease revenue bonds for replacing and renovating county jails, a change from the Governor's request to allocate funds for this purpose from the General Fund.)

Figure 6

June 2016 Budget Package Emphasizes Reserves, Temporary Spending

*How Budget Allocates
\$6.2 Billion in Discretionary Spending*



^a The Legislature and the Governor have not yet reached agreement on budget authority to spend \$400 million of this \$2.9 billion in "temporary spending" on a one-time basis for affordable housing programs.

Note: Excludes spending on K-14 education, reserves, and debt (required by the California Constitution), and added costs to maintain existing policies. Figure also excludes some smaller spending proposals.

Mandatory General Fund Spending

The budget package includes spending allocations driven by constitutional funding requirements, such as Proposition 98 and Proposition 2. The major features of these mandatory items are discussed below.

Increase in Proposition 98 Funding. Due primarily to increases in state General Fund revenue, the budget package revises estimates of the Proposition 98 minimum guarantees for 2014-15 and 2015-16 upward by a combined \$1.5 billion. The 2016-17 minimum guarantee is \$2.8 billion (4.1 percent) higher than the revised 2015-16 level. The bulk of new ongoing and one-time Proposition 98 spending is distributed on a per-student basis for locally determined priorities. The package includes some new spending for specified state priorities, including the creation of a new ongoing community college workforce program and a new one-time college readiness initiative.

Mandatory Reserve Deposits Under

Proposition 2. Proposition 2 requires the state to make minimum annual deposits into the BSA, the state’s rainy day fund. The budget includes a total Proposition 2 reserve requirement in 2016-17 of \$1.3 billion. Including optional reserves, as shown in Figure 4, the budget assumes 2016-17 will end with \$8.5 billion in reserves.

Mandatory Debt Payments Under

Proposition 2. In addition to a required BSA deposit, Proposition 2 requires the state to make minimum annual payments toward certain eligible state debts. The total amount of these required debt payments in 2016-17 is \$1.3 billion. Figure 7 shows how the 2016-17 budget package allocated these debt payments. Most were directed toward repaying special fund loans to the General Fund.

Other Spending

The budget package also authorizes spending from new bond funding:

- **Authorizes \$2 Billion for “No Place Like Home” Supportive Housing Program.** The budget package funds the construction and rehabilitation of permanent supportive housing for homeless individuals with mental illness using \$2 billion in bonds. These bonds would be repaid using revenues from the Mental Health Services Act (Proposition 63 of 2004), which established a state personal income tax of 1 percent on taxpayers with annual incomes of more than \$1 million.
- **Authorizes \$270 Million in Bonds for County Jails.** The budget package authorizes

\$270 million in lease revenue bonds that would fund grants to counties for replacing or renovating county jails. These funds will be awarded to eligible counties primarily for increasing program and healthcare space.

Figure 7	
Proposition 2 Debt Payments in 2016-17	
<i>(In Millions)</i>	
	Amount
Special fund loan repayments and interest	\$627 ^a
Proposition 98 settle up	218
University of California pensions	171
State and CSU employee retiree health	278
Total	\$1,294

^a Includes \$173 million in repayments to the Transportation Congestion Relief Fund.

EVOLUTION OF THE BUDGET

January Budget Proposed Over \$10 Billion

Reserve. On January 7, 2016 the Governor presented his 2016-17 budget proposal to the Legislature. The budget included \$168 billion of state spending, including \$123 billion in General Fund spending and \$45 billion in special fund spending. The administration’s January revenue estimates for 2015-16 and 2016-17 were up by billions of dollars compared to the prior

year’s budget act. After satisfying constitutional requirements for higher reserves and spending on education, the Governor proposed \$3.1 billion in extra reserve deposits, resulting in total reserves of \$10.2 billion. The Governor also proposed some new spending commitments, in particular \$2.3 billion for one-time infrastructure spending.

May Revision: Lower Revenues, Lower Required Reserves and Debt Payments. April 2016

state revenues fell short of projections. As a result, relative to the Governor’s January budget proposal, the May Revision reflected a net \$1.9 billion lower revenue estimate across 2014-15, 2015-16, and 2016-17 combined. Largely as a result, the administration’s estimate of required reserve deposits and debt payments under Proposition 2 were \$1.6 billion lower in the May Revision relative to the Governor’s budget. Meanwhile, relative to January, the administration’s estimate of the Proposition 98 minimum guarantee was higher by a combined \$626 million (\$389 million General Fund) over 2014-15, 2015-16, and 2016-17.

Final Budget Package Included \$8.5 Billion Reserve. The Legislature passed the final budget package on June 15, 2016. Total reserves in the final budget package were lower by only \$36 million compared to the Governor’s proposal in May. Various choices were made to shift spending priorities compared to the Governor’s proposal. Budget savings resulted from (1) reduced spending on state office buildings, (2) shifting funding for the construction of local jails from General Fund to bond funds, and (3) reduced retiree health spending due to lower than expected healthcare costs. Correspondingly, the final budget deal reflected higher spending for repealing the

MFG policy and various public safety programs. Subsequent changes made after the budget bill was signed by the Governor will likely result in higher reserves than those assumed in the budget package.

Budget Package Signed by Governor. The Governor signed the *2016-17 Budget Act* and other budget-related bills on June 27, 2016; July 1, 2016; September 13, 2016; and September 14, 2016. These bills are detailed in Figure 8. The Governor did not veto any appropriations in the *2016-17 Budget Act*.

Figure 8
2016-17 Budget-Related Legislation^a

Bill Number	Chapter	Subject
Passed in June 2016		
SB 826	23	<i>Budget Act of 2016</i>
AB 1602	24	Higher Education
AB 1603	25	Public Social Services Omnibus
AB 1606	26	Developmental Services
AB 1607	27	Medi-Cal: Hospitals: Quality Assurance Fee
AB 1618	43	“No Place Like Home” Housing Program
AB 1622	44	Housing-Related Items
SB 827	28	<i>Budget Act of 2015: Augmentation</i>
SB 828	29	K-14 Education and Child Care
SB 833	30	Health
SB 836	31	State Government
SB 837	32	State Government
SB 843	33	Public Safety
SB 844	34	Correctional Facilities: Construction
SB 848	35	State Employment
Passed in August 2016		
AB 1613	370	Cap-and-Trade: Greenhouse Gas Reduction Funds Appropriations
AB 1623	318	Amendments to the <i>Budget Act of 2016</i>
AB 1624	319	Education
AB 1625	320	Health and Human Services
AB 1627	321	State Employment: Memorandum of Understanding
AB 1628	322	No Place Like Home Program: Financing
AB 1630	323	State Employment
SB 831	338	Water Resources
SB 835	344	State Government
SB 838	339	Transportation
SB 839	340	Public Resources
SB 840	341	Public Resources: Energy
SB 859	368	Public Resources: Greenhouse Gas Emissions and Biomass

^a Includes budget bill and “trailer bills” identified in Section 39.00 of the *2016-17 Budget Act* that were enacted into law.

2016-17 BUDGET

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. Below, we provide an overview of Proposition 98 funding and spending changes under the enacted budget package. We then highlight Proposition 98 spending changes specifically for K-12 education and the California Community Colleges (CCC). In the “Higher Education” section of this report, we discuss certain crosscutting CCC issues. On the Education portion of our website, we post many “EdBudget Tables” summarizing key components of the education budget.

Minimum Guarantee

Proposition 98 Funding Revised Upward Across Three-Year Period. Proposition 98 establishes a minimum funding requirement commonly called the minimum guarantee. Figure 9 shows the estimates of the minimum guarantee for 2014-15, 2015-16, and 2016-17. Compared with the estimates from June 2015, the 2014-15 and 2015-16 guarantees have increased by \$843 million and \$641 million, respectively. These upward revisions are due primarily to increases in state revenue relative to the amounts assumed in last year’s budget package. The estimate of

the 2016-17 minimum guarantee is \$3.5 billion (5.1 percent) higher than the *2015-16 Budget Act* level.

Two Key Drivers of Increase in 2016-17.

Figure 10 (see next page) shows Proposition 98 funding for each segment. Total funding for all segments in 2016-17 is \$71.9 billion, a \$2.8 billion (4.1 percent) increase above the revised 2015-16 level. This change in the guarantee reflects 3.6 percent growth in the “Test 3 factor” combined with a supplemental appropriation of \$502 million. The Test 3 factor consists of 3.1 percent growth in per capita General Fund plus an additional 0.5 percent increase set forth in the State Constitution. The supplemental appropriation ensures that the minimum guarantee grows at least as quickly as the rest of the state budget.

Increase Covered About Evenly From Higher State General Fund and Local Property Tax Revenue. Of total Proposition 98 funding in 2016-17, \$51.1 billion is state General Fund and

**Figure 9
Tracking Changes in the
Proposition 98 Minimum Guarantee**

(Dollars in Millions)

	June 2015	June 2016	Change	
			Amount	Percent
2014-15	\$66,303	\$67,146	\$843	1.3%
2015-16	68,409	69,050	641	0.9
2016-17	—	71,874	3,465 ^a	5.1

^a Reflects change from June 2015 estimate of 2015-16 minimum guarantee.

Figure 10**Proposition 98 Funding by Segment and Source***(Dollars in Millions)*

	2014-15 Actual	2015-16 Revised	2016-17 Enacted	Change From 2015-16	
				Amount	Percent
Preschool^a	\$664	\$885	\$975	\$90	10%
K-12 Education					
General Fund	\$44,251	\$43,340	\$44,465	\$1,125	3%
Local property tax	14,810	16,759	18,057	1,298	8
Subtotals	(\$59,061)	(\$60,099)	(\$62,522)	(\$2,422)	(4%)
California Community Colleges					
General Fund	\$5,025	\$5,415	\$5,528	\$113	2%
Local property tax	2,306	2,569	2,767	198	8
Subtotals	(\$7,331)	(\$7,983)	(\$8,295)	(\$311)	(4%)
Other Agencies^b	\$90	\$82	\$83	—	—
Totals	\$67,146	\$69,050	\$71,874	\$2,824	4%
General Fund	\$50,029	\$49,722	\$51,050	\$1,328	3%
Local property tax	17,117	19,328	20,824	1,496	8

^a Beginning in 2015-16, includes \$145 million for wraparound care formerly funded with non-Proposition 98 General Fund.

^b Includes state agencies providing direct instruction to K-12 students. Consists entirely of General Fund.

\$20.8 billion is local property tax revenue. From 2015-16 to 2016-17, state General Fund increases by \$1.3 billion (accounting for slightly less than half of the \$2.8 billion increase in the guarantee) and local property tax revenue increases by \$1.5 billion (accounting for slightly more than half of the increase in the guarantee). The primary factor explaining the growth in property tax revenue is the strong 6.2 percent increase in assessed property values. In addition, the budget plan assumes property tax revenue increases by \$419 million due to the triple flip ending, thereby completing the shift of revenue from cities, counties, and special districts to school districts and community colleges.

New Maintenance Factor Created in 2016-17.

In 2014-15, General Fund tax revenue increased by 11 percent over the prior-year level, resulting in a maintenance factor payment of \$5.7 billion—the largest payment the state has ever made. In 2015-16, the budget assumes the state makes an additional maintenance factor payment of \$379 million,

reducing the total outstanding obligation to \$155 million. In 2016-17, the budget assumes the state creates \$746 million in new maintenance factor. The amount of new maintenance factor created is based on the difference between the Proposition 98 Test 2 and Test 3 factors. In 2016-17, growth in the Test 2 factor (per capita personal income) is strong (5.4 percent) relative to growth in the Test 3 factor (3.6 percent).

Overview of New Spending

Budget Package Contains Many Spending Changes. Given the increases in the minimum guarantee across the three-year period, the budget plan contains higher corresponding spending each year, as detailed below.

Higher 2014-15 Spending. Of the \$843 million increase in the 2014-15 minimum guarantee, the bulk of the additional spending (\$665 million) is discretionary funding provided on a per-student basis, with funds scored to outstanding mandate claims for those local educational agencies (LEAs)

with such claims. As shown in Figure 11, the remainder of the 2014-15 funds are designated for eight other initiatives.

Higher 2015-16 Spending. Of the \$641 million increase in the 2015-16 minimum guarantee, more than half of the additional spending (\$386 million) also is discretionary funding provided on a per-student basis and associated with the mandates backlogs. As shown in Figure 12, the remainder of the 2015-16 funds are designated for eight other initiatives, the largest being \$200 million to establish the College Readiness Block Grant. Spending changes for 2015-16 also include adjustments relating to property tax estimates, as discussed in the box on the next page.

Higher 2016-17 Spending. In 2016-17, the guarantee increases \$2.8 billion. In addition, \$1.2 billion is freed up from prior-year, one-time spending, resulting in \$4 billion in total available spending. Of this amount, \$3.3 billion is higher K-12 spending and \$716 million is higher

Figure 11
2014-15 Proposition 98 Changes^a

(In Millions)

2014-15 Spending as of 2015-16 Budget Act	\$66,303
Technical Adjustments	\$90
Policy Changes	
Provide K-12 mandates payments/discretionary funds	\$636
Provide CCC mandates payments/discretionary funds	29
Accelerate progress of CCC online education initiative	20
Provide grants for academic and behavioral supports	20
Fund charter school startup grants	20
Fund school water safety grants	10
Support California School Information Services	7
Conduct a teacher recruitment campaign	5
Fund K-12 High Speed Network ^b	4
Replace state's standardized school district accounting system	3
Subtotal	(\$753)
Total Changes	\$843
2014-15 Spending as of 2016-17 Budget Act	\$67,146

^a All items shown are funded on a one-time basis.
^b Budget also includes \$5 million in 2016-17 funds.

Figure 12
2015-16 Proposition 98 Changes^a

(In Millions)

2015-16 Spending as of 2015-16 Budget Act	\$68,409
Technical Adjustments	-\$25
Policy Changes	
Provide K-12 mandates payments/discretionary funds	\$310
Establish College Readiness Block Grant	200
Provide CCC mandates payments/discretionary funds	76
Fund CCEE for training and pilot program	24
Support classified school employees interested in teaching ^b	20
Fund dropout and truancy prevention program	18
Fund CTE Incentive Grant for Secondary Schools ^c	8
Improve CCC technology infrastructure	7
Increase funding for school breakfast programs	2
Support school activities sponsored by the Special Olympics	1
Subtotal	(\$666)
Total Changes	\$641
2015-16 Spending as of 2016-17 Budget Act	\$69,050

^a All items shown are funded on a one-time basis.
^b Classified school employees include instructional aides, bilingual assistants, and library assistants.
^c Budget also includes \$292 million in 2016-17 funds.
CCEE = California Collaborative for Educational Excellence and CTE = career technical education.

community college spending. The largest increase in K-12 spending is a \$2.9 billion augmentation for the Local Control Funding Formula (LCFF). The largest increase in CCC spending is \$200 million for a new Strong Workforce Program. As shown in Figure 13, the remainder of the 2016-17 funds are designated for more than two dozen other initiatives.

Additional \$218 Million in Spending Associated With Settle-Up Payment. The budget plan also includes a \$218 million settle-up payment related to meeting the Proposition 98 minimum guarantee for 2009-10. This payment reduces the state's outstanding settle-up obligation to \$1 billion. Of the \$218 million provided, the budget plan allocates \$194 million for reducing the K-12 mandates backlog and \$24 million for deferred maintenance and instructional equipment at the

community colleges. The state budget package scores this spending as a Proposition 2 debt payment.

K-12 Education

\$63.3 Billion Proposition 98 Funding for K-12 Education and Preschool Combined. This 2016-17 level is \$2.5 billion (4.1 percent) more than the revised 2015-16 funding and \$3.7 billion (6.3 percent) more than the *2015-16 Budget Act* level. The budget increases funding per student by \$440 (4.3 percent) over the *2015-16 Budget Act* level, bringing Proposition 98 funding per student up to \$10,657. We discuss specific K-12 augmentations below. We discuss specific preschool augmentations in the "Child Care and Preschool" section of the report.

Property Tax Shortfalls

State Has Two Basic Ways of Addressing Changes in Property Tax Revenue. For school districts and county offices of education (COEs), the state provides the bulk of funding through a "continuous appropriation." Under this method of budgeting, the state automatically adjusts General Fund spending to compensate for any changes in local property tax revenue that occur during the year. In contrast, for special education and community colleges, the state does not make automatic adjustments. However, the state through subsequent budget action typically provides General Fund backfills to address property tax shortages and reduces General Fund spending to address property tax surpluses. However, in some years, the state has chosen not to backfill a shortage and, in other years, the state has allowed a segment to keep a surplus and use it for one-time purposes.

Budget Includes Backfills for Special Education and Community Colleges. The 2016-17 budget package revises estimates of property tax revenue in 2015-16 upward for school districts and downward for COEs, special education, and community colleges. Under the continuous appropriation, the state has already adjusted 2015-16 General Fund spending on school districts and COEs to offset the changes in their property tax revenue. For special education, the budget provides \$27 million to backfill its property tax shortfall. For community colleges, the budget authorizes a backfill of up to \$32 million. Trailer legislation requires the Director of Finance to calculate the final amount of the community college shortfall by April 2017. Any funding ultimately not needed for the backfill is to be distributed to community colleges on a full-time equivalent enrollment basis and made available for any locally determined, one-time purpose. If a community college has any unpaid mandate claims, its allocation will pay down a portion of its backlog.

New Spending

Large Increase for LCFF. The \$2.9 billion augmentation brings total funding for implementing LCFF for school districts and charter schools up to \$55.8 billion, a 5.7 percent increase over the revised 2015-16 level. The administration estimates this funding will close 54 percent of the gap between current funding levels and LCFF target rates, bringing LCFF to 96 percent of its full implementation cost. School districts and charter schools may use LCFF monies for any educational purpose.

Significant Discretionary One-Time Funding. The largest one-time augmentation for K-12 education is \$1.3 billion that LEAs may use for any locally determined purpose. Funding would be distributed based on average daily attendance. If an LEA has unpaid mandate claims, funding would pay all or a portion of those claims. As many LEAs do not have any unpaid claims, we estimate only about half (\$617 million) of the

Figure 13
2016-17 Proposition 98 Changes

(In Millions)

2015-16 Revised Spending	\$69,050
Technical Adjustments	-\$1,167
K-12 Education	
Increase LCFF funding	\$2,942
Fund CTE Incentive Grant for Secondary Schools ^a	292
Increase preschool funding rates	44
Fund truancy and dropout prevention program	9
Add 2,959 full-day preschool slots ^b	8
Fund High Speed Network ^c	5
Support Exploratorium	4
Support Student Friendly Services	2
Improve web-based planning and reporting tools (year one of three)	1
Remove augmentation for infants and toddlers with disabilities	-30
Subtotal	(\$3,276)
California Community Colleges	
Create Strong Workforce Program	\$200
Fund deferred maintenance and instructional equipment (one time)	154
Fund 2 percent enrollment growth	114
Provide apportionment increase (above growth and COLA)	75
Extend CTE Pathways Initiative for one year ^d	48
Augment Basic Skills Initiative ^e	30
Fund Innovation Awards (one time)	25
Fund intersegmental college success partnerships	15
Restore funding for select student support programs	11
Increase funding for Institutional Effectiveness Initiative	10
Fund development of "zero-textbook-cost" degree programs (one time)	5
Increase ongoing support for technology infrastructure	5
Provide technical assistance to adult education consortia (one time)	5
Restore funding for part-time faculty office hours	4
Improve systemwide data security	3
Fund digital instructional materials for incarcerated adults ^f	3
Expand outreach and marketing	3
Extend Full-Time Student Success Grant to Cal Grant C recipients	2
Expand equal employment opportunity activities	2
Increase apprenticeship reimbursement rate	2
Augment funding for systemwide Academic Senate	— ^g
Subtotal	(\$716)
Total Changes	\$2,824
2016-17 Enacted Spending	\$71,874

^a Budget also includes \$8 million in 2015-16 funding for this purpose. Reflects year two of a three-year program.
^b Slots funded as of March 1, 2017.
^c Budget also includes \$3.5 million in 2015-16 funds.
^d Budget sunsets the CTE Pathways Initiative and folds funding into the Strong Workforce Program after 2016-17.
^e In 2016-17, funds provide additional Basic Skills and Student Outcomes Transformation grants. In subsequent years, funds augment the Basic Skills Initiative.
^f In recent years, the California Department of Corrections and Rehabilitation has purchased these materials with non-Proposition 98 funds.
^g Provides \$300,000.
 LCFF = Local Control Funding Formula; CTE = career technical education; and COLA = cost-of-living adjustment.

funding provided would reduce the K-12 mandates backlog. We estimate the outstanding K-12 mandates backlog will be \$987 million at the end of 2016-17.

Continues Second Year of Career Technical Education (CTE) Incentive Grant. The 2015-16 budget package created a three-year competitive grant program to promote CTE at secondary schools and provided \$400 million for the first year of the program. Consistent with the authorizing legislation, the 2016-17 budget provides \$300 million in second-year funding. Grantees are required to match these grant funds. As originally designed, the program provided separate pools of funding for large-, medium-, and small-sized applicants, based on applicants' average daily attendance in grades 7-12. The 2016-17 trailer legislation eliminates those separate funding pools. In addition, it gives the California Department of Education (CDE) authority to (1) review grantees' expenditures on CTE each year to determine if they have met their match requirement and (2) reduce future funding if the requirement has not been met.

Creates New College Readiness Block Grant Program. The 2016-17 budget package includes \$200 million in one-time funding for activities designed to increase college-going rates among certain groups of students. Specifically, trailer legislation requires CDE to allocate an equal amount to schools for each low-income, English learner, or foster youth high school student, with no school serving at least one of these students receiving less than \$75,000. The legislation specifies that schools can spend the funds through 2018-19. Allowable activities include increasing the number of college preparatory classes high schools offer, hiring college counselors, and paying for testing fees and preparation materials.

Requires Various Associated College Readiness Plans and Reports. As a condition of receiving funds, schools must develop plans

that (1) provide information about how many of their students have access to college preparatory classes, (2) identify how they will use the funds to increase college readiness, and (3) describe how their college-readiness efforts align with their Local Control and Accountability Plans. Schools must discuss their plans at a public meeting and adopt their plans at a subsequent public meeting. By January 1, 2017, schools also must submit reports to CDE about how they will measure the impact of the grant funding on their students' success in higher education. The department, in turn, must submit a report to the Legislature by April 30, 2017 summarizing districts' plans to track their performance. The department also must post annually on its website a list of high schools that have low-income, English learner, and foster youth students combined comprising more than 75 percent of their students.

Initiates New Activities of California Collaborative for Educational Excellence (CCEE). The CCEE was established in 2013-14 to advise and assist LEAs in improving student outcomes. The budget provides \$29.6 million (one time) for the CCEE to conduct two specific types of activities. The CCEE must use at least \$20 million to train LEAs on how to use the evaluation rubrics. (By October 2016, the State Board of Education must adopt evaluation rubrics that help LEAs assess their strengths and weaknesses and help CCEE and county offices of education (COEs) determine if LEAs need assistance.) The CCEE training must be made available to all LEAs and can be provided to employees, parents, students, and other members of the community. The remainder of available funding (up to \$9.6 million) is for the CCEE to create a pilot program that will help inform its efforts to assist LEAs that are struggling. To the extent possible, the pilot program is to include LEAs from all regions of the state.

Supports New Dropout and Truancy Prevention Program. Proposition 47, which was approved by voters in November 2014, reduced the penalties for certain crimes. The measure requires that the resulting state savings, as estimated by the Department of Finance (DOF), be spent on designated programs beginning in 2016-17. Of the savings, 25 percent must go to CDE for the new Learning Communities for School Success Program, which provides competitive grants to schools to reduce dropout and truancy. The administration currently estimates that \$9.9 million in state savings will be available for this new program. The budget package includes an additional \$18 million in one-time funds for the program, resulting in total program funding of \$27.9 million. Of that amount, \$27.1 million is Proposition 98 program funding; \$493,000 is ongoing non-Proposition 98 General Fund for CDE to administer the new program; and \$300,000 is one-time Proposition 98 funding for CDE to contract with an LEA that, in turn, would coordinate regional meetings, conduct trainings, and provide technical assistance to grantees.

Funds Charter School Startup Grants. The budget plan includes \$20 million (one time) to provide startup grants for charter schools that are within one year of opening or have been open for less than one year. Applicants may receive grants of up to \$575,000 each (\$375,000 each for nonclassroom-based schools) based on the budgets and justifications provided in their applications. Charter schools located in low-income communities and counties with few or no existing charter schools receive priority for funding. Trailer legislation requires CDE to exhaust the remaining available federal funds before allocating any state funds. (The CDE currently administers a federally funded startup grant program that has an estimated carryover balance of approximately \$20 million.)

Increases Grant Amount for Academic and Behavioral Supports. The budget provides \$20 million on a one-time basis to help LEAs implement a statewide framework for supporting students with academic or behavioral issues. This funding is in addition to \$10 million in one-time funding provided to the Orange County Department of Education in 2015-16 to develop this framework.

Funds Safe Drinking Water Grants. The budget provides \$9.5 million in one-time funding for a grant program to improve the access to, and quality of, safe drinking water in child care, preschool, and K-12 facilities. The grant program will be operated by the State Water Resources Control Board, in consultation with CDE. Trailer legislation specifies funds from the grant can be used for the installation of water bottle filling stations or drinking fountain filters to remove contaminants.

Reinstates Funding for K-12 High Speed Network (HSN). The state funds the K-12 HSN as an annual grant from CDE to the Imperial COE to assist schools with network connectivity, Internet services, and information sharing. The 2015-16 budget provided no state funding for HSN, instead supporting the program through HSN's reserve. The 2016-17 budget includes \$8 million (\$4.5 million ongoing and \$3.5 million one time) to support the network. To help address HSN's cash flow issues, trailer legislation requires CDE to release three-quarters of the grant by the end of August and the remaining one-quarter by the end of January. Budget language requires the grantee or its contractor, the Corporation for Education Network Initiatives in California, to report quarterly to DOF and the Legislature about the state and federal subsidies it receives as a result of the Broadband Infrastructure Improvement Grants (BIIG), a program the state funded in 2014-15 and 2015-16. Budget language also specifies that the

HSN cannot spend any of the state and federal subsidies resulting from the BIIG without DOF approval and notification to the Joint Legislative Budget Committee (JLBC).

Provides Ongoing Support to the Exploratorium in San Francisco. Trailer legislation provides \$3.5 million in ongoing Proposition 98 funding to the Exploratorium, a science museum in San Francisco. This funding is intended to support professional development for teachers implementing the state's new science standards. This funding is provided as an add-on to the LCFE allocation for the San Francisco Unified School District, which, in turn, must pass the funds through to the Exploratorium.

Re-Initiates Replacement of Standardized Account Code Structure (SACS). The state uses the SACS system to collect financial data from LEAs and meet various reporting requirements. The state initially approved the SACS replacement project in 2011. In 2014, the state approved a major cost escalation of the project (from \$5.9 million to \$21.2 million). In August 2015, the California Department of Technology nonetheless notified the JLBC that it was terminating the SACS replacement project, citing insufficient funding. The 2016-17 budget re-initiates the project, providing \$3 million in Proposition 98 funding for CDE to contract with a COE, which in turn would contract with a vendor to replace SACS. The project is no longer required to undergo the state's standard review and oversight process. Trailer legislation specifies that release of the funds is contingent on CDE entering the contract with a COE and receiving DOF approval, with notification to the JLBC. The \$3 million is intended to cover a portion of project costs, with future budget requests funding remaining costs.

Increases Funding for Student Friendly Services College Planning Website. The budget provides a \$2 million ongoing augmentation for this program, raising the total annual state

appropriation from \$500,000 to \$2.5 million. The funding goes to Riverside COE, which, in turn, passes it through to the nonprofit California College Guidance Initiative (CCGI). The CCGI oversees a website that provides college planning tools to school districts, high school counselors, students, and parents. The CCGI indicates that the additional funding would be used to expand the website's college planning tools.

Increases Funding for School Breakfast Programs. For many years, the state has provided an annual appropriation of \$1 million to help schools start or expand school breakfast programs. The 2016-17 budget provides a one-time augmentation of \$2 million for these programs. Budget language specifies the funds may be spent over two years. The new funding will be prioritized for applicants that both (1) plan to start or expand programs that serve breakfast during the school day ("after the bell") and (2) enroll high proportions of students from low-income families.

Continues Technical Assistance for Career Pathways Trust Grantees. The state provided a first round of Career Pathways Trust grants in 2014-15 and a second round of grants in 2015-16. The competitive grants funded partnerships of schools, colleges, and workforce entities to strengthen career linkages. The 2016-17 budget designates \$300,000 (Proposition 98) in carryover from the first round for CDE to continue its contract with Napa COE and Napa Valley Unified School District to provide technical assistance to grantees.

Makes Various Adjustments to CDE Workload and Funding. The budget provides CDE with a \$4.3 million augmentation (non-Proposition 98 General Fund and federal funds combined) to support various new workload. Of this increase, \$3.1 million is one time or limited term and \$1.2 million is ongoing. The largest single augmentation is \$1.2 million (one time federal funds) for CDE to develop a new video series for

teachers focused on the state's English learner standards. Other notable augmentations include \$423,000 (ongoing non-Proposition 98 General Fund) for CDE to ensure schools understand the importance of providing appropriate services to all English learners pursuant to the *DJ v. California* settlement and \$362,000 (one time, non-Proposition 98 General Fund) for the Instructional Quality Commission to develop curriculum frameworks for science and health. (See our associated online EdBudget table for the complete list of changes.)

Requires CDE to Expand Scope of Kindergarten Implementation Study. Chapter 723 of 2014 (AB 1719, Weber) requires CDE to provide the Legislature with a statewide evaluation of kindergarten programs, including part-day and full-day programs, by July 1, 2017. The 2016-17 budget includes \$150,000 in one-time funds for CDE to expand the scope of this evaluation. Trailer legislation expands the scope by requiring CDE to estimate the average costs of part-day and full-day kindergarten programs and provide options for incentivizing full-day programs, such as providing differentiated full-day and part-day funding rates.

Creates Competitive Grant Program to Improve Math Readiness. In addition to changes in state funding, the budget designates \$6.4 million in federal Title II carryover funds for a new program designed to reduce math remediation among college freshmen. Trailer legislation specifies that CDE is to award five grants to partnerships of schools and institutions of higher education. The partnerships are to develop 12th grade math courses and provide other supports. Priority will be given to partnerships that have high math remediation rates.

Transfers Administration of Food Program. The budget also transfers one position, \$108,000 federal funds for administration, and \$4.5 million federal program funds from CDE to the

Department of Social Services to administer the federal Commodity Supplemental Food Program. This program provides foods purchased by the U.S. Department of Agriculture to nonprofit organizations that prepare meals for low-income senior citizens. (Originally, CDE administered the program because it also served low-income children.)

Teacher Workforce

Funds Several Teacher Workforce Initiatives.

The budget funds three initiatives designed to increase the supply of K-12 teachers. All three initiatives are funded on a one-time basis and administered by the Commission on Teacher Credentialing (CTC). The budget also funds CTC for second-year implementation of certain activities. We describe each of these actions below.

Provides Financial Assistance for Classified School Employees Interested in Teaching. The budget provides \$20 million to LEAs for the purpose of assisting classified school employees in completing their bachelor's degree and pursuing a teaching credential in a shortage area. Classified school employees include instructional aides, bilingual assistants, and library assistants. LEAs could provide up to 1,000 awards of up to \$4,000 per year to help classified staff with education costs. The budget makes the funds available for expenditure from 2016-17 through 2020-21.

Provides Grants to Encourage Four-Year Integrated Programs. Some universities currently offer integrated programs that enable a participant to earn a bachelor's degree and a teaching credential within four years. The budget provides \$10 million (non-Proposition 98 General Fund) to expand the number of these programs in California. The CTC is to competitively award planning grants of up to \$250,000 to universities for supporting faculty release time for coursework design, hiring program coordinators, creating

summer courses, and recruiting students. Integrated programs with a focus on issuing credentials to special education, science, math, and bilingual teaching candidates receive funding priority.

Runs Recruitment Campaign Through California Center on Teaching Careers. The budget provides \$5 million to reestablish a teacher recruitment center. (From 1997 to 2003, the state supported teacher recruitment activities through such a center.) The center is to focus on recruiting qualified and capable individuals into the teaching profession, with priority given to recruiting individuals into low-income schools and the fields of special education, math, science, and bilingual education. The commission is to consult with all the education segments in establishing the specific goals and activities of the center. The CTC must use a competitive bid process to select an LEA to operate the center.

Funds Second-Year Implementation of Two CTC Projects. The budget includes \$1.5 million (non-Proposition 98 General Fund) to complete CTC's work on streamlining the accreditation data system. Last year's budget package provided \$3.5 million for this purpose. The budget also provides \$1 million (non-Proposition 98 General Fund) for CTC's activities related to updating the teacher and administrator performance assessments. The 2015-16 budget provided \$4 million for this purpose.

Reappropriates Funding for Teacher Misconduct Reviews. The 2015-16 budget package provided CTC with \$3.9 million in teacher credential fee revenue to address higher ongoing workload related to teacher disciplinary cases. Specifically, the budget assumed CTC would face higher ongoing costs for the Office of the Attorney General (AG) to review serious disciplinary cases. The AG was unable to hire all anticipated additional staff in 2015-16, resulting in \$2.4 million

in unspent current-year funds. The *2016-17 Budget Act* reappropriates these funds to hire additional temporary AG staff in the upcoming year.

State Special Schools

Funds Deferred Maintenance at State Special Schools (SSS). The budget includes a total of \$5.8 million to address deferred maintenance issues at the SSS, which include two schools for the deaf, one school for the blind, and three diagnostic centers. Of these funds, \$1.8 million is earmarked from the SSS operating budget, and \$4 million is additional one-time funding. The SSS have indicated they will use these funds to replace roofs, install a new emergency communication system at one of its schools for the deaf (Fremont), and complete several smaller projects. Before expending these funds, the SSS reports a backlog of \$17 million in maintenance projects.

Funds New Activity Center on Fremont Campus. The budget provides \$1.7 million to construct a new middle school activity center at the California School for the Deaf in Fremont. This facility will host extracurricular activities for the approximately 60 middle school students residing on campus.

California Community Colleges

\$8.3 Billion Proposition 98 Funding for CCC in 2016-17. This is \$311 million (3.9 percent) more than the revised 2015-16 funding level and \$379 million (4.8 percent) more than the *2015-16 Budget Act* level. The 2016-17 budget increases funding per full-time equivalent (FTE) student by \$245 (3.8 percent) over the *2015-16 Budget Act* level, bringing Proposition 98 funding per FTE student up to \$6,624. These per-student amounts do not include \$500 million for the Adult Education Block Grant, as most block grant funding is allocated to providers other than community colleges. We describe major CCC spending and programmatic

changes below. (Figure 11 through Figure 13 show all CCC spending changes.)

Apportionments

Funds 2 Percent Enrollment Growth.

The 2016-17 budget includes \$114 million to accommodate 2 percent enrollment growth systemwide. In addition, the budget adjusts for enrollment declines that districts experienced in 2015-16 and anticipated enrollment restoration in 2016-17. (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 (-1.1 percent) and restoration (0.7 percent), the 2016-17 budget provides \$95 million for net enrollment growth of 1.6 percent, representing about 18,000 FTE students.

Provides \$75 Million in Additional

Unrestricted Funds. Colleges may use this ongoing apportionment increase for any educational or operational purpose, including hiring additional faculty, paying retirement costs, expanding professional development, and maintaining facilities.

Two Related Actions. Trailer legislation extends the time for the San Francisco Community College District to earn back funding from past enrollment declines. Specifically, trailer legislation gives the district through 2021-22 to earn back funding up to its 2012-13 enrollment level. Trailer legislation also authorizes basic aid districts to receive an allocation of 2015-16 full-time faculty funding.

Workforce Programs

Provides \$200 Million for New Strong Workforce Program. The purpose of the new program is to improve the availability and

quality of CTE and workforce programs leading to certificates, degrees, and other credentials. The ongoing funding is consistent with recommendations of the Task Force on Workforce, Job Creation, and a Strong Economy, a group established by the Board of Governors (BOG) in late 2014.

Emphasizes Regional Planning. Trailer legislation requires community colleges to coordinate their CTE activities within seven existing regional consortia. Each consortium, consisting of all community colleges in the region, is to ensure that its offerings are responsive to the needs of employers, workers, civic leaders, and students. To this end, each consortium must collaborate with local workforce development boards, economic development and industry sector leaders, and representatives from civic and labor organizations within its region. Each consortium also must collaborate with LEAs, adult education consortia, and interested California State University and University of California campuses to improve program alignment.

Requires Consortia to Develop Four-Year Program Plans. Consortia must meet at least annually to develop or update four-year program plans based on analyses of regional labor market needs. Each plan must include: regional goals aligned with performance measures under the federal Workforce Innovation and Opportunity Act (WIOA); a work plan, spending plan, and budget for regionally prioritized projects identifying the amounts allocated for one-time and ongoing expenditure; and a description of the alignment of the plan with other CTE and workforce plans in the area, including the regional WIOA plan. The Chancellor's Office will review the plans and provide technical assistance to consortia not meeting their goals. The Chancellor's Office is to post regional plans on the CCC website and, beginning January 1, 2018, annually submit

a report to the Governor and the Legislature on performance outcomes, disaggregated for underserved demographic groups.

Allocates Funds to Regions and Districts. The budget directs the Chancellor to provide 40 percent of program funds to the seven CTE regional consortia and 60 percent directly to community college districts. Both pots of funding are for supporting regionally prioritized initiatives aligned with their CTE program plans. The legislation prohibits districts from using the new funds to supplant existing support for CTE programs. The legislation permits the Chancellor to allocate up to 5 percent of the funds to a community college district for statewide activities to improve and administer the program.

Requires Chancellor's Office to Recommend Funding Allocations. For 2016-17, each region's and district's funding allocation will reflect its share of (1) the state's unemployed adults, (2) FTE students enrolled in CTE courses, and (3) projected job openings. Each of these factors will determine one-third of that year's allocation. Beginning in 2017-18, unemployment and CTE enrollment each will comprise 33 percent of the allocation, job openings will comprise 17 percent, and successful workforce outcomes (as evidenced by the WIOA performance measures) will comprise 17 percent. The Chancellor's Office will provide its recommended funding allocation to DOF and the Legislative Analyst's Office by August 30 of each year. Release of funds is subject to DOF's approval.

Requires Chancellor's Office to Develop Certain Workforce Policies. Most notably, trailer legislation requires the Chancellor's Office to submit a plan by July 1, 2017 to (1) reduce the time required to gain local and state approval for a new course or program to no more than one academic year and (2) ensure portability of approved courses and programs across colleges and districts. In addition, the legislation directs the Chancellor's Office to

eliminate barriers to hiring qualified instructors for CTE courses, including reevaluating the required minimum qualifications for CTE instructors. The legislation directs the Chancellor's Office to consult with various stakeholders, including the CCC Academic Senate and the California Workforce Development Board, in developing these policies. Legislation also directs the Academic Senate to establish a CTE committee, with at least 70 percent of members consisting of CTE faculty, to provide recommendations on CTE issues.

Extends \$48 Million for CTE Pathways Initiative for One Year. The goal of this initiative is to help regions develop sustainable policies and infrastructure to improve CTE pathways among schools, community colleges, and regional business and labor organizations. Beginning in 2017-18, trailer legislation repurposes the funding for the Strong Workforce Program.

Other Categorical Programs

Augments Basic Skills Funding. The budget provides \$30 million in 2016-17 for additional Basic Skills and Student Outcomes Transformation Program grants. Established last year as a one-time initiative, this program had more eligible applicants than available funding in 2015-16. That year, the Chancellor's Office awarded \$60 million to 43 eligible colleges. The 2016-17 funding will provide grants to another 21 eligible colleges that did not receive an award last year due to limited funding. The grants are for colleges to adopt or expand the use of evidence-based models for basic skills assessment, placement, instruction, and student support. Colleges may expend their grants over three years. Beginning in 2017-18, the \$30 million is to be repurposed on an ongoing basis for the Basic Skills Initiative.

Modifies Rules for Basic Skills Initiative. Trailer legislation refines the purposes of CCC's longstanding basic skills categorical program.

To date, funding has been for various activities intended to improve the outcomes of students needing basic skills help. Allowable activities have included curriculum planning and development, advisement and counseling, and supplemental instruction and tutoring. The new language continues to allow these activities while specifying four more allowable activities: (1) implementing or expanding the use of evidence-based practices and principles; (2) accelerating the adoption and use of open educational resources in basic skills English, math, and English as a second language (ESL) courses; (3) collaborating with high schools and the California State University (CSU) campuses to better align remedial instruction among LEAs, community colleges, and CSU campuses; and (4) implementing assessment and placement practices that increase the likelihood students will be appropriately placed in college-level rather than remedial courses.

Introduces Performance Funding Into Initiative. Trailer legislation also requires the Chancellor, beginning in 2016-17, to use a new method for distributing Basic Skills Initiative funding. To introduce an element of performance funding, the new method allocates half of the funding based on the district's share of statewide BOG fee waiver recipients who initially enroll in a course below transfer level in English, math, or ESL and subsequently complete a college-level course in the same subject within one to two years. (The Chancellor has discretion whether to weight the one-year and two-year measures equally or assign a greater weight to one.) Another 25 percent is based on the district's share of all BOG fee waiver recipients. The remaining 25 percent is based on a district's share of basic skills FTE students statewide who are in courses that employ evidence-based practices specified in legislation. (The Chancellor may include other factors and adjustments at his or her discretion.)

Expands Institutional Effectiveness Initiative.

The budget augments statewide professional development activities by \$8 million, bringing the total for this component of the program to \$20 million. The budget also augments technical assistance funding by \$2 million, bringing the total for this component of the program to \$7.5 million. Budget language requires the Chancellor's Office to report on the use of program funds by December 1 of each year.

Restores Student Support Programs and Part-Time Faculty Office Hours to Pre-Recession Funding Levels. The 2016-17 budget provides \$8.7 million for the Student Services for California Work Opportunity and Responsibility to Kids (CalWORKs) Recipients program, bringing funding for the program to \$43.6 million. The budget increases the Fund for Student Success—which supports the Mathematics, Engineering, and Science Achievement; Puente; and Middle College High School programs—by \$2.4 million, bringing total funding to \$6.2 million. Additionally, the budget provides \$3.7 million for part-time faculty office hours, bringing total funding to \$7.2 million.

Augments Statewide Outreach and Marketing. The budget adds \$2.5 million to the existing "I Can Afford College" campaign, bringing the total to \$5.3 million. The new funds are to expand outreach to students from non-English speaking and bilingual households, market the CCC baccalaureate degree pilot programs, and increase awareness of CCC BOG fee waivers.

One-Time Funding

Provides Physical Plant and Instructional Support. The budget includes \$185 million that districts may use for scheduled maintenance, special repairs, hazardous substances abatement, architectural barrier removal, seismic retrofit projects up to \$656,000, replacement of instructional equipment and library materials,

and certain water conservation projects. (The limit for seismic projects previously was \$400,000.) The funds are allocated to districts based on their FTE enrollment.

Provides Discretionary/Mandates Backlog

Funding. The budget provides \$106 million, distributed based on FTE enrollment, that districts may use for any educational or operational purpose. If community college districts have unpaid mandates claims, then the funds must first be applied to those claims. Because only 11 (of 72) districts have outstanding mandates claims—and one district has more than half of all amounts outstanding—the backlog is reduced by only \$14 million, leaving an outstanding backlog of \$272 million.

Funds Additional Innovation Awards. The 2016-17 budget includes \$25 million for community college projects designed to reduce the required time or total cost for students to complete degrees and credentials. Specifically, the legislation authorizes awards for curriculum redesign (such as the implementation of three-year bachelor's degrees), competency-based programs (such as efforts to award credit for military education and training), and financial aid access (such as increasing the number of students applying for aid). The legislation gives preference to projects that improve outcomes for students from underrepresented groups or use technology in ways that are not common in higher education.

Accelerates Online Education Initiative.

The budget provides \$20 million to increase CCC students' access to and success in online courses. The initiative includes an online course exchange, to be piloted in 2016-17, that enables students at any community college to enroll in degree-applicable online courses at other colleges.

Funds Development of Intersegmental Regional Partnerships. The budget provides \$15 million for a new grant program to help

community college districts establish or expand regional partnerships with school districts and public universities. The general purpose of the partnerships is to improve students' college preparation, participation, and success. Chapter 434 of 2016 (AB 1741, Rodriguez) establishes the program.

Provides Grants to Develop

Zero-Textbook-Cost Degrees. The budget provides \$5 million to create these degree pathways, which allow students to complete an associate degree or CTE certificate program entirely by taking courses that use only free, open educational resources. Under this program, colleges will compete for grants up to \$200,000 each to offer a zero-textbook-cost degree or certificate. To develop the pathways, colleges will use multimember teams that include faculty, administrators, librarians, instructional designers, and technology experts. Colleges also may use grant funds to secure outside professional development and technical assistance. Trailer legislation prioritizes (1) the development of a zero-textbook-cost degree for existing associate degrees for transfer and (2) the use of existing open educational resources before creating new content. Participating colleges must strive to implement the degrees no later than fall 2018. The Chancellor must report to the Legislature and DOF by June 30, 2019 on the development and implementation of the program. The Chancellor's Office may transfer up to 10 percent of the funds for a community college district to administer the program, including providing technical assistance to grant applicants and grantees.

Several Additional One-Time Augmentations.

The budget includes \$7 million to upgrade CCC systemwide technology infrastructure. It also includes \$5 million spread over three years for statewide leadership activities, technical assistance, professional development, and program evaluation for adult education consortia. In addition, the

budget provides \$2.5 million (non-Proposition 98 General Fund) to support the Chancellor's Office coordination of inmate education partnerships between community colleges and California Department of Corrections and Rehabilitation facilities. Provisional language encourages the Chancellor's Office to spend no more than \$500,000 of the inmate education funds per year, authorizing the use of the funds through June 30, 2021.

Capital Outlay

Reappropriates Construction Funds for Two Projects. Both projects require more time to complete construction due to delays in earlier project phases. The budget reappropriates \$33 million for various utility system upgrades at the College of the Redwoods, Eureka campus and \$13 million to replace an instructional building at El Camino College's Compton Center.

CHILD CARE AND PRESCHOOL

Budget Act Provides \$3.7 Billion for Child Care and Preschool Programs. Of this amount, \$1.8 billion is for preschool programs, \$1.8 billion is for child care programs, and \$89 million is for support programs. As shown in Figure 14, (see next page) the *2016-17 Budget Act* augments these programs by a total of \$199 million (6 percent) from the *2015-16 Budget Act* level. Proposition 98 General Fund covers the bulk of this increase (\$129 million), with additional federal funds (\$64 million) and non-Proposition 98 General Fund (\$6 million) comprising the rest of the increase.

Higher Spending Predominately Due to Reimbursement Rate and Slot Increases. As shown in Figure 15 (see page 25), higher reimbursement rates account for the vast majority of the year-over-year funding increase, with additional slots and additional spending on two quality improvement activities accounting for the remainder of the increase. We discuss these augmentations in greater detail below.

Reimbursement Rates

Standard Reimbursement Rate (SRR) Increases by 10 Percent. 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 2016-17 budget provides \$68 million for a 10 percent increase to the SRR starting January 1, 2017. The bulk of this increase goes to support the State Preschool program (\$44 million Proposition 98 General Fund) and General Child Care (\$22 million non-Proposition 98 General Fund), with the remainder increasing rates for the other two child care programs. The new rate for a full-day, center-based State Preschool slot is \$10,596 per year, whereas the new rate for a full-day, center-based General Child Care slot for a preschool-aged child is \$10,530 per year. (The 10 percent rate increase applies to centers, family child care homes, and all age groups.)

Regional Market Rate (RMR) Increases for Many Voucher Providers. The state also funds child care through CalWORKs and Alternative Payment programs, which operate using a voucher system based on the RMR. The state conducts surveys of the regional market costs for child care every two years. The state historically has set the RMR such that families in every county can use their voucher to access a certain percentage of child care providers in their areas. In 2015-16, providers were reimbursed at the greater of (1) 104.5 percent of the 85th percentile of the 2009 survey deflated by 10.11 percent or (2) 104.5 percent of the

2016-17 BUDGET

85th percentile of the 2005 survey. The 2016-17 budget provides \$56 million to increase the RMR to the 75th percentile of the 2014 survey starting January 1, 2017. (When the RMR is set at the 75th percentile, a voucher covers the cost of all but the most expensive quartile of providers in the area.) The budget package includes a two-year hold harmless provision such that providers receive the

higher of the old or new rates. Trailer legislation specifies that after July 1, 2018, all rates be set at the 75th percentile of the 2014 survey.

License-Exempt Rates Increase to 70 Percent of Family Child Care Home Voucher Rates.

License-exempt providers are family, friends, and neighbors who provide child care to roughly one-third of all children in the CalWORKs and

Figure 14
Child Care and Preschool Budget

(Dollars in Millions)

	2014-15 Actual	2015-16 Budget Act ^a	2016-17 Budget Act	Change From 2015-16	
				Amount	Percent
Expenditures					
CalWORKs Child Care					
Stage 1	\$311	\$410	\$413	\$3	1%
Stage 2 ^b	364	414	445	31	8
Stage 3	223	278	287	9	3
Subtotals	(\$899)	(\$1,103)	(\$1,146)	(\$43)	(4%)
Non-CalWORKs Child Care					
General Child Care ^c	\$274	\$305	\$324	\$19	6%
Alternative Payment Program	182	251	267	16	6
Migrant child care	28	29	31	2	5
Care for Children With Severe Disabilities	2	2	2	— ^d	5
Infant and Toddler QRIS Grant (one time)	—	24	—	—	—
Subtotals	(\$485)	(\$611)	(\$624)	(\$13)	(2%)
Preschool Programs^e					
State Preschool—part day ^f	\$409	\$425	\$480	\$54	13%
State Preschool—full day	453	555	591	36	7
Transitional Kindergarten ^g	626	680	719	39	6
Preschool QRIS Grant	50	50	50	—	—
Subtotals	(\$1,537)	(\$1,710)	(\$1,840)	(\$129)	(8%)
Support Programs					
	\$73	\$76	\$89	\$13	17%
Totals	\$2,994	\$3,500	\$3,698	\$199	6%
Funding					
Proposition 98 General Fund	\$1,280	\$1,565	\$1,694	\$129	8%
Non-Proposition 98 General Fund	790	977	983	6	1
Federal CCDF	570	573	639	66	12
Federal TANF	353	385	383	-2	-1

^a Reflects DSS revised Stage 1 estimates for cost of care and caseload. Reflects budget act appropriation for all other programs.
^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 estimates available at the time the 2016-17 budget was enacted.
 QRIS = Quality Rating and Improvement System; CCDF = Child Care and Development Fund; TANF = Temporary Assistance for Needy Families; and DSS = Department of Social Services.

2016-17 BUDGET

Alternative Payment programs. The state links rates for license-exempt providers to a percentage of the rates for family child care homes accepting vouchers. The budget provides \$14 million to increase license-exempt rates from 65 percent to 70 percent of the family child care home rates starting January 1, 2017.

Budget Package Annualizes Rate Increases Initiated Last Year. The 2016-17 budget also includes \$9 million to annualize RMR increases for licensed providers and \$5 million to annualize license-exempt rate increases initiated last year.

(Beginning October 1, 2015, the 2015-16 budget package increased the RMR for licensed providers by 4.5 percent and increased license-exempt rates from 60 percent to 65 percent of the family child care home rates.)

Trailer Legislation Contains Intent Statements Regarding Future Rate Changes. Trailer legislation states legislative intent to increase the SRR and the RMR through 2018-19 to reflect higher costs to providers resulting from increases in the state minimum wage. Trailer legislation also specifies legislative intent to link the RMR to the

Figure 15
2016-17 Child Care and Preschool Changes

(In Millions)

	Proposition 98 Funds	Other Funds	Total
Reimbursement Rates			
Increases the Standard Reimbursement Rate 10 percent starting January 1, 2017	\$44	\$24	\$68
Increases the Regional Market Rate to the 75 th percentile of the 2014 regional market survey starting January 1, 2017 ^a	—	56	56
Adjusts Transitional Kindergarten for LCFF increases	39	—	39
Increases license-exempt rate from 65 percent to 70 percent of family child care home voucher rates starting January 1, 2017	—	14	14
Annualizes funding for Regional Market Rate ceiling increase initiated in 2015-16	—	9	9
Annualizes funding for 5 percent license-exempt rate increase initiated in 2015-16	—	5	5
Subtotals	(\$82)	(\$108)	(\$190)
Slots			
Adjusts State Preschool for annualization of slots initiated in 2015-16 ^b	\$31	\$3	\$34
Provides 2,959 full-day State Preschool slots at LEAs starting April 1, 2017	8	—	8
Increases non-CalWORKs slots for statutory growth ^c	1	1	2
Subtotals	(\$40)	(\$4)	(\$44)
Other			
Increases funding for quality improvement activities	—	\$12	\$12
Creates three-year pilot program in Los Angeles County to fund training and wage increases for 150 child care workers	—	1 ^d	1
Removes one-time Infant and Toddler QRIS grant funds	—	-24	-24
Makes CalWORKs caseload and average cost of care adjustments	—	-25	-25
Other technical adjustments	\$7	-6	— ^e
Subtotals	(\$7)	(\$42)	(\$36)
Totals	\$129	\$70	\$199

^a Includes a hold harmless provision so that no provider receives less than it received in 2015-16.

^b Annualizes the cost of 5,830 LEA and 1,200 non-LEA full-day State Preschool slots initiated January 1, 2015.

^c Reflects 0.13 percent growth in the birth-through-four population.

^d Uses \$1.4 million in unspent prior-year Proposition 98 funds.

^e Less than \$500,000.

LCFF = Local Control Funding Formula; LEA = local educational agency; and QRIS = Quality Rating and Improvement System.

85th percentile of the most recent market survey based on available funding.

Slots

Budget Package Increases Funding for State Preschool Slots. The budget provides \$34 million for the State Preschool program to annualize the cost of preschool slots added January 1, 2015. The budget also provides \$8 million for 2,959 new full-day State Preschool slots at LEAs starting April 1, 2017. The Legislature and the Governor have stated their intent to fund additional full-day State Preschool slots in future years.

Other Actions

Budget Makes Adjustments to CalWORKs Child Care. The budget adjusts the CalWORKs child care budget down by \$25 million compared to the *2015-16 Budget Act* due to changes in caseload and underlying cost of care. (Changes in the underlying cost of care do not include the rate increases in the 2016-17 budget. The adjustments reflected here result from changes in the age of children served, choices families make about settings, and the number of hours per week children are in care.) The bulk of the decrease (\$18 million) is due to overall CalWORKs child care caseload projections for 2016-17 being revised downward. The rest of the decrease is due to lower average cost of care in Stage 1 in 2016-17. These decreases are partly offset by a slightly higher average cost of care in Stage 2.

Budget Includes Additional Funding for Quality Improvement Activities. Federal law requires the state to spend a certain amount on activities designed to improve the quality of child care. Currently, the state allocates improvement funds to resource and referral agencies, local planning councils, licensing enforcement, and dozens of other programs that provide financial and technical support to child care workers and assistance to parents. Due to recent changes in federal law and additional federal funds the state is receiving, the state is required to spend \$12 million more on quality improvement activities than last year, bringing total quality improvement spending in 2016-17 to \$89 million. The budget also provides \$1.4 million one-time Proposition 98 General Fund for the Los Angeles Trade-Tech Community College to provide job training, mentoring, and college courses to child care workers. These funds are available for expenditure through June 30, 2019.

Budget Requires CDE to Develop New Quality Improvement Expenditure Plan. Federal law requires states to submit plans to the federal government describing how they will use their quality improvement funds. The 2016-17 budget requires CDE to submit a new draft expenditure plan to the Legislature by February 1, 2017 and to the federal government by March 1, 2017. In the new plan, CDE is to (1) retain funding for resource and referral agencies, local planning councils, and licensing enforcement and (2) prioritize funds for Quality Rating and Improvement Systems over other existing improvement activities.

HIGHER EDUCATION

\$15.6 Billion in General Fund Support for Higher Education. As shown in Figure 16, this is a \$777 million (5 percent) increase from 2015-16. The University of California (UC) increases

\$282 million (9 percent), Hastings College of the Law (Hastings) increases \$3 million (27 percent), and CSU increases \$275 million (8 percent). Financial aid programs administered by the

California Student Aid Commission (CSAC) increase \$111 million (6 percent). Below, we provide detail on these four areas of the higher education budget. We also describe three crosscutting higher education actions and summarize spending changes for the California State Library.

University of California

Total UC Spending of \$28.7 Billion. Of total UC spending, about one-quarter is covered by state General Fund (\$3.5 billion) and student tuition revenue (\$3.2 billion) combined. About 30 percent is covered by revenue generated from UC’s five medical centers; 20 percent from self-supporting activities (such as housing, dining, parking, and academic extension fee revenue); 14 percent from federal, special, and local funds for research and student financial aid; and the remainder from various other sources, including investment income, patent revenue, federal indirect cost recovery, and philanthropy.

Spending for UC’s Core Education Program Increases \$584 Million (9.3 Percent). Of this amount, \$282 million is covered by state General Fund, \$158 million from student tuition revenue,

and \$145 million from various other sources (see Figure 17, next page). Of the new 2016-17 spending, \$378 million is unrestricted and may be used at UC’s discretion, with the remaining \$206 million restricted for specific purposes. Of state General Fund increases, \$125 million is unrestricted (reflecting a 4 percent base increase) and the remainder is restricted.

UC’s Plan for Unrestricted Funding Mostly for Compensation Increases. More than 60 percent (\$239 million) of UC’s spending plan is for employee compensation, including salary increases, health benefit cost increases for active employees, and cost increases for pension and retiree health benefits. Remaining ongoing augmentations planned by UC include support for academic quality initiatives, which include faculty recruitment, faculty salary increases, and increases to graduate student stipends; an increase in nonresident enrollment; and facility maintenance.

Resident Enrollment Expectations and Funding. The 2015-16 budget established a goal for UC to enroll 5,000 more resident undergraduate students in 2016-17 compared to 2014-15 levels. The budget authorized DOF to augment UC’s budget

**Figure 16
Higher Education General Fund Support by Segment^a**

(Dollars in Millions)

	2014-15 Actual	2015-16 Revised	2016-17 Enacted	Change From 2015-16	
				Amount	Percent
California Community Colleges	\$5,389	\$5,853	\$6,029	\$176	3%
California State University	3,018	3,297	3,572	275	8
University of California	2,991	3,259	3,541	282	9
California Student Aid Commission ^b	1,922	1,998	2,110	111	6
California Institute for Regenerative Medicine	275	369	274	-95	-26
Awards for Innovation in Higher Education	50	—	25	25	N/A
Hastings College of the Law	11	12	15	3	27
Totals	\$13,655	\$14,789	\$15,566	\$777	5%

^a Includes state General Fund support for pensions (for community colleges and CSU), retiree health care (for CSU), debt service (for community colleges and Hastings), and deferred maintenance (for CSU, UC, and Hastings) that comes from outside the segments’ main budget act appropriations.

^b Includes Temporary Assistance for Needy Families and Student Loan Authority Fund support that directly offsets General Fund costs.

Figure 17
University of California Core Education Budget

(In Millions)

Revenue ^a	Amount
2015-16 Revised	
General Fund	\$3,259
Tuition and fees	3,028
Total	\$6,287
2016-17 Changes	
General Fund	\$282
Tuition and fees ^b	158
Other ^c	145
Total	\$584
2016-17 Enacted	
General Fund	\$3,541
Tuition and fees	3,186
Total	\$6,726
Changes in Spending	Amount
UC's Plan for Unrestricted Funds	
General salary increases (3 percent)	\$152
Academic quality initiatives ^d	50
Faculty merit salary increases	32
Operating expenses and equipment cost increases	30
Health benefit cost increases (5 percent)	27
Maintenance	25
Pension benefit cost increases	24
Debt service for capital improvements	15
Nonresident enrollment growth (3.2 percent) ^e	14
Dream Loan Program	5
Retiree health benefit cost increases	4
Subtotal	(\$378)
Restricted State General Fund	
Proposition 2 payment for UC Retirement Plan (one time)	\$171
Resident undergraduate enrollment growth in 2016-17 (3.4 percent)	50
Deferred maintenance (one time)	35
One-time research and public service initiatives	29
One-time student support and outreach initiatives	25
Resident enrollment growth in 2017-18 (1.1 percent)	19
Equal employment opportunity best practices	2
Remove one-time, prior-year funds	-124
Subtotal	(\$206)
Total	\$584

^a Includes all state General Fund. Reflects tuition after discounts. In 2016-17, UC is projected to provide \$1.1 billion in tuition discounts.

^b Reflects increases in nonresident supplemental tuition (8 percent), the Student Services Fee (5 percent), and increased enrollment, offset by increases in discounts.

^c Reflects: (1) General Fund for enrollment growth UC intends to carry forward, (2) savings from administrative efficiencies, (3) increased revenue from investments, and (4) philanthropy.

^d For purposes such as increasing instructional support, reducing student-to-faculty ratios, recruiting faculty, increasing faculty salaries, and providing stipends to graduate students. UC indicates it will allow campuses to determine how to spend the funds.

^e Funded from nonresident supplemental tuition.

by \$25 million (ongoing) in 2015-16 if UC could demonstrate by May 1, 2016 that it would achieve this enrollment goal. On May 1, DOF determined that UC provided sufficient evidence the goal had been met and released the associated funding. The 2016-17 budget continues this practice for enrollment budgeting. Specifically, it sets an expectation that UC enroll 2,500 more resident students in 2017-18 as compared to 2016-17. Similar to the structure of last year's budget, DOF is authorized to release \$18.5 million to UC if it can demonstrate by May 1, 2017 that it will meet this enrollment goal. Budget language also calls on UC to adopt a policy that sets a limit on nonresident undergraduate enrollment. In addition to these actions, legislation enacted during the Second Extraordinary Session provided \$1.9 million to serve 48 additional FTE students in a medical education program jointly operated by the Davis, Merced, and San Francisco campuses.

Largest One-Time Augmentation Is for

UC's Unfunded Pension Liability. The 2016-17 budget provides \$171 million for UC's Retirement Plan and scores it as a one-time Proposition 2 debt payment. This is the second of such payments. The 2015-16 budget provided UC \$96 million for the same purpose. The 2015-16 budget made that appropriation contingent upon UC adopting a pensionable salary limit for new employees consistent with the limit specified under the Public Employees' Pension Reform Act of 2013 (PEPRA)—\$117,020 in 2016. By comparison, UC's existing retirement plan had a limit of \$265,000—the maximum allowed by the federal Internal Revenue Service. In March 2016, UC adopted the PEPRA limit for new employees, along with plans to redirect associated savings to new defined contribution plans and accelerated pay down of UC's unfunded liability. Upon its determination that UC's adopted plan met statutory requirements, DOF released the first payment of \$96 million to UC in May 2016.

Three One-Time Augmentations for Student Support and Outreach. First, the budget provides UC \$20 million for outreach and student services for low-income students, underrepresented minorities, and students from schools with 75 percent or more low-income, English learner, and foster students. For that last category of students, trailer legislation requires UC to develop a plan and time line to increase the number of admits, expand support services, and evaluate the costs and benefits of providing application fee waivers. Second, the budget provides \$4 million to develop at least 45 online college preparatory and advanced placement courses through UC's Scout program. Trailer legislation requires UC to report on the courses it plans to develop by January 1, 2017 and then develop those courses by January 1, 2018. Third, the budget provides \$500,000 (for expenditure over five years) for the Underground Scholars Initiative, a group at UC

Berkeley providing support services for formerly incarcerated students enrolled at that campus.

One-Time Funding for Research and Public Service. The budget provides one-time augmentations to various UC initiatives that advance the university's research and public service missions. Specifically, the budget package provides augmentations for expanding entrepreneurship and innovation activities; conducting precision medicine, firearm violence, and transportation research; and providing aid to stranded or entangled marine mammals. Figure 18 (see next page) provides further information on each of these augmentations.

Authorizes UC to Fund Merced 2020 Project. The project will add 917,500 assignable square feet of facility space (more than doubling existing space) to the Merced campus. Through the expansion, UC Merced intends to accommodate a total of 10,000 FTE students by 2020, as compared to the 6,200 FTE students it served in 2015-16. The entire project costs \$1.1 billion, with the portion of the project associated with state-funded facilities costing \$527 million. To deliver the project, UC will enter into a public-private partnership. UC will provide \$400 million in bond funding for state-eligible facilities, with the remaining \$127 million in funding from debt issued by the partner. Once construction is completed in 2020, the partner will operate and maintain the facilities for nearly 30 years. Pursuant to Chapter 22 of 2015 (SB 81, Committee on Budget and Fiscal Review), UC must use its own staff for routine maintenance. UC will use its General Fund appropriation to provide ongoing payments for (1) the debt service on UC bonds; (2) routine maintenance conducted by its staff; and (3) annual payments to the partner for its debt service, operations, and maintenance costs. In 2055, UC will assume responsibility for all facility operations and maintenance.

Figure 18
One-Time Funding for UC Research and Public Service^a

(In Millions)

Initiative	Description	Funding
Innovation and entrepreneurship activities	Funding is pursuant to pending legislation which calls for each UC campus and the Lawrence Berkeley National Laboratory to expand programs and support services for entrepreneurs. The legislation requires UC to submit an annual report to the Legislature and the Department of Finance on these activities.	\$22.0
Precision medicine research	Trailer legislation specifies funding is for supporting demonstration projects in both Northern and Southern California, to be selected by a committee of experts, and developing a public database of precision medicine assets (such as projects, data sets, and experts). The legislation requires an annual report, beginning January 1, 2017, updating the Legislature on the selected demonstration projects and a final evaluation once the projects are completed.	10.0
Firearm violence research	Funding is to establish a Firearm Violence Research Center. Funding is available for expenditure over five years. Trailer legislation specifies that the center would support research on public policies related to firearm violence by (1) conducting its own research and (2) distributing small grants to other institutions for research. The legislation requires UC to report every five years (beginning December 31, 2017) on the program.	5.0
Transportation policy research	Funding augments UC's longstanding Institute of Transportation Studies. The budget act requires UC to develop an expenditure plan with the Transportation Agency and complete a review of the Project Resourcing and Schedule Management information technology system developed by the Department of Transportation.	3.0
Marine mammal aid	Funding reimburses the Wildlife Health Center at UC Davis for marine mammal stranding rescue centers (\$2 million) and a response team to disentangle whales caught in fishing gear and marine debris (\$100,000).	2.1

^a All funding provided in the budget act. Funds flow through UC for every program listed except precision medicine research, for which funds flow through the Office of Planning and Research. All initiatives supported with state General Fund except for the transportation initiative, which is supported with monies from the Public Transportation Account in the State Transportation Fund. Trailer legislation refers to Chapter 24 of 2016 (AB 1602, Committee on Budget).

Hastings College of the Law

Total Spending of \$62 Million for Hastings.

Of total Hastings spending, \$22 million is covered from tuition revenue (after discounts), \$15 million from state General Fund revenue, and \$24 million from various other sources, including investment income, federal grants, donations, and student housing fees.

\$2.5 Million Increase in Spending for Hastings’

Education Program. Student tuition and state General Fund revenue are the primary sources of support for Hastings’ education program. Spending on Hastings’ education program increases \$2.5 million (6.4 percent) in 2016-17 over the revised 2015-16 spending level. Tuition revenue, however, declines by \$4.6 million (17 percent) due to increases in tuition discounts (\$3.3 million) and a 3.7 percent drop in enrollment (\$1.3 million). State General Fund revenue increases by \$3.3 million (27 percent),

primarily to pay for deferred maintenance (\$2 million). Combined, these two core funding sources are down a net of \$1.3 million. Hastings is addressing the resulting \$3.8 million operating imbalance (stemming from \$2.5 million in higher expenditures and \$1.3 million less in core revenues) by drawing down its reserve. Hastings estimates ending 2016-17 with \$1.2 million in remaining reserves.

Lease Revenue Bond Funding for New Academic Facility at Hastings Increases by \$18.8 Million. The 2015-16 budget authorized \$36.8 million in state lease revenue bonds to build a new academic facility on vacant land owned by Hastings. The new facility is intended to replace an existing academic facility whose building systems are reaching the end of their useful lives. Hastings will use a design-build procurement method for the project. The 2016-17 budget increases

funding for the project by \$18.8 million (51 percent) but assumes no changes to the project scope or schedule. The increase is to pay for higher-than-expected construction costs.

California State University

Total CSU Spending of \$9 Billion. Of total CSU spending, about 40 percent is covered by state General Fund (\$3.5 billion); 25 percent is covered by student tuition revenue (\$2.3 billion); and the remainder is covered from various other sources, including self-supporting activities (such as housing, dining, parking, and academic extension fee revenue) and federal funding for financial aid.

Spending for CSU's Core Education Program Increases \$400 Million (7.2 Percent). Of this amount, \$275 million is covered by state General Fund, \$24 million from student tuition revenue, and \$101 million from various sources, including carryover funds and reserves (see Figure 19). Of the new 2016-17 spending, \$301 million is

Figure 19
California State University Core Education Budget

(In Millions)

Revenues ^a	Amount
2015-16 Revised	
General Fund	\$3,297
Tuition and fees	2,273
Total	\$5,570
2016-17 Changes	
General Fund	\$275
Tuition and fees ^b	24
Other ^c	101
Total	\$400
2016-17 Enacted	
General Fund	\$3,572
Tuition and fees	2,297
Total	\$5,869
Changes in Spending	Amount
CSU's Plan for Unrestricted Funds	
Employee compensation increase (5.2 percent)	\$171
Resident enrollment growth (1.4 percent)	59
Employee health benefits	35
Lease revenue debt service ^d	8
Pension benefits ^e	7
Maintenance of newly constructed facilities	1
Other ^f	21
Subtotal	(\$301)
Restricted State General Fund^g	
Pension benefits ^e	\$37
Deferred maintenance (one time)	35
Graduation improvement plan (one time)	35
Retiree health benefits	12
Open educational resources ^h	2
Equal employment opportunity best practices (one time)	2
Student Success Network	1
Remove one-time, prior-year funds	-25
Subtotal	(\$99)
Total	\$400

^a Includes all state General Fund. Reflects tuition after discounts. In 2016-17, CSU is projected to provide \$671 million in discounts.

^b Generated from 1.4 percent enrollment growth.

^c Includes some unspent funding from 2015-16 carried forward and some campus funds.

^d Part of a multiyear plan to provide ongoing funding for debt service on projects approved prior to 2014-15. The 2015-16 budget provided an increase of \$7.3 million for this purpose.

^e Beginning in 2014-15, the state provides pension benefit adjustments based on CSU's 2013-14 payroll level and requires CSU to fund the remaining adjustment from its unrestricted funds.

^f Includes \$15 million in one-time General Fund. CSU has not yet specified how it will allocate any of the \$21 million. It has identified debt service on capital outlay and additional student success initiatives as possible priorities.

^g Excludes \$20,000 ongoing for financial aid to students participating in the Semester at Sacramento program, administered by the Center for California Studies.

^h Implements Chapter 633 of 2015 (AB 798, Bonilla).

unrestricted and \$99 million is restricted. Of the increase in General Fund spending, \$176 million is unrestricted and \$124 million is restricted, with a technical adjustment of \$25 million for the removal of prior-year, one-time funding. Of CSU's unrestricted General Fund, \$148 million is associated with a 4.9 percent base increase proposed in the Governor's budget and the remainder is associated with two conference committee augmentations (\$15 million one time and \$12.5 million ongoing).

Largest Ongoing Augmentation for Employee Compensation Increases. CSU's spending plan contains funding for a 5.2 percent employee compensation increase and employee health benefit cost increases. Additionally, the state budget provides direct funding for increases in CSU's retiree health benefit costs and higher pension costs associated with CSU's 2013-14 payroll level. CSU funds remaining pension cost increases (associated with compensation above the 2013-14 payroll level) using unrestricted funds.

Resident Enrollment Expectations and Funding. The 2015-16 budget established a goal for CSU to enroll 10,400 more resident FTE students in fall 2016 as compared to 2014-15. Fall 2015 enrollment data released in January indicated that CSU might achieve the entire enrollment goal in the 2015-16 academic year. The 2016-17 budget sets an expectation for CSU to increase resident enrollment by an additional 5,194 FTE students (1.4 percent) in 2016-17 over 2015-16. This enrollment growth is expected to cost \$59 million (based on an estimated marginal cost per student of \$11,379).

Two Notable Augmentations for Student Success and Support. First, trailer legislation appropriates \$35 million one time to develop a plan to improve four-year and two-year graduation rates for freshman and transfer students, respectively, and close gaps in graduation rates for three groups of students: those who are (1) low income,

(2) underrepresented minorities, and (3) first-generation college-goers. The DOF may not release the funding unless CSU submits the required plan by September 30, 2016. Second, the budget provides \$1.1 million ongoing to support a network of working groups comprised of staff and employees. The purpose of the network is to investigate the underlying causes of low graduation rates at CSU. The Education Insights Center, located at the Sacramento campus, will administer this funding.

Authorizes CSU to Fund 21 Capital Outlay Projects. In addition to the above augmentations, the state authorizes CSU to undertake a total of \$535 million in capital outlay projects. Of this amount, the state gives CSU authority to sell \$473 million in systemwide bonds, with the remainder of project funding coming from campus reserves. Over one-quarter of total project costs is for CSU's systemwide improvement program, which provides some funding to every CSU campus to support upgrades to building systems, improvements to seismic and life safety systems, and renewal of campus infrastructure. The remaining 20 projects include a total of eight new buildings, building replacements, and building additions; ten building renovations primarily intended to address code deficiencies and improve seismic, fire, and life safety systems; and two major campus infrastructure upgrades at the San Diego and Sacramento campuses. *The Supplemental Report of the 2016-17 Budget Package* contains a description of each of these projects.

CSU Intends to Initiate a Few of These Projects in 2016-17. As of June 2016, CSU indicated it will initiate only the following projects in the coming year: (1) construction of a new science building at Dominguez Hills; (2) renovations of facilities at Fullerton, Humboldt, and Long Beach; and (3) various smaller projects involving upgrades to building systems, improvements to seismic and life safety systems, and other capital renewal.

Crosscutting Issues

One-Time Funding for Deferred Maintenance.

The budget contains a package of deferred maintenance funding for several public agencies. Among higher education agencies, the budget provides \$35 million each to UC and CSU and \$2 million to Hastings. These segments indicate they will use their funding to replace roofs, upgrade building systems, and renew campus infrastructure. Each segment currently reports significant maintenance backlogs. Reported backlogs are \$2.6 billion at CSU, at least \$1.2 billion at UC, and \$8.4 million at Hastings. (As indicated earlier, the budget also provides \$185 million for CCC maintenance and equipment. The CCC reports a current maintenance backlog in excess of \$1 billion.)

Two Items Related to Employment. First, the budget provides funding for Equal Employment Opportunity (EEO) programs. Specifically, UC and CSU each receive \$2 million General Fund one time for this purpose. CCC receives \$2 million ongoing Proposition 98 General Fund and \$2.3 million one time from a special fund to augment an existing EEO program, bringing total funding to \$5.1 million in 2016-17. Budget language requires each segment to report to the Legislature and DOF by December 1, 2016 on the racial, ethnic, and gender composition of its faculty and its efforts to improve EEO practices systemwide. (The budget requires the CCC report annually thereafter for five years.) Second, the budget requires UC and CSU, by January 1, 2017, to (1) review policies and procedures pertaining to outside employment of university executives and senior managers, and (2) report to the Legislature and DOF on any changes made to those policies or procedures.

Plans to Increase Degree and Credential Production. The budget act requires all three segments to submit reports to the Legislature and DOF by March 1, 2017 on how they will increase the number of degrees and certificates they produce.

UC and CSU must develop plans to produce 250,000 and 480,000 more bachelor's degrees, respectively, by 2030 than they would under the Public Policy Institute of California's (PPIC's) baseline projections. These targets are based on a PPIC proposal to generate a total of 1 million more bachelor's degrees statewide by 2030. The CCC report is to identify fiscal and policy changes needed to align associate degree and certificate attainment with the California Strategic Workforce Development Plan. This plan sets forth a goal to produce 1 million associate degrees and certificates with demonstrable labor market value between 2017 and 2027. The CCC report also is to provide specific actions and recommendations to close attainment gaps for targeted subgroups over this period.

Financial Aid

\$2.1 Billion for Financial Aid. Of this amount, \$1.2 billion is from the General Fund, \$926 million is federal Temporary Assistance for Needy Families (TANF) funding, and \$24 million is from state special funds and reimbursements. Financial aid spending from these sources increases \$118 million (6 percent) from the revised 2015-16 level. Of the increase, \$116 million is ongoing and \$2.3 million is one time. Year over year, General Fund support decreases by \$293 million whereas TANF support increases by \$405 million, with a \$7 million increase from special funds and reimbursements.

Provides \$90 Million for Increased Cal Grant Costs. This is a 5 percent increase from the revised 2015-16 level, bringing funding for Cal Grants to \$2 billion in 2016-17. The increase is almost entirely due to a projected 5 percent increase in the number of awards. Renewal awards account for three-quarters of this growth. The growth in renewal awards is due to growth in new awards in recent years. The budget also assumes two changes to maximum award amounts. First, the budget assumes a \$54 increase in the maximum UC

award due to UC increasing its Student Services Fee by this amount. This increases Cal Grant costs by \$4.1 million. Second, the budget assumes the Cal Grant Access Award supplement increases from \$8 to \$22 (on top of the base award amount of \$1,648 per student). This increase is due to College Access Tax Credit Fund revenues growing from \$1.8 million in 2015-16 to \$5.1 million in 2016-17. Additionally, the budget increases the amount of federal TANF supporting Cal Grants by \$405 million and decreases General Fund by the same amount. This change is a fund swap and has no programmatic effect on the Cal Grant program.

Adjustments to Funding for Middle Class Scholarships. Statute sets forth state appropriations for Middle Class Scholarships. The 2015-16 budget package revised the statutory appropriations down to reflect savings from the creation of an asset ceiling and other modifications to the program's eligibility requirements. The 2016-17 budget package lowers the budget-year and out-year statutory appropriations by \$42 million to reflect greater-than-expected savings from these changes. Specifically, trailer legislation reduces the appropriation for 2016-17 from \$116 million to \$74 million and the appropriations for 2017-18 and thereafter from \$159 million to \$117 million. After making these adjustments, funding for the program increases by \$26 million from the revised 2015-16 level. The year-to-year increase reflects increased participation and the continued phase-in of higher award amounts.

Increases Funding for Chafee Foster Youth Grant Program. This need-based program provides certain current or former foster youth with up to \$5,000 per year for college attendance costs at any eligible postsecondary institution. (To be eligible, an institution must be participating in the federal Pell Grant program.) The Chafee grant program is supported with state and federal funds. The budget increases state support for the program from

\$6 million in 2015-16 to \$9 million in 2016-17—a 50 percent increase. Federal support is expected to remain flat at \$5.6 million. The \$3 million augmentation is expected to provide awards to an additional 922 students, bringing total grant recipients up to an estimated 4,512 students. (CSAC reports that over 1,100 eligible applicants did not receive awards in the most recent grant cycle due to insufficient funding.)

Increases CSAC State Operations Funding. The budget includes two items relating to CSAC's information technology (IT) system. The budget provides CSAC with \$2 million (\$1.4 million one time and \$526,000 ongoing) to address risks identified in a recent security audit of its current IT system. Additionally, the budget provides CSAC with \$396,000 one time to continue planning a new IT system. The commission is expected to perform the second and third stages of the Department of Technology's four-stage approval process for the new IT project in 2016-17.

Authorizes CSAC to Receive \$500,000 One Time From a Private Foundation. This would allow the commission to conduct research sponsored by the College Futures Foundation. The foundation is a private organization that funds initiatives to help low-income students in California attend and graduate from college. The scope of the arrangement between CSAC and the College Futures Foundations is not yet determined.

California State Library

Total State Library Spending of \$53 Million. Of total spending, \$34 million (almost two-thirds) is from state General Fund, \$18 million from federal funds, and \$1 million from special funds. Of state General Fund, \$18 million is for direct operations and facilities, with \$16 million for assistance to local libraries. The budget includes \$7.4 million in new General Fund spending—\$561,000 for state operations and \$6.8 million for

local library assistance. This spending increase is offset by \$5.5 million in various downward technical adjustments, resulting in a net year-to-year increase of \$2 million.

\$4.8 Million Increase for Regional Library Cooperatives. Of this amount, \$3 million is one time and \$1.8 million is ongoing. This is in addition to the \$1.9 million in ongoing funding that the cooperatives currently receive to promote resource sharing within and across regions. The budget directs the cooperatives to use the funding increase to expand these efforts and adds language that allows libraries to adopt new technologies to share resources. The California Library Services Board has discretion in how it allocates funding to the cooperatives. Following current practice, it intends to allocate the ongoing funding based on the number of people residing within each of the cooperative's boundaries. Trailer legislation requires the cooperatives to report on how they spend one-time funds, with additional reporting requirements relating to the expansion of digital libraries.

HEALTH

Overview of Spending. The spending plan provides \$20.1 billion General Fund for health programs. This is an increase of \$447 million, or 2.3 percent, compared to the revised 2015-16 spending level, as shown in Figure 20 (see next page). This year-over-year net increase reflects increases in the Medi-Cal caseload and in the cost of providing health care services to Medi-Cal beneficiaries, as well as some new health care initiatives and program expansions. Figure 21 (see next page) shows the major policy changes adopted by the Legislature as part of the 2016-17 spending plan. These changes—which include the enactment of a revised managed care organization (MCO) tax resulting in General Fund savings of \$1.1 billion in Medi-Cal—are discussed in more detail below.

Several Other Funding Increases. The budget provides \$1 million (one time) for the State Library to administer grants to individuals, organizations, and education institutions through the California Civil Liberties Public Education Program. The grants are to provide education about the internment of Japanese Americans during World War II, with priority for projects that link this experience to other populations facing civil rights violations. The State Library would work with an advisory committee to select and administer the grants. The budget also provides \$1 million (one time) for the nonprofit California Historical Society to increase access to exhibitions and public programs at its San Francisco and Los Angeles facilities. It also provides \$505,000 (ongoing) for the State Library to purchase additional microfilm (\$343,000), database subscriptions (\$142,000), and periodical and journal subscriptions (\$20,000). The budget includes \$56,000 (ongoing) to pay for a 5 percent increase in rent and facilities costs at the State Library's main library in Sacramento.

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

The spending plan provides \$17.8 billion General Fund for Medi-Cal local assistance expenditures administered by DHCS. This is an increase of about \$243 million, or 1.4 percent, compared to the revised 2015-16 spending level. Spending in 2015-16 was about \$528 million lower than the 2015-16 budget appropriation. The lower spending in 2015-16 compared to the appropriation is the net result of a variety of factors, such as higher-than-expected prescription drug rebates and lower-than-estimated managed care costs.

Differences in Medi-Cal spending between 2015-16 and 2016-17 are in large part the

Figure 20
Major Health Programs and Departments—Spending Trends

General Fund (Dollars in Millions)

	2015-16	2016-17	Change in	
			Amount	Percent
Medi-Cal—local assistance	\$17,512	\$17,755	\$243	1.4%
Department of State Hospitals	1,628	1,705	77	4.7
Department of Public Health	130	151	21	16.4
Other DHCS programs	209	268	59	28.1
Office of Statewide Health Planning and Development	—	33	33	—
Emergency Medical Services Authority	8	9	—	2.9
DHCS—state administration	188	201	13	7.1
Totals	\$19,675	\$20,122	\$447	2.3%

DHCS = Department of Health Care Services.

result of underlying cost drivers in the program, such as changes to caseload and the cost of providing health care services. For example, the

spending plan assumes that overall caseload will grow by 4.8 percent compared to 2015-16.

We discuss some of the major policies that were

adopted as part of the 2016-17 Medi-Cal budget below.

Reflects MCO Tax Funding That Resulted From Special Session.

Chapter 2 of the 2015-16 Second Extraordinary Session (SB2X 2, Hernandez), imposes a revised MCO tax on most managed care plans. Revenues from the MCO tax are used, in part, to create General Fund savings in Medi-Cal. The spending plan reflects \$1.1 billion in General Fund savings resulting from the MCO tax in the Medi-Cal budget for 2016-17.

Reflects Special Session Rate Adjustments

Figure 21
Major Health Programs and Departments—Key Policy Changes

2016-17 General Fund Effect (In Millions)

Program/Department	Amount
Medi-Cal—Department of Health Care Services	
Savings resulting from revised MCO tax	-\$1,100.0
Savings from new federal limits on generic drug prices	-130.0
Rate adjustments for certain long-term care providers	135.0
Changes to asset recovery	26.0
Restoration of acupuncture benefit	3.7
Behavioral Health	
Infrastructure funding for public safety diversion programs	\$67.5
Expansion of children’s mental health crisis services	10.0
Office of Statewide Health Planning and Development	
Expansion of residency programs for primary care physicians	\$33.3
Department of Public Health	
Additional funds for sexually transmitted disease prevention	\$5.0
Reestablish Children’s Dental Disease Prevention Program	3.2
Drug overdose prevention	3.0
Early detection and diagnosis of Alzheimer’s disease	2.5
Prevention funds for hepatitis B and C viruses	1.4
Enforcement funding for tobacco-related legislation	1.0
Department of State Hospitals	
Activation of additional beds in Department of State Hospitals	\$18.1
Jail-based competency treatment expansion	4.2

MCO = managed care organization.

for Certain Long-Term Care Facilities. Chapter 3 of the 2015-16 Second Extraordinary Session (AB2X 1, Thurmond), forgave certain payments that distinct part skilled nursing facilities would have otherwise owed retroactively. The legislation also eliminated certain Medi-Cal rate reductions for Intermediate Care Facilities for the Developmentally Disabled and provided a 3.7 percent rate increase for these providers. The cost of these rate adjustments is \$135 million General Fund in 2016-17. Ongoing, these adjustments will cost roughly \$13 million General Fund. (The cost in 2016-17 is substantially higher, as it accounts for the one-time costs associated with the forgiveness of the payments owed retroactively.)

Reflects Extension of Section 1115 Waiver. In December 2015, the federal government approved a five-year extension of the state's Section 1115 waiver. The federal government grants states flexibility in administering their Medicaid programs through "waivers," such as those allowed under Section 1115 of the federal Social Security Act. When a state's waiver request is approved by the federal government, the state is permitted to waive certain federal requirements on the basis that the waiver serves to further the purpose of the state's Medicaid program. The extension of the Section 1115 waiver includes roughly \$7 billion in federal funding for Medi-Cal over the five years associated with several new programs that the state will implement through the waiver. Examples of such programs include the Global Payment Program that reforms financing provided to certain public hospitals to treat the remaining uninsured and the Whole Person Care Pilot that will provide coordinated care for Medi-Cal beneficiaries who are high utilizers of services.

Funds Closeout Activities Resulting From California Medicaid Management Information System (CA-MMIS) Replacement Project Settlement. The CA-MMIS processes payments to

health care providers of the Medi-Cal fee-for-service system. In 2011, DHCS contracted with a vendor to (1) replace the legacy CA-MMIS with a modernized system, known as the CA-MMIS Replacement Project, and (2) take over the maintenance and operation of the legacy CA-MMIS while the replacement project was underway. After four years of development, the vendor notified DHCS that it would not complete the CA-MMIS Replacement Project after experiencing significant schedule delays. This notification initiated a negotiation between DHCS and the vendor regarding the terms of a settlement agreement, which was finalized in April 2016. The settlement agreement stipulates that DHCS and the vendor agreed to discontinue work on the CA-MMIS Replacement Project. However, the vendor will continue to maintain and operate the legacy CA-MMIS through September 2019. The spending plan provides limited-term funding of \$3.4 million General Fund for 24 positions to (1) conduct various project closeout activities, (2) begin the procurement for a new vendor to maintain and operate the legacy CA-MMIS, and (3) reevaluate the procurement approach to replace the legacy system.

Extends Hospital Quality Assurance Fee for One Year. The spending plan extends the hospital quality assurance fee to January 1, 2018. (It was previously scheduled to sunset on January 1, 2017.) However, this fee extension does not have an impact on the 2016-17 Medi-Cal budget. Rather, the roughly \$850 million in General Fund savings that will result from the fee extension will likely occur in 2017-18, reflecting the timing of the required federal government approval and Medi-Cal's cash-basis budgeting.

Scores Savings Resulting From Revised Federal Upper Limit for Generic Drug Prices. In April 2016, a revised federal rule went into effect limiting how much the fee-for-service Medi-Cal program can reimburse pharmacies for certain

generic drugs dispensed to beneficiaries. The new upper limits are based on pharmacies' average drug acquisition costs and are on net lower than the amount Medi-Cal was previously reimbursing pharmacies, resulting in estimated General Fund savings of \$130 million in 2016-17.

Restores Acupuncture Benefit. The spending plan restores the acupuncture benefit in Medi-Cal at a cost of \$3.7 million General Fund (\$4.4 million ongoing). Acupuncture is an optional Medi-Cal benefit—meaning the state is not required to provide the benefit under federal Medicaid law—that was eliminated during the recession.

Scales Back Asset Recovery. The spending plan scales back estate recovery as currently implemented in Medi-Cal such that estate recovery is only collected to the extent required by federal law, at an annual cost of \$26 million General Fund. Prior state law required recovery for *nearly all* Medi-Cal payments for individuals aged 55 or older at the time of receiving services (with certain exceptions). In contrast, federal law requires the state to seek recovery from a deceased individual's estate for payments for only a select group of services provided by Medi-Cal, including nursing facility services, home- and community-based services, and related hospital and prescription drug services.

Behavioral Health

Expands Public Safety Diversion Programs. The spending plan provides \$67.5 million from the General Fund on a one-time basis to establish a community infrastructure grant program administered by the California Health Facilities Financing Authority. The competitive grant program will distribute funds to cities and counties to increase capacity within local mental health, substance use disorder, and trauma-centered service facilities, with the intent that these expanded facilities will serve as an alternative to incarceration for individuals with behavioral health disorders.

The grants will finance the acquisition or renovation of new or expanded facilities and equipment, as well as support diversion program startup or expansion costs. In addition to funding diversion services, the grant funding is intended to expand services to sex trafficking victims, domestic violence victims, and victims of other violent crimes.

Funding to Build a Continuum of Children's Mental Health Crisis Services. The spending plan includes \$30 million on a one-time basis to build a continuum of children's mental health crisis services. The funding consists of \$16 million from the General Fund—including a \$6 million reappropriation—and \$14 million in Mental Health Services Act (MHSA) state administration funding. The funds will establish a grant program administered by the Mental Health Services Oversight and Accountability Commission and the California Health Facilities Financing Authority, to which counties will apply. The grant program will support county efforts to build a full range of children's crisis services, including residential crisis beds that serve as an alternative to hospitalization, community-based intervention services, expanded respite care, and crisis training for families.

State Resources to Maintain Suicide Hotline Funding at Current Level. The spending plan includes \$4 million in one-time MHSA state administrative funds to allow the state's 11 crisis call centers that answer calls through the National Suicide Prevention Lifeline to maintain recently introduced services that were previously funded with discretionary county MHSA funds. The one-time funding is intended to temporarily address an ongoing suicide hotline funding shortfall until a permanent funding plan can be identified and selected.

Use of County MHSA Funds to Support Statewide Homelessness Initiative. The spending plan reflects the No Place Like Home initiative, which was introduced by the Legislature and

incorporated into the Governor’s budget to establish a \$2 billion grant program primarily to support the construction and reconstruction of permanent housing for the state’s homeless population with mental health needs. Revenue bonds whose debt service will be paid over time with county MHSA funds will fund the initiative. (Budget-related legislation permits other funding sources to be used to finance the initiative as well.) The No Place Like Home initiative is discussed in greater detail in the “Other Major Provisions” section of this report.

Office of Statewide Health Planning and Development

Expands Primary Care Physician Residency Programs. The spending plan provides \$33 million from the General Fund for each of the next three years to expand residency programs for primary care physicians. The majority of the funding—\$82.5 million over three years—is dedicated to support new residency slots in medically underserved areas under the Song Brown Program, while the remainder—\$17.5 million over three years—is intended to expand residency training in community-based Teaching Health Center programs.

Department of Public Health (DPH)

The spending plan provides over \$3 billion from all fund sources for DPH programs. This is an increase of \$56 million, or about 2 percent, compared to the revised prior-year spending level. Of this total, the spending plan provides \$151 million General Fund for DPH, an increase of \$21 million, or 16 percent. This year-over-year increase in General Fund largely reflects a number of relatively small program augmentations initiated by the Legislature, as discussed below. (The spending plan also reflects various funding and policy changes for DPH to implement the Medical

Marijuana Regulation Safety Act, which we describe in the “Other Major Provisions” section of this report.)

Childhood Lead Prevention Program. The spending plan includes an increase of \$8.4 million from the Childhood Lead Prevention Fund to support expanded childhood lead prevention activities, including funding for: (1) expanded services to children who have been exposed to lead and (2) Geographic Information System mapping of the locations of children with elevated blood lead levels to help identify locations of lead exposure.

Office of AIDS. The spending plan reflects various policy changes and an increase of \$9.6 million ongoing in federal and drug rebate funds to: (1) expand the Health Insurance Premium Payment program to clients with employer-based or family or dependent health insurance, (2) increase access to Pre-Exposure Prophylaxis (PrEP) to prevent human immunodeficiency virus (HIV) transmission in select demonstration counties, (3) develop a PrEP Affordability Program, and (4) eliminate cost sharing for individuals enrolled in the AIDS Drug Assistance Program who have annual incomes between 400 percent and 500 percent of the federal poverty level.

Legislative General Fund Augmentations for Expanded and New Program Activities. The spending plan includes a total of \$13 million—primarily one-time funding—in legislative General Fund augmentations that were approved by the Governor as follows:

- \$5 million on a one-time basis for sexually transmitted disease prevention.
- \$3.2 million ongoing to reestablish the California Children’s Dental Disease Prevention Program.
- \$3 million on a one-time basis for drug overdose prevention.

- \$2.5 million on a one-time basis for early detection and diagnosis of Alzheimer’s disease.
- \$1.4 million on a one-time basis for prevention and treatment of the hepatitis B and C viruses.
- \$1 million (increased to \$2 million in future years) for enforcement-related activities in implementation of recently enacted tobacco legislation,
- \$600,000 on a one-time basis for the Biomonitoring California program. (This program works to study environmental chemicals in Californians to help assess effectiveness of public health and regulator efforts to reduce chemical exposures.)

Department of State Hospitals (DSH)

Under the budget plan, General Fund spending for DSH will be about \$1.7 billion in 2016-17, an increase of \$77 million, or 5 percent, from the revised 2015-16 level. The year-over-year increase is largely due to various plans to increase capacity

in the state hospitals and jail-based competency treatment (JBCT) programs.

Activation of Additional State Hospital Beds. The budget plan includes an \$18 million General Fund increase for the activation of an additional 85 patient beds. This total includes (1) \$13 million for 60 beds primarily to treat incompetent to stand trial (IST) patients at DSH-Napa and (2) \$5 million for 25 beds at DSH-Metropolitan to treat patients committed under the provisions of the Lanterman-Petris-Short (LPS) Act and currently housed at DSH-Patton. This will allow DSH-Patton to accommodate additional IST patients. In addition, the budget package includes \$2 million in reimbursement authority for the activation of 11 beds at DSH-Metropolitan for LPS patients. Counties will contract with the state for these beds for LPS patients.

JBCT Program Expansion. The budget provides an additional \$4 million from the General Fund to expand JBCT programs by up to 35 beds in two counties. These programs provide services to IST patients in county jails. The counties had not been identified at the time the budget was enacted.

HUMAN SERVICES

Overview of Spending. The spending plan provides nearly \$13 billion from the General Fund for human services programs. This is an increase of \$1.2 billion, or about 10 percent, compared to the revised prior-year spending level, as shown in Figure 22. This is largely the result of higher spending in the Department of Developmental Services (DDS) and the In-Home Supportive Services (IHSS) program, reflecting increased funding related to special session actions for developmental community services, caseloads, costs per consumer, and labor costs. Figure 23 (see

page 42) shows the major policy changes adopted by the Legislature as part of the 2016-17 spending plan. These changes are discussed in more detail below.

Department of Developmental Services

Under the budget plan, General Fund spending for DDS will increase from about \$3.5 billion in 2015-16 to nearly \$4 billion in 2016-17, or by about 14 percent. This year-over-year increase primarily reflects the impact of (1) rate increases for various community services providers and other augmentations authorized by special session

legislation, (2) increased community services spending due to new policy changes as well as caseload increases and utilization changes, and (3) other workload-related adjustments.

Significant Community Services Budget

Augmentations Due to Special Session Actions.

The spending plan provides a total of \$293 million General Fund (\$481 million total funds) for DDS to implement Chapter 3 of the 2015-16 Second Extraordinary Session (AB2X 1, Thurmond), which was signed by the Governor in March 2016. (In June 2015, the Governor convened a special legislative session to address various health and human services issues, including the provision of sufficient funding for rate increases for community service providers serving individuals with developmental disabilities.) Assembly Bill 2X 1 and the budget act collectively appropriated General Fund monies to implement AB2X 1—primarily for salary and/or benefit increases for community service providers that devote most of their time to providing direct care to consumers and other rate increases. The spending plan provides \$3 million

one-time General Fund for the community services rate study that AB2X 1 requires DDS to submit to the Legislature by March 2019. (Additional details regarding special session actions related to the developmental services system can be found in *The 2016-17 Budget: Analysis of the Department of Developmental Services Budget.*)

Other Community Services-Related Spending Changes.

In addition to the special session-related augmentations, the spending plan also includes \$52 million General Fund (about \$80 million total funds) for the following key spending changes related to the community services system:

- \$26 million General Fund (\$46 million total funds) to implement a new rate for Alternative Residential Model rate facilities serving four or fewer individuals.
- \$13.4 million General Fund (about \$17 million total funds) to support compliance of DDS, regional centers (RCs), and community providers with new federal rules for home- and community-based

Figure 22

Major Human Services Programs and Departments—Spending Trends

General Fund (Dollars in Millions)

	2015-16	2016-17	Change	
			Amount	Percent
SSI/SSP	\$2,776.6	\$2,872.2	\$95.6	3.4%
Department of Developmental Services	3,481.5	3,980.0	498.5	14.3
CalWORKs	699.8	704.9	5.1	0.7
In-Home Supportive Services	3,004.0	3,455.7	451.7	15.0
County Administration/Automation	809.7	830.1	20.5	2.5
Department of Child Support Services	314.3	314.2	-0.1	—
Department of Rehabilitation	59.8	61.1	1.3	2.2
Nonrealigned children’s programs ^{a,b}	262.2	360.3	98.1	37.4
Department of Aging	33.4	35.8	2.3	7.0
All other social services (including state support)	321.1	358.1	37.0	11.5
Totals	\$11,762.4	\$12,972.3	\$1,209.9	10.3%

^a These include, among other programs, the Kinship Guardianship Assistance Payment Program, Approved Relative Caregiver Program, and funding for the Continuum of Care Reform efforts.

^b The 2015-16 General Fund includes a \$50 million set-aside for a potential federal penalty. This penalty is currently being appealed. If the state does not ultimately have to pay the penalty, or pay a lesser amount, General Fund costs in this area would be less.

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services, including resources for 21 program evaluator positions within each RC and four permanent positions at DDS headquarters.

- \$13 million General Fund (\$17 million total funds) to support additional RC service coordinator positions to improve coordinator-to-consumer caseload ratios.

Figure 23

Major Human Services Programs and Departments—Policy Changes

2016-17 General Fund Effect (In Millions)

Program	Amount
Developmental Services	
Provider rate increases and other community services augmentations	\$293.0
One-time increase in Community Placement Plan program activities for DC movers	73.8
Establish new rate for certain residential facilities serving four or fewer individuals	26.0
Provide retention incentives for DC employees ^a	20.1
Implementation of new federal requirements for home- and community-based services	13.4
Increased Regional Center support for improved coordinator-to-consumer caseload ratios	13.0
In-Home Supportive Services (IHSS)^b	
Restore 7 percent service hours	265.8
SSI/SSP	
One-time funding to establish Housing and Disability Income Advocacy Program	45.0
Increase state-funded portion of grants by 2.76 percent ^c	36.5
CalWORKs^d	
Repeal maximum family grant policy ^c	96.5
Increase child care reimbursements ^c	19.4
Augment funding for Housing Support Program	12.0
Expand access to homeless assistance payments ^c	2.4
Food Assistance	
One-time funding for State Emergency Food Assistance Program	2.0
Immigration	
One-time augmentation for immigration assistance	15.0
Child Welfare Services	
Provide funding for Continuum of Care Reform efforts	120.3
Establish state grant program to prevent homelessness among child welfare families	10.0
Augment funding for the Commercially Sexually Exploited Children Program	5.0
Increase the foster care infant supplement	4.0
Augment funding for the Chafee Education and Training Voucher Program	3.0
Adult Protective Services (APS)	
One-time increase for APS social worker training	3.0
Department of Aging	
One-time augmentation for home-delivered meals program	2.0
^a Funding is budgeted in overall state employee compensation budget and subject to collective bargaining.	
^b We note that the 2016-17 budget includes a total of \$437 million in IHSS (not included in this table) for a full year of compliance with new federal regulations for overtime for home care workers. The policy to comply with the new regulations was adopted as part of the 2014-15 budget, but was not implemented until February 1, 2016 due to federal litigation. The 2016-17 budget reflects the first full fiscal year that this policy will be implemented.	
^c Effective January 2017.	
^d We note that the 2016-17 budget includes \$36 million (\$1 million General Fund), not reflected in this table, for a 1.43 percent increase to CalWORKs grants, effective October 2016. The increase is provided pursuant to a determination by the Department of Finance that certain dedicated revenues are sufficient to fund the increase.	
DC = developmental center.	

New Fiscal and Program Research Unit.

The spending plan provides \$630,000 General Fund (\$923,000 total funds) and seven permanent positions to establish a Fiscal and Program Research Unit. The budget also includes \$300,000 General Fund to develop and implement a plan to monitor, evaluate, and improve the quality of community-based services through a “performance dashboard.”

Developmental Center (DC) Closure-Related Funding. On October 1, 2015, DDS submitted to the Legislature for approval a plan for the closure of Sonoma DC and on April 1, 2016 submitted plans for the closure of Fairview DC and the general treatment area at Porterville DC. The spending plan provides resources as well as reflects related policy changes to move forward with these DC closures, as follows:

- \$73.8 million one-time General Fund (\$78.8 million total funds) for the Community Placement Program (CPP) to support accelerated transitions for individuals moving out of Sonoma, Fairview, and Porterville DCs related to planned closures. (This is in addition to \$68 million in total “base” CPP funding that has historically been provided.)
- \$20.1 million one-time General Fund for retention incentives for DC staff to help maintain continuity of services during the closure process. (This funding is subject to the collective bargaining process.)
- \$10.1 million ongoing General Fund (\$15 million total funds) through the DC closure process for resolution and settlement of remaining workers’ compensation claims.
- \$5.3 million one-time and ongoing General Fund (\$7.1 million total funds) for other closure-related activities, including:

(1) inventory and archiving of clinical and historical records as well as relocation of residents and their personal belongings at Sonoma DC, (2) independent monitor contracts at all three DCs, and (3) a contracted property site assessment at Sonoma DC.

Required Reporting on Backfill Needed for Lost Federal Funding. Budget-related legislation requires DDS to report quarterly to the Legislature on the estimated General Fund backfill costs due to lost federal funds (estimated to be \$32.4 million in 2016-17) from the decertification of the intermediate care facilities (ICFs) at Sonoma DC and failure to comply with federal settlement terms to continue funding. This legislation also requires similar quarterly reporting for Fairview and/or Porterville DCs if the ICFs at these DCs also lose federal funding related to decertification. The budget act also authorizes up to \$32.4 million General Fund for the operation of ICFs at Sonoma DC upon 30-day notice to the Legislature prior to expenditure.

Porterville DC Capital Outlay and Deferred Maintenance. The spending plan includes an increase of \$8.3 million General Fund in one-time funding to replace the secure treatment area personal alarm locating system, as well as for the construction phase to upgrade the fire alarm system, at Porterville DC. In addition, the spending plan includes \$18.2 million for deferred maintenance projects at Porterville DC, including \$10.1 million General Fund for replacement of the boiler system and related projects.

In-Home Supportive Services

The spending plan includes \$3.5 billion General Fund for IHSS in 2016-17, an increase of \$452 million (15 percent) over revised estimates for 2015-16. The majority of the year-over-year increase is due to growth in caseload, hours per case, and

provider wages and benefits. The spending plan also reflects two key cost drivers—(1) the General Fund restoration of service hours associated with the IHSS 7 percent reduction in service hours for as long as the newly-passed MCO tax is in place, and (2) a full year of Fair Labor Standards Act (FLSA) implementation, including newly defined provider exemptions to the workweek cap. We describe these factors in more detail below.

Restores IHSS Hours From 7 Percent Reduction With General Fund Tied to MCO Tax.

The spending plan includes \$266 million General Fund to restore the service hours associated with the IHSS 7 percent reduction in service hours with General Fund for as long as the recently passed MCO tax is in place. The 2015-16 budget provided one-time General Fund support of \$241 million to restore these hours. The MCO tax—which was approved by the federal government in May 2016—is expected to be effective through 2018-19. (We note that budget-related legislation states that if the federal government rescinds its approval of California’s MCO tax for any reason, the General Fund support for the service hours associated with the IHSS 7 percent reduction in service hours will be eliminated.)

Provides Full-Year Funding for Implementation of New Federal Labor Regulations Affecting IHSS Providers . . . The

2016-17 budget includes \$437 million General Fund for compliance with new federal labor regulations, an increase of \$188 million (75 percent) over revised estimates for 2015-16. This increase reflects a full year of funding for compliance in 2016-17, compared to five months in 2015-16. The

state implemented the new regulations for IHSS providers on February 1, 2016 following delays due to federal court action. The new regulations require states to (1) pay overtime compensation—at one-and-a-half times the regular rate of pay—to IHSS providers for all hours worked that exceed 40 in a week, and (2) compensate IHSS providers for time spent waiting during medical appointments and traveling between the homes of IHSS recipients. Figure 24 compares the full-year costs in 2016-17 to the partial-year costs in 2015-16 for each component of FLSA implementation.

. . . Including Funding for Administratively Established Provider Exemptions to Workweek Cap. As shown in Figure 24, the IHSS budget includes \$22 million General Fund in 2016-17 for exemptions to the 66-hour workweek cap for certain providers with multiple recipients. The Department of Social Services (DSS) administratively established two types of exemptions in response to federal guidance asking states implementing workweek caps for IHSS-like providers to institute exemptions in situations where the caps could lead to increased risk of institutionalization for the consumer. The first exemption applies to IHSS providers who are—as of January 31, 2016—the parents of (or have a parent-like relationship with) two or more IHSS consumers with whom they live. DSS estimates

Figure 24
Costs of Implementing New Federal FLSA Regulations

<i>General Fund (In Millions)^a</i>			
	2015-16	2016-17	Change From 2015-16
Overtime pay	\$145	\$230	\$85
Newly compensable work activities	70	180	110
Provider exemptions to workweek caps	4	22	18
Administrative costs	31	4	-27
Totals	\$249	\$437	\$188

^a Dollar amounts in figure may not add due to rounding.

FLSA = Fair Labor Standards Act.

that 1,200 providers are eligible for this exemption in 2016-17. The second exemption is applied on a case-by-case basis for providers who work for two or more recipients for whom certain circumstances outlined by DSS (for example, a language barrier) prevent the recipient from hiring another provider. DSS estimates that 5,000 providers will be approved for this exemption in 2016-17. Both exemptions allow providers to work up to 90 hours per week (not to exceed 360 hours per month).

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

The 2016-17 budget includes \$2.9 billion General Fund for SSI/SSP, an increase of \$95 million (3.4 percent) over revised expenditure estimates for 2015-16. This increase is largely the result of two policy changes included in the 2016-17 budget—(1) a 2.76 percent increase to the state-funded SSP portion of the SSI/SSP grant, and (2) one-time funding of \$45 million to establish the Housing and Disability Income Advocacy Program.

Increases State Portion of SSI/SSP Grants by 2.76 Percent. The spending plan includes six months of funding (\$37 million) from the General Fund to increase SSP grants by the California Necessities Index—2.76 percent in 2017—beginning January 1, 2017. The annual cost of this increase is estimated to be approximately \$74 million General Fund. Figure 25 displays how maximum monthly grants

for individuals and couples will change in 2017 under the SSP grant increase.

Establishes Limited-Term State Matching Funds for County Housing and Disability Income Advocacy Program. The spending plan provides \$45 million General Fund in 2016-17 on a one-time basis—available to be spent over three years—to establish the Housing and Disability Income Advocacy Program. Under this program, state funding will be awarded to counties that provide county matching funds to establish or expand programs that help homeless individuals with disabilities apply for disability benefit programs, including SSI/SSP. These county-run programs (sometimes called “SSI advocacy programs”) perform outreach to individuals who may be eligible for disability compensation, and assist them in navigating the application and appeals process. Budget-related legislation also requires participating counties to establish or expand housing assistance programs for individuals receiving these services.

Figure 25
SSI/SSP Monthly Maximum Grant Levels^a

	2015-16	2016-17 ^b	Change From 2015-16
Maximum Grant—Individuals			
SSI	\$733.00	\$733.00	—
SSP	156.40	160.72	\$4.32
Totals	\$889.40	\$893.72	\$4.32
Percent of federal poverty level ^c	90%	90%	—
Maximum Grant—Couples			
SSI	\$1,100.00	\$1,100.00	—
SSP	396.20	407.14	\$10.94
Totals	\$1,496.20	\$1,507.14	\$10.94
Percent of federal poverty level ^c	112%	113%	—

^a The maximum monthly grants displayed refer to those for aged and disabled individuals and couples living in their own households, effective as of January 1 of the fiscal year.
^b Amounts for SSI reflect the assumption that the January 2017 federal cost-of-living adjustment (COLA) for the SSI portion of the grant will be zero. We note that the amount of the federal COLA for 2017 will be finalized in fall 2016.
^c Compares grant level to federal poverty guideline from the U.S. Department of Health and Human Services for 2016.

California Work Opportunity and Responsibility to Kids (CalWORKs)

The spending plan provides a total of \$5.4 billion from all funds to support the CalWORKs program, a decrease of \$130 million (2 percent) relative to estimated spending in the prior year. This year-over-year decrease primarily reflects the net effect of roughly \$180 million in costs from new augmentations and roughly \$310 million in savings largely related to declining caseloads. Within the total funding amount, the spending plan provides \$705 million from the General Fund to support CalWORKs, an increase of \$5 million (less than 1 percent) over the prior year. Major changes in CalWORKs funding and policy included in the 2016-17 spending plan are described in greater detail below.

Grants Increased by 1.43 Percent. Effective October 2016, budget legislation increases maximum monthly CalWORKs grants by 1.43 percent. The cost of additional cash assistance resulting from this increase—\$35 million in 2016-17 and roughly \$47 million ongoing—is to be paid from the Child Poverty and Family Supplemental Support subaccount (hereafter “child poverty subaccount”), a special fund dedicated to providing CalWORKs grant increases. Under current law, grant increases are automatically provided in years for which the

DOF estimates that sufficient funds are available in the subaccount to fully cover the costs of an increase. Aside from cash assistance costs covered with child poverty subaccount funds, the spending plan includes \$1 million from the General Fund to pay for program administration and services costs for a small number of families projected to remain assisted in CalWORKs longer than they otherwise would because of the grant increase.

As displayed in Figure 26, the grant increase is estimated to result in up to \$10 in increased cash assistance per month for a family of three with no other income. For many households, this increase will be partially offset by a small reduction in the family’s CalFresh food benefit (relative to what the food benefit would have been without the grant increase) because the CalWORKs grant is counted as income for purposes of determining CalFresh benefit amounts.

Maximum Family Grant (MFG) Policy Repealed. Since 1997, families receiving CalWORKs assistance have not received an increase to their monthly grant to reflect the birth of any child born after more than ten months of continuous assistance (with some limited exceptions), pursuant to a provision of state law known as the MFG policy. (In general, larger families receive larger CalWORKs grant amounts to reflect greater basic needs, such that a family

Figure 26
Monthly CalWORKs Grant and CalFresh Benefit^a

	Without Grant Increase	With Grant Increase ^b	Change	
			Amount	Percent
Grant	\$704	\$714	\$10	1%
CalFresh benefit ^c	502	499	-3	-1
Totals	\$1,206	\$1,213	\$7	
Grant as percent of the federal poverty level (FPL)	42%	43%		
Grant and CalFresh benefit as percent of FPL	71	72		

^a For a family of three with no other income that lives in a high-cost county.
^b Budget legislation provides a 1.43 percent grant increase effective October 2016.
^c CalFresh benefit amounts calculated using benefit amounts in effect during the 2016-17 federal fiscal year, which begins in October 2016.

affected by the MFG policy receives less assistance than it would if the child had been born before ten months of continuous assistance.) Budget legislation repeals the MFG policy effective January 2017. When this action takes effect, it will provide increased cash assistance to an estimated 126,000 children in 93,000 families, at a total cost of \$109 million (all funds) in 2016-17 and roughly \$225 million annually thereafter.

Budget legislation specifies that, when funds are available, the costs of repealing the MFG policy will be paid for from the child poverty subaccount—the same subaccount used to fund grant increases, as described previously. When subaccount funds are not sufficient to cover the full costs of repealing the MFG policy, the state General Fund will make up the difference. In 2016-17, an estimated \$12 million is available from the child poverty subaccount to fund the repeal of the MFG policy, leaving \$97 million to be borne by the General Fund. The General Fund contribution to the cost of repealing the MFG policy is expected to increase in 2017-18 as the repeal will be in effect for a full year. In subsequent years the General Fund costs of the repeal are expected to decline as child poverty subaccount funds grow, until the ongoing costs of the repeal are fully supported by the child poverty subaccount and General Fund support is no longer required.

Child Care Reimbursement Rates Increased. The spending plan includes \$19 million from the General Fund to pay for the partial-year costs in 2016-17 of certain rate increases in Stage 1 child care. The full-year costs for the rate increases are about \$39 million. For more information on these rate increases and their broader effect on the state budget, see the “Child Care and Preschool” write-up in the “Education” section of this report.

Homeless Assistance Expanded. The spending plan includes increased funding for two actions related to assistance for homeless families in

the CalWORKs program. First, the spending plan increases funding for the Housing Support Program (HSP), which provides a capped amount of funding for interested counties to provide housing assistance to CalWORKs families who are homeless or at imminent risk of homelessness. The Governor’s January budget proposed to continue funding HSP at \$35 million (all funds) in 2016-17, the same level of funding provided in the prior year. The spending plan includes an additional \$12 million from the General Fund to increase total funding for HSP to \$47 million in 2016-17.

Second, budget legislation increases the availability of certain payments that CalWORKs families may receive under current law to obtain temporary shelter for up to 16 days and/or to obtain or maintain permanent housing. Currently, with a few exceptions, families may access such assistance only once per lifetime. Effective January 2017, families will be able to receive this assistance once annually. The spending plan includes \$2 million from the General Fund to pay for additional assistance costs and automation system changes resulting from this action in 2016-17. Full-year costs of the action are estimated to be roughly \$3 million.

Immigration Assistance

One-Time Augmentation for Federal Immigration Assistance Program. The 2015-16 budget package created the Federal Immigration Assistance program, which provides grants to qualified 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 Governor’s January budget proposed to fund the Federal Immigration Assistance program at \$15 million (all funds) in 2016-17, the same level as in the prior year. The spending plan maintains this

funding level and additionally includes \$15 million from the General Fund to augment the program on a one-time basis.

Child Welfare Services (CWS)

Provides Funding for the Implementation of the Continuum of Care Reform (CCR). In 2015, the Legislature passed legislation implementing CCR. The law, Chapter 773 of 2015 (AB 403, Stone), made significant changes to the way the state cares for children who have been removed from their home and placed into the state's foster care system. Principally, CCR aims to increase the foster care system's reliance on family-like settings rather than institutional settings like group homes. To achieve this, CCR ends group home placements for most foster children and creates a new placement type, Short-Term Residential Therapeutic Programs, for children whose elevated behavioral and mental health needs require temporary placement in a therapeutic residential environment before they can successfully transition into home-based family placement settings. In conjunction, CCR makes changes to ensure that (1) foster children receive medically necessary mental health services, (2) supportive services are accessible within home-based family settings, and (3) placement and supportive service decisions are made using a child and family-centered approach. Implementation of CCR's many different components is currently underway at the state, county, and provider levels in anticipation of many of AB 403's changes taking effect on January 1, 2017. The administration expects that CCR implementation will require additional state funding in 2017-18 before anticipated CCR-related county savings reduce the amount of state resources that must be provided in 2018-19 and beyond.

The 2015-16 budget provided \$21.5 million General Fund as initial funding for CCR implementation, the majority of which went to

foster parent recruitment, training, and support. The 2016-17 spending plan includes \$130 million General Fund (\$170 million total funds) for CCR implementation with the funds going to county child welfare, probation, and mental health departments; DSS; and DHCS. The major spending components for 2016-17 are:

- ***Additional Funding for Foster Parent Recruitment, Training, and Support.*** Recognizing that new foster parents are needed for CCR to meet its goal of eventually ending most group home placements, the 2016-17 spending plan provides \$43 million in General Fund devoted to recruiting, training, and supporting foster parents. This is \$26 million more than was provided in 2015-16.
- ***Funds New Rates Paid to Foster Parents and Providers.*** Assembly Bill 403 gave DSS the authority to develop new monthly foster payment rates that will take effect in January 2017. The new rate structure generally increases the monthly payments foster parents and providers will receive under CCR and varies the specific payment amount by a child's assessed level of need, rather than by age as is done under the existing rate structure. The spending plan includes \$33 million from the General Fund to fund six months of the costs of the new rate structure in 2016-17.
- ***Remaining CCR Funding Largely Aimed at Improving Placement and Service Decisions.*** The remaining \$54 million in General Fund included in the 2016-17 spending plan for CCR generally goes toward improving placement and supportive service decisions for foster

youth, such as through the use of multidisciplinary case planning teams and standardized assessment tools.

Funds Development of Child Welfare

Services-New System (CWS-NS) Project. The CWS-NS Project will replace the existing Child Welfare Services/Case Management System (CWS/CMS), which is the statewide case management system currently supporting the state's CWS program. CWS workers throughout the state rely on CWS/CMS for access to child, family, and other case-related information to make timely decisions, perform effective case management, and ultimately keep children safe and families intact. The existing system is out of compliance with state and federal requirements.

In November 2015, DSS and the Office of Systems Integration (OSI) announced a shift from a traditional IT project development approach to an "agile" development approach for the CWS-NS Project. Under the traditional approach, implementation of a new IT system does not begin until all phases of the project are complete (it often takes several years to reach this point). In contrast, the agile approach is built incrementally from the start of the project and deployed module by module. In April 2016, the California Department of Technology approved a revised project plan—known as special project report (SPR) 2 for the CWS-NS Project based on the new agile development approach. This SPR estimates a total project cost of \$421 million (\$210 million General Fund) and full implementation by December 2019. The revised cost and full implementation date are roughly the same as the prior plan. The differences between the plans are in the approach and timing of specific activities throughout the project. The 2016-17 spending plan provides \$55.5 million (\$30 million General Fund) and 58 positions to continue the CWS-NS Project as proposed in SPR 2. We note that the 2016-17 budget also includes budget-related legislation that (1) allows

for limited flexibility in the event the project moves faster than currently anticipated and (2) requires DSS and OSI to provide regular updates on the project to the Legislature and stakeholders.

Augments Funding for the Commercially Sexually Exploited Children (CSEC) Program.

The CSEC program was established in 2015 to provide prevention and intervention activities and services to children who are victims, or at risk of being victims, of commercial sexual exploitation. Federal law requires certain CSEC activities—for example, social worker training and notification of law enforcement—for missing and potentially exploited youth. Other activities, such as specialized child welfare services for CSEC youth, are optional at the county level. Currently, 38 counties participate in the optional portion of the CSEC program. The spending plan includes a \$5 million General Fund augmentation on top of \$14 million General Fund provided in 2015-16 for the CSEC program. The \$5 million augmentation is intended to extend county-optional CSEC services to additional counties and expand CSEC services, case management, and social worker training in participating counties.

Increases the Foster Care Infant Supplement.

Currently, a supplemental monthly foster care payment, known as the infant supplement, is available for foster youth who themselves have dependent children. In 2015-16, the infant supplement augmented parenting foster youths' monthly foster care payments by \$411. The 2016-17 budget provides \$4 million in General Fund to increase the infant supplement to \$900 per month, making it roughly equal to the payments foster parents will receive for the foster children in their care in 2016-17.

Establishes State Grant Program to Prevent Homelessness Among Child Welfare-Involved Families. The spending plan includes \$10 million in ongoing General Fund for DSS to establish a

competitive grant program known as Bringing Families Home to combat homelessness among child welfare-involved families. Participation in the program is optional for counties, which must apply to receive the funding and offer a one-to-one county match. The funding is expected to support local services such as housing search assistance, rental assistance payments, and long-term supportive housing.

Reporting Rules for Child Near Fatalities. The state was previously out of compliance with federal requirements for reporting on child near fatalities, which are defined as cases where a child is in serious or critical condition as a result of abuse or neglect. To continue receiving \$4.8 million in federal child abuse prevention funds, the state had to return to compliance with federal near fatality reporting requirements. As part of the 2016-17 budget, the administration proposed reporting rules that would fulfill federal requirements and preserve the \$4.8 million in federal funding. The Legislature rejected the administration's proposal and in August passed an alternative proposal in budget-related legislation that establishes a statewide child near fatality reporting policy, brings the state into compliance with federal law,

and ensures continued federal funding. Although the policy had not been adopted when the *2016-17 Budget Act* was passed in June, the June budget package assumed the continuation of federal funding and provided \$115,000 General Fund for DSS state operations, which DSS will utilize to implement the reporting policy adopted by the Legislature.

Department of Aging

The budget provides \$36 million General Fund for the Department of Aging in 2016-17, an increase of \$2 million General Fund above 2015-16. This increase represents a one-time augmentation of \$2 million for home-delivered meals to seniors and people with disabilities, estimated to result in approximately 270,000 additional home-delivered meals in 2016-17. The spending plan also includes \$1 million (one time) from the State Health Facilities Citation Penalties Account for the Long-Term Care Ombudsman program. This maintains total funding for the Long-Term Care Ombudsman program at 2015-16 levels (\$11 million total funds). In 2015-16, the budget also included a one-time increase of \$1 million for the Long-Term Care Ombudsman program from this account.

RESOURCES AND ENVIRONMENTAL PROTECTION

The budget package provides a total of \$9 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 decrease of about \$5.1 billion (36 percent) compared to 2015-16 estimated expenditures. Most of the reduction in spending is related to estimated bond expenditures, such as expenditures

from the 2014 water bond (Proposition 1). Some of this decrease, however, is related to how bond funds are accounted for in the budget, making year-over-year comparisons difficult. In total, about half of the budget for resources and environmental protection departments is from special funds, while the General Fund supports another third of these budgets. The remainder is supported by bond and federal funds.

Crosscutting Issues

Cap-and-Trade

State cap-and-trade auction revenue is deposited in the Greenhouse Gas Reduction Fund (GGRF) and is used for projects intended to reduce greenhouse gas (GHG) emissions. Under existing statute, 60 percent of annual cap-and-trade auction 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 remaining auction revenue is available to be allocated through the annual budget act or other legislation. This is sometimes referred to as noncontinuously appropriated, or discretionary, spending.

Recent auctions have varied greatly in the amount of revenue generated, resulting in

significant uncertainty about the amount of revenue that will be collected in 2016-17. This makes it unclear how much funding will be continuously appropriated in 2016-17, as well as how much 2016-17 revenue will be available for discretionary programs. As shown in Figure 27, the budget, as revised in August 2016 legislation, includes \$922 million in discretionary GGRF spending for various programs. This funding will be available regardless of how much revenue is generated from auctions in 2016-17 because the GGRF began 2016-17 with a fund balance of nearly \$1.4 billion. Some of the major programs receiving discretionary funds are described below.

Low Carbon Transportation (\$363 Million).

The budget provides \$363 million to the Air Resources Board (ARB) for programs that provide incentives for low- or zero-emission vehicles and equipment, including:

Figure 27

2016-17 Cap-and-Trade Discretionary Spending^a

(In Millions)

Program	Department or Agency	Amount
Low carbon transportation	Air Resources Board	\$363
Incentives for heavy duty vehicles and off-road equipment		(150)
Clean Vehicle Rebate Project		(133)
Enhanced Fleet Modernization Program and "Plus Up" Pilots		(80)
Transformative Climate Communities	Strategic Growth Council	140
Transit and Intercity Rail Capital	Transportation Agency	135
Green infrastructure	Natural Resources Agency	80
Agriculture	Department of Food and Agriculture	65
Reduced methane from dairy and livestock		(50)
Healthy soils		(8)
Agricultural water efficiency		(8)
Forestry	Department of Forestry and Fire Protection	40
Forest health		(25)
Urban forestry		(15)
Waste diversion	Department of Resources Recycling and Recovery	40
Low-income weatherization	Department of Community Services and Development	20
Active transportation	Department of Transportation	10
Residential woodstove replacements	Air Resources Board	5
Other technical assistance and administrative costs	Various	24
Total		\$922

^a Does not include the 60 percent of 2016-17 revenue that will be continuously appropriated under current law.

- \$150 million for heavy duty vehicles and off-road equipment.
- \$133 million for the Clean Vehicle Rebate Project (CVRP), which provides rebates for new zero-emission vehicles, such as electric and fuel cell cars. Budget-related legislation also provides additional guidance on the structure of the CVRP, including specifying maximum income eligibility limits for electric vehicles (\$150,000 for an individual tax filer and \$300,000 for joint filers) and directing the ARB to increase the rebate amounts by \$500 for low-income households.
- \$80 million for the Enhance Fleet Modernization Program and the associated “Plus Up” Pilot, which provide incentives to retire older vehicles and replace them with cleaner ones. Rebates for replacement vehicles are available for new or used cars. Incentive amounts vary based on household income and type of replacement vehicle.

Transformative Climate Communities (\$140 Million). The budget provides \$140 million to the Strategic Growth Council for a new program created by Chapter 371 of 2016 (AB 2722, Burke) called the Transformative Climate Communities Program. The program funds the development and implementation of neighborhood-level community plans that include multiple GHG reduction projects.

Transit and Intercity Rail Capital (\$135 Million). The budget provides \$135 million to the California Transportation Agency for the Transit and Intercity Rail Capital Program. This amount is in addition to the 10 percent of 2016-17 revenue continuously appropriated to the program.

Green Infrastructure Projects (\$80 Million). The budget provides \$80 million to the Natural

Resources Agency for green infrastructure projects that reduce GHG emissions and provide multiple benefits. For example, funds might be used for such things as expanding public parks, implementing stormwater collection projects, and developing urban trails. At least 75 percent of the funds must be allocated to projects located in, and provide benefits to, disadvantaged communities.

Climate Change Activities

Implementation of Recent Energy Efficiency and Renewable Energy Legislation. Chapter 547 of 2015 (SB 350, de León) expanded the state’s renewable portfolio standard from 33 percent by 2020 to 50 percent by 2030 and established a state goal of doubling the amount of energy efficiency savings by 2030. In addition, the legislation directs the California Energy Commission (CEC), the California Public Utilities Commission (CPUC), and the ARB to undertake various activities related to resource planning and transportation electrification. Chapter 590 of 2015 (AB 802, Williams) made various other changes to energy efficiency activities, including establishing a statewide energy efficiency benchmarking program.

The budget includes a total of \$13.1 million from various fund sources to implement SB 350 and AB 802. Specifically, the budget provides the following:

- ***\$9.2 Million for CEC.*** The budget includes \$7.6 million from the Air Pollution Control Fund (APCF) and \$1.6 million from the Energy Resources Programs Account and 37.5 positions for CEC. These resources are for CEC to, among other things, (1) establish statewide energy efficiency savings targets and prepare assessments of savings on electricity demand on an hourly and seasonal basis, (2) administer an increased renewable portfolio standard for publicly owned utilities, (3) produce guidelines for integrated

resources plans from publicly owned utilities, and (4) implement a statewide energy efficiency benchmarking program.

- **\$3.4 Million for CPUC.** The budget includes \$3.4 million from the Public Utilities Commission Utilities Reimbursement Account (PUCURA) and 23 positions for CPUC. These resources are for CPUC to, among other things, administer a modified renewable portfolio standard for investor-owned utilities and other load serving entities, establish an integrated resource planning process, and develop and oversee new energy efficiency programs.
- **\$485,000 for ARB.** The budget includes \$485,000 from the AB 32 Cost of Implementation Account and two positions for ARB to (1) help analyze electric vehicle charging infrastructure needs, (2) consult with CPUC and CEC on setting GHG targets for utilities as part of the new integrated resource planning process, and (3) conduct a study on barriers for low-income customers to access zero-emission transportation options.

Climate Change Research. The budget includes \$23.5 million from the General Fund to support climate change research activities. Of this amount, \$21 million is one time. A total of \$18 million is allocated to the CEC for alternative transportation fuel and vehicle technology research, including \$15 million for a competitive grant program and \$3 million to provide a state match for federal alternative fuel research programs. The remaining \$5.5 million is allocated to the Department of Water Resources (DWR). This includes \$3 million for research related to certain climate and weather patterns that contribute to high-precipitation events in California (also known as atmospheric rivers)

and \$2.5 million ongoing to identify climate change risks and adaptation responses for the water sector.

ARB Regulatory Activities Intended to Reduce GHGs and Air Pollution. The budget provides a total of \$3.2 million (APCF) and 13 positions for ARB to conduct regulatory activities intended to reduce GHG emissions and air pollutants. Specifically, the budget provides funding for:

- **Short-Lived Climate Pollutant (SLCP) Strategy (\$1.4 Million).** The budget includes five positions to develop and implement policies to reduce SLCPs, such as methane and fluorinated gases. These funds are only available after ARB approves the SLCP strategy required by Chapter 523 of 2014 (SB 605, Lara). ARB staff is expected to present a final SLCP strategy to the board in fall 2016.
- **Clean Truck and Bus Standards (\$1.2 Million).** The budget includes four positions to develop more stringent GHG and criteria pollutant standards for trucks and buses, as well as improve compliance monitoring for existing standards.
- **Advanced Clean Cars Program (\$580,000).** The budget includes four positions to develop regulations to increase the number of zero-emission vehicles and to reduce criteria pollutants and GHGs from light duty vehicles.

Drought

Continued Response to Drought Impacts.

Despite somewhat higher levels of precipitation in the winter of 2016, many areas of the state continue to experience the effects of multiple years of drought conditions. The budget contains \$255 million to respond to these impacts, which include dry residential wells in certain

communities, dead and dying trees across the state’s forests, and deteriorated habitats for fish and wildlife. As shown in Figure 28, these funds are spread across eight state departments for a variety of activities, with the largest amount going to augment fire protection activities at the California Department of Forestry and Fire Protection (CalFire). Most of these activities reflect the continuation of initiatives funded in recent years. Of the drought-response funding shown in the figure, \$223.7 million is from the General Fund and \$31 million is from special funds.

Preparation for Potential Future Water Shortages. The budget also provides a total of \$12.6 million in General Fund mostly for DWR to support several activities intended to prepare the state for droughts in future years. Specifically, the budget includes: (1) \$3 million one time and

\$2.5 million ongoing to research the effects that changing climate and weather might have on the water sector (discussed in greater detail below); (2) \$4.3 million one time—as well as \$240,000 one time for the State Water Resources Control Board (SWRCB)—to collect data and develop policy recommendations for long-term urban water use and conservation requirements; (3) \$1 million one time to provide local agencies with facilitation services when necessary for working through implementation issues related to the Sustainable Groundwater Management Act of 2014 (SGMA); (4) \$1 million one time to collect statewide agricultural land use data that will inform local groundwater management plans pursuant to SGMA; and (5) \$550,000 ongoing to establish a Critical Water Shortage Management Program that will develop state-level strategies for responding to future

Figure 28
2016-17 Drought Spending Package

(In Millions)

Department	Activity	Amount ^a
CalFire	Expand and enhance fire protection	\$92.8 ^b
OES	Remove dead trees on public lands	30.0
OES	Provide emergency drinking water	22.7
DSS	Provide food to drought-affected communities	18.4
SWRCB	Conduct emergency drinking water projects	16.0 ^c
CalFire	Remove and dispose of dead trees	16.0 ^b
DWR	Conduct drought assistance and response	12.0
DFW	Conduct emergency fish and stream activities	11.5 ^d
DWR	Assist with drinking water shortages	10.0
CSD	Assist drought-impacted farmworkers	7.5
SWRCB	Monitor and enforce water rights and conservation	5.4
DFW	Protect Delta smelt	4.2
OES	Coordinate statewide drought response	4.0
DWR	Implement Save our Water campaign	2.0
DFW	Improve efficiency at wildlife refuges	2.0
CDFA	Study economic impact of drought	0.2
Total		\$254.7

^a General Fund unless otherwise noted.

^b Includes funding from the State Responsibility Area Fire Prevention Fund.

^c Clean-Up and Abatement Account.

^d Includes \$2 million from Hatchery and Inland Fisheries Fund.

CalFire = California Department of Forestry and Fire Protection; OES = Office of Emergency Services; DSS = Department of Social Services; SWRCB = State Water Resources Control Board; DWR = Department of Water Resources; DFW = Department of Fish and Wildlife; CSD = Department of Community Services and Development; and CDFA = California Department of Food and Agriculture.

dry periods. Additionally, the administration must submit a report to the Legislature by January 2020 summarizing lessons learned from the state’s response to the current drought.

Proposition 1

As shown in Figure 29, the 2016-17 budget appropriates about \$1 billion from Proposition 1, the \$7.5 billion water bond voters approved in 2014. Almost half of this total, \$465 million, is from the section of the bond dedicated to addressing statewide obligations and agreements. As shown in the figure, this funding is allocated for four specific water-related commitments into which the state has entered. The other \$562 million is appropriated for various other categories of projects specified in the bond, primarily for departments to continue running competitive grant programs initiated with prior-year Proposition 1 appropriations. As shown in the figure, this includes \$320 million for SWRCB to fund water-recycling projects. (Combined with the \$292 million provided in prior years, this fully allocates the funding specified in Proposition 1 for water recycling.) Budget legislation also requires the California Natural Resources Agency (CNRA) to submit a report each January from 2017 through 2021 that summarizes Proposition 1 expenditures and funded projects, as well as associated outcomes, challenges, and accomplishments.

Marine Mammal Protection

The budget package, as revised in August 2016, contains trailer bill legislation that implements various requirements related to orcas being held in captivity in the state, including prohibitions on (1) captive breeding programs, (2) the import and export of new orcas and related genetic materials into or out of the state, and (3) holding any new orcas in captivity. (The legislation does permit an orca currently being held in captivity in the state to continue to be held and used for educational presentations until its death.) Additionally, the budget provides a total of \$2.1 million for the UC Davis Wildlife Health Center to allocate grants to rescue seals and sea lion pups stranded on California beaches, and to help whales off the coast of California that become entangled in fishing gear and marine debris.

Figure 29
2016-17 Proposition 1 Appropriations

(In Millions)

Activity	Implementing Departments	Amount
Statewide Obligations and Agreements		
Klamath Hydroelectric Settlement Agreement	CNRA	\$250.0
Central Valley Project Improvement Act	CNRA	89.9
Salton Sea Restoration Act	DWR	80.0
San Joaquin River Restoration Settlement Act	DWR, DFW	45.0
Subtotal		(\$464.9)
Other Project Categories		
Water recycling	SWRCB	\$320.3
Watershed and Delta restoration	DFW	56.5
Integrated regional water management	DWR	54.6
Streamflow enhancement	WCB	38.9
Ecosystem and watershed restoration	Conservancies	33.0
Coastal restoration	CCC	32.9
Other	Various	25.8
Subtotal		(\$562.0)
Total		\$1,026.9

CNRA = California Natural Resources Agency; DWR = Department of Water Resources; DFW = Department of Fish and Wildlife; SWRCB = State Water Resources Control Board; WCB = Wildlife Conservation Board; and CCC = California Coastal Conservancy.

Natural Gas Regulation—Aliso Canyon

On October 23, 2015, Southern California Gas Company discovered a leak in one well within its Aliso Canyon storage field located in the northern San Fernando Valley near the community of Porter Ranch. The company pumps natural gas underground at this field where it is stored until it is pumped up later and delivered to its customers. Homes in the areas surrounding the Aliso Canyon gas leak were evacuated, and at the request of residents and local officials, on January 6, 2016 Governor Brown declared the situation an emergency. On February 18, 2016, the Aliso Canyon gas leak was sealed. In response to the Aliso Canyon gas leak, the Legislature took several actions intended to improve oversight of the natural gas industry and prevent future leaks. Specifically, the Legislature approved a total of \$15 million and 46 positions as follows:

- **Department of Conservation (DOC).** The budget provides DOC with a total of \$7.2 million from the Oil, Gas, and Geothermal Administrative Fund (OGGAF). This includes \$4.2 million (\$681,000 in one-time funds to purchase equipment) and 20 positions for increased regulation of natural gas storage facilities. The total also includes \$3 million (\$2.5 million in 2017-18) to contract for services to conduct and complete additional independent scientific studies in accordance with recommendations from the California Council on Science and Technology.
- **CPUC.** The budget provides \$3.6 million (PUCURA) and 17 positions to perform tasks related to the natural gas leak at Aliso Canyon—such as investigating its causes, implementing measures to prevent future leaks, and increasing inspection levels.

This amount also includes \$2.1 million and seven positions to implement Chapter 14 of 2016 (SB 380, Pavley), which requires CPUC to open a proceeding to determine the feasibility of minimizing or eliminating the use of the Aliso Canyon storage facility while maintaining energy reliability in the region.

- **ARB.** The budget provides \$2.3 million (\$1.4 million in one-time funds to purchase equipment) from OGGAF and four positions to support neighborhood air quality monitoring near oil and gas facilities.
- **CEC.** The budget provides \$1.7 million (\$1 million in one-time contract funds) from the Public Interest Research, Development, and Demonstration Fund and three positions to improve the commission's technical ability to monitor, model, and analyze the interaction of California's electricity and natural gas systems for grid reliability.
- **Office of Environmental Health Hazard Assessment (OEHHA).** The budget provides \$350,000 from OGGAF and two positions for OEHHA to support the ARB in its neighborhood air quality monitoring near oil and gas facilities.

The Legislature also passed budget legislation in August that authorizes OGGAF monies to now be used to support ARB and OEHHA. Budget legislation also requires CEC to report by September 15, 2017 on a plan for tracking natural gas and requires ARB to develop a model to estimate leaked and vented emissions of methane from natural gas infrastructure.

Resources

As shown in Figure 30, the budget includes \$5 billion (including \$2.8 billion from the General Fund) for the support of various resources programs in 2016-17. This is a decrease of \$3.7 billion, or 42 percent, from the revised 2015-16 spending level. Most of this reduction in year-over-year spending is attributable to lower bond spending in 2016-17, particularly for DWR.

In addition to this amount, the budget includes \$187 million from the General Fund for deferred maintenance projects at several resources departments. This includes \$100 million for flood protection projects administered by DWR and \$60 million for projects at state parks. More information on deferred maintenance funding provided in the budget is included in the “Other Major Provisions” section of this report.

California Conservation Corps (CCC)

The budget includes a total of about \$112 million (\$64 million General Fund) for CCC, a net increase of about \$16 million (16 percent) above estimated 2015-16 expenditures. This change primarily reflects a one-time \$20 million augmentation from the General Fund to renovate the Auburn residential center, partially offset by various baseline and technical adjustments.

Construction of New Residential Centers.

The budget includes \$400,000 from the General Fund for the acquisition phase of new residential centers in Napa (\$200,000), Pomona (\$100,000), and Ukiah (\$100,000). (The administration projects it will spend a total of \$84 million to complete these three projects, including costs for the acquisition phase, preliminary plans, working drawings, and construction.) This funding begins the implementation of a major expansion of residential

Figure 30

Natural Resources Budget Summary

(Dollars in Millions)

	2014-15 Actual	2015-16 Estimated	2016-17 Budgeted ^a	Change From 2015-16	
				Amount	Percent
Expenditures					
Department of Forestry and Fire Protection (CalFire)	\$1,091	\$1,429	\$1,421	-\$8	1%
General obligation bond debt service	968	982	1,044	63	6
Department of Parks and Recreation	507	550	569	19	3
Department of Fish and Wildlife	408	498	484	-14	-3
Energy Resources Conservation	523	635	464	-170	-27
Department of Water Resources	692	3,518	421	-3,097	-88
California Conservation Corps	91	96	112	16	16
Department of Conservation	92	98	112	14	14
Wildlife Conservation Board	190	480	105	-375	-78
Coastal Conservancy	54	114	74	-40	-35
Other resources programs	131	255	190	-65	-26
Totals	\$4,746	\$8,656	\$4,998	-\$3,658	-42%
Funding					
General Fund	\$2,379	\$2,714	\$2,819	\$105	4%
Special funds	1,399	1,609	1,351	-257	-16
Bond funds	820	4,078	572	-3,506	-86
Federal funds	148	255	256	1	—

^a Includes \$40 million from the Greenhouse Gas Reduction Fund provided to CalFire in Chapter 370 of 2016 (AB 1613, Committee on Budget).

centers as described in the administration's *Five-Year Infrastructure Plan*. Specifically, the plan proposes a combined total of \$171 million over the next five years from the General Fund and lease revenue bond funds to (1) complete the construction of six new residential centers by the end of 2020-21 and (2) begin the acquisition and preliminary planning phases for two additional residential centers that would begin construction after 2020-21. Some of the proposed residential centers would replace current nonresidential centers, while others would add capacity in new locations.

Butte Fire Center (Magalia). The budget includes \$2.7 million General Fund and 12.5 positions to operate a new CCC residential center in Magalia. This center was converted from an existing CalFire facility that was closed in 2004 due to budget cuts.

Department of Forestry and Fire Protection

The budget includes \$1.4 billion (mostly General Fund) to support CalFire, a net decrease of about \$8 million, or 1 percent, from the estimated 2015-16 level.

Helicopters. The budget provides \$12 million from the General Fund for the department to purchase one helicopter in 2016-17. This will be the first new helicopter purchased as part of a plan for CalFire to replace its entire helicopter fleet in coming years, which is likely to cost at least a couple hundred million dollars. The budget includes provisional language requiring CalFire to notify the Joint Legislative Budget Committee (JLBC) prior to the award of a procurement contract on (1) the helicopter model being acquired, (2) the cost per helicopter, (3) costs by fiscal year, and (4) the delivery schedule. The budget also allows DOF, after notification to the JLBC, to augment the amount budgeted for the first helicopter based on the actual costs associated with procurement, fees, and related support costs.

The provisional language also allows DOF, after legislative notification, to augment CalFire's budget for capital outlay costs associated with studies, acquisition, and preliminary plans for helicopter facility modifications.

Professional Standards Program. The budget provides \$4 million (mostly from the General Fund) and 14 positions to establish a professional standards program in headquarters. This will include a unit to provide additional oversight for internal investigations and adverse actions, as well as expand manager and supervisor training. The positions will conduct administrative and background investigations, provide more training to managers and supervisors, and develop guidelines to promote consistent application of penalties. The budget specifies that the program place an emphasis on the training and education of all employees and supervisors, include no more than three sworn peace officers, and include a working group of department and labor representatives to develop the training and education components. The department is also required to report to the Legislature on the implementation and effectiveness of the program.

Department of Parks and Recreation (DPR)

The budget includes \$569 million from various fund sources to support DPR, a net increase of about \$19 million, or 3 percent, from the estimated 2015-16 level. This is primarily due to increased capital outlay spending.

Baseline Funding and Off Highway Vehicle (OHV) Trust Fund Shift. The budget includes a one-time augmentation of \$17 million in State Parks and Recreation Fund (SPRF) authority to maintain spending at current-year levels. (Similar one-time increases were included in the past two budgets as well.) The budget also includes a one-time transfer of \$31 million in fuel tax revenues to SPRF to support this augmentation, as well as to address a SPRF

structural shortfall. This money would otherwise have been deposited in the OHV Trust Fund to support the state’s eight State Vehicular Recreation Areas and other programs for OHV users. The department anticipates providing an ongoing budgetary solution as part of the 2017-18 budget.

Pilot Projects. The budget provides \$1 million for two new pilot programs within DPR in response to recommendations made by the Parks Forward Commission. First, the budget provides \$690,000 over two years from the State Parks Protection Fund (SPPF) to support the community liaison pilot project, which is intended to identify new ways to engage underserved and underrepresented communities at two state parks. The effectiveness of the project will be evaluated by UC researchers with funding provided by the State Parks Foundation. Second, the budget provides \$348,000 over two years from SPPF to support a history interpretation pilot, which is intended to improve historical interpretation programs at two state parks through partnerships with UC Riverside and UC Santa Barbara. The UC teams are responsible for evaluating the effectiveness of the projects.

Environmental License Plate Fund (ELPF)

The CNRA administers the ELPF, which faced a projected shortfall of about \$9 million

in 2016-17. As shown in Figure 31, the budget package includes various changes to address this shortfall. Most savings are due to shifting activities previously funded by the ELPF to the General Fund (\$6.5 million) or to special funds administered by DPR (\$3 million). For the Department of Fish and Wildlife, the budget package removes \$1.5 million in ELPF that had funded work related to incidental take permits under the California Endangered Species Act and institutes a new fee on permit applicants to support this work. The budget package also assumes increased revenue of \$1.5 million from a 5 percent increase in the environmental license plate fee. These changes are expected to increase revenues and decrease ELPF expenditures by about \$12 million annually.

Environmental Protection

As shown in Figure 32 (see next page), the budget includes \$4 billion (mostly special funds) for the support of various environmental protection programs in 2016-17. This is a decrease of \$1.4 billion, or 27 percent, from the revised 2015-16 spending level. Most of this reduction in year-over-year spending is attributable to lower bond spending in 2016-17, particularly for SWRCB.

Figure 31
Addressing the Environmental License Plate Fund Shortfall

(In Thousands)

Action	Estimated Savings	
	2016-17	Ongoing
Shift funding for TRPA to General Fund	\$3,998	\$3,998
Shift DPR expenditures to SPRF	3,000	3,000
Shift second year funding for Climate Assessment to General Fund	2,500	—
Shift some DFW costs for CESA permits to new fee	1,500	2,500
Increase license plate fee by 5 percent	1,500	2,500
Total Savings	\$12,498	\$11,998

TRPA = Tahoe Regional Planning Agency; DPR = Department of Parks and Recreation; SPRF = State Parks and Recreation Fund; DFW = Department of Fish and Wildlife; and CESA = California Endangered Species Act.

**Department of
Toxic Substances Control (DTSC)**

The budget includes \$267 million from various funds to support DTSC, which is a net increase of \$46 million, or 21 percent, from the revised 2015-16 level. This net change primarily reflects augmentations for the Exide Technologies cleanup and Argonaut mine retrofit, partially offset by various baseline and technical budget reductions.

Exide Technologies Cleanup. Exide Technologies operated a lead-acid battery recycling facility 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.

During 2015-16, the Legislature approved increases in spending for Exide Technologies cleanup. In August 2015, the Legislature approved \$7 million of emergency funding from the Toxic

Substances Control Account (TSCA) to (1) test approximately 1,000 properties in the community surrounding Exide, (2) develop a comprehensive cleanup plan, and (3) begin cleanup of the highest priority sites. In addition, Chapter 9 of 2016 (SB 93, de León) allows the loan of up to \$177 million from the General Fund to 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 DOF projects that \$4.8 million will be transferred in 2015-16 and \$42 million will be transferred in 2016-17.

Argonaut Mine Dam Retrofit. The budget includes \$14.3 million from the General Fund on a one-time basis to retrofit the Argonaut Mine Dam in Jackson. The U.S. Environmental Protection

**Figure 32
Environmental Protection Budget Summary**

(Dollars in Millions)

	2014-15 Actual	2015-16 Estimated	2016-17 Budgeted ^a	Change From 2015-16	
				Amount	Percent
Expenditures					
Resources Recycling and Recovery (CalRecycle)	\$1,535	\$1,692	\$1,565	-\$126	-7%
State Water Resources Control Board	1,072	2,839	1,244	-1,595	-56
Air Resources Board (ARB)	496	554	772	219	40
Department of Toxic Substances Control	193	222	267	46	21
Department of Pesticide Regulation	87	92	100	8	9
Environmental Health Hazard Assessment	18	19	21	2	12
General obligation bond debt	3	3	4	—	11
Totals	\$3,405	\$5,420	\$3,974	-\$1,446	-27%
Funding					
General Fund	\$80	\$223	\$88	-\$136	-61%
Special funds	2,633	3,003	3,162	160	5
Bond funds	351	1,822	341	-1,482	-81
Federal funds	342	372	383	11	3

^a Includes a total of \$408 million from the Greenhouse Gas Reduction Fund provided to ARB and CalRecycle in Chapter 370 of 2016 (AB 1613, Committee on Budget).

Agency and the U.S. Army Corps of Engineers finalized a study to assess the dam’s stability and concluded that the dam was structurally unstable and had a significant chance of complete failure with sustained rainfall.

Enhanced Permitting Capacity. The budget includes \$3.6 million from the Hazardous Waste Control Account (HWCA) to support the conversion of eight limited-term positions to permanent status and to provide 15 additional permanent positions to enable DTSC to eliminate the existing backlog of permit applications and complete most future decisions on hazardous waste permits within two years.

Replacement of Laboratory Equipment. The budget includes a one-time increase of \$2 million from HWCA to procure laboratory and investigatory equipment used to enforce hazardous waste laws.

State Water Resources Control Board

The budget includes \$1.2 billion to support SWRCB, a net decrease of \$1.6 billion, or 56 percent, from the revised 2015-16 level. This year-over-year change primarily reflects reductions in bond funds of \$1.5 billion—mainly from Proposition 1 (2014 water bond). The budget also includes funding for regulation of medical marijuana and for drought activities, which are discussed in other sections of this report.

Drinking Water for Schools. The budget for the board includes \$10 million from the General Fund for water bottle filling stations and point of use filtration systems to provide clean drinking water in schools.

TRANSPORTATION

The spending plan provides \$15.5 billion from various fund sources for transportation programs. As shown in Figure 33, this is a decrease of \$423 million, or 3 percent, when compared to the revised level of spending in 2015-16. The

reduced spending is due primarily to a reduction in funding available for highway capital projects in the California Department of Transportation (Caltrans).

Vehicle Registration Fee Increase. The budget package, as revised in August 2016, includes

**Figure 33
Transportation Program Expenditures**

Various Funds (Dollars in Millions)

Program/Department	2014-15	2015-16	2016-17	Change From 2015-16	
				Amount	Percent
Department of Transportation	\$9,045	\$10,913	\$9,719	-\$1,194	-11%
California Highway Patrol	2,100	2,288	2,276	-12	-1
High-Speed Rail Authority	2,206	755	1,686	931	123
Department of Motor Vehicles	1,075	1,121	1,101	-20	-2
State Transit Assistance	408	389	367	-22	-6
Transit Capital (Proposition 1B)	669	154	44	-110	-71
Other transportation programs ^a	117	335	339	4	1
Totals	\$15,620	\$15,955	\$15,532	-\$423	-3%

^a Includes California State Transportation Agency, California Transportation Commission, and Board of Pilot Commissioners.

trailer legislation to (1) increase the base vehicle registration fee by \$10 (from \$46 to \$56) beginning April 1, 2017 and (2) index the fee to the California Consumer Price Index, allowing the fee to automatically increase with inflation. Revenue from the vehicle registration fee is primarily deposited into the Motor Vehicle Account (MVA) to support the state's activities to administer and enforce laws regulating the operation and registration of vehicles used on public streets and highways.

No Funding Package Approved to Increase Transportation Funding. As part of the special legislative session on transportation, the Governor proposed a package of proposals to increase funding for transportation projects. These were generally reflected in the Governor's January budget proposal for 2016-17. In adopting the budget package, the Legislature did not approve the Governor's proposals or other proposals to increase transportation funding.

Cap-and-Trade Funding. As discussed earlier in this report, the budget, as revised in August 2016, also includes \$135 million in cap-and-trade discretionary spending for the Transit and Intercity Rail Capital Program and \$10 million for the Active Transportation Program.

Caltrans

The budget plan includes total expenditures of \$9.7 billion from various fund sources for Caltrans, a decrease of \$1.2 billion (or 11 percent) from the 2015-16 level of expenditures. The decrease reflects (1) a reduction in available federal transportation funds and (2) the completion of most Proposition 1B (2006) projects administered by Caltrans. The budget provides roughly \$2.9 billion for transportation capital outlay, \$2.2 billion for local assistance, \$1.8 billion for capital outlay support, and \$1.6 billion for highway maintenance. The balance of the funding supports mass transportation and rail programs, transportation planning, and other programs.

Capital Outlay Support Program. The budget includes \$1.8 billion and 9,512 full-time equivalent (FTE) staff to deliver highway capital outlay projects—a decrease of 191 FTEs from the 2015-16 level through attrition. The savings from the reduced FTEs are more than offset by an increase in funding to “true up” funding levels with actual staff costs, resulting in a net increase of \$9 million from 2015-16.

Federal Bridge Load Rating. The budget provides \$4.6 million in federal funds to help Caltrans determine bridge “load ratings”—a rating that specifies how much traffic a bridge can safely carry. Specifically, the funding will continue 26 limited-term positions as permanent positions and support various software improvements. The Federal Highway Administration requires Caltrans to develop load ratings on all state and local bridges in California. The budget also requires Caltrans to report to the Legislature by March 1, 2017 on its efforts to complete bridge load ratings.

High-Speed Rail Authority (HSRA)

The budget plan includes total expenditures of \$1.7 billion for HSRA, roughly \$1 billion above the level of expenditures in 2015-16. The increase primarily reflects the shifting of some HSRA workload and expenditures initially assumed to occur in 2015-16. The total expenditures include \$1.2 billion in proceeds of bonds authorized by Proposition 1A (2008), as well as \$32 million in federal funds. The budget plan also assumes that \$500 million in cap-and-trade auction revenues will be continuously appropriated to the project in 2016-17.

California Highway Patrol (CHP)

The budget provides \$2.3 billion to fund CHP operations, about the same amount as in 2015-16. Nearly all of this funding is from the MVA, which derives the majority of its revenue from vehicle registration fees and driver license fees. The

budget includes \$30 million for site acquisition and preliminary plans for four CHP area office replacement projects (Hayward, El Centro, Ventura, and San Bernardino), as part of the administration’s ongoing plan to replace deficient CHP area offices.

Department of Motor Vehicles (DMV)

The budget provides \$1.1 billion for DMV operations, about the same amount as in 2015-16. Nearly all of this funding is from the MVA.

Field Office Replacement Projects. The budget includes \$5.6 million for various phases of four DMV field office replacement projects. Of this amount, \$4.3 million is for the design phase of three DMV office replacement projects (Inglewood, Santa Maria, and Delano) approved by the

Legislature in 2015-16. The remaining \$1.3 million is for preliminary plans to initiate a fourth DMV field office replacement project in San Diego.

Self-Service Terminals. The budget includes an ongoing increase of \$8 million for DMV to expand the use of self-service terminals, which allow DMV customers to process their vehicle registration renewal transactions at automated kiosks. Specifically, the DMV plans to place between 30 and 50 new terminals in businesses around the state (such as grocery stores or convenience stores), in order to provide greater access to DMV services. The budget package also requires DMV to report to the Legislature on the outcomes of expanding the number of terminals as well as the department’s long-term plan for the use of self-service terminals.

JUDICIARY AND CRIMINAL JUSTICE

The 2016-17 budget provides \$12.6 billion from the General Fund for judicial and criminal justice programs, including support for ongoing programs and capital outlay projects, as shown in Figure 34. This is an increase of \$518 million, or 4 percent, above the revised 2015-16 General Fund spending level.

Judicial Branch

The budget provides \$3.7 billion for support of the judicial branch—an increase of \$293 million, or 9 percent, from the revised 2015-16 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,

Figure 34
Judicial and Criminal Justice Budget Summary

<i>General Fund (Dollars in Millions)</i>					
Program/Department	2014-15	2015-16	2016-17	Change From 2015-16	
				Amount	Percent
Department of Corrections and Rehabilitation	\$9,899	\$10,151	\$10,459	\$308	3.0%
Judicial branch	1,404	1,601	1,711	109	7.0
Department of Justice	190	206	216 ^a	11	5.0
Board of State and Community Corrections	68	68	137	69	102.0
Other criminal justice programs ^b	22	19	40	21	108.0
Totals	\$11,584	\$12,045	\$12,563	\$518	4.3%

^a Does not include settlement funding provided in Chapter 281 of 2016 (SB 1187, Lara).
^b Includes debt service on general obligation bonds, Office of the Inspector General, and State Public Defender.

and court fee revenues. The General Fund amount is a net increase of \$109 million, or 7 percent, from the revised 2015-16 amount. Funding for trial court operations is the single largest component of the judicial branch budget, accounting for around four-fifths of total spending.

General Fund Support for Trial Court

Operations. The budget package includes a net \$79 million General Fund augmentation to trial court operations in 2016-17. This amount includes the following increases:

- ***Court Innovations Grants Program (\$25 million).*** The budget provides a one-time \$25 million augmentation for a new Court Innovations Grant Program. The program will provide grants on a competitive basis to support trial and appellate court programs and practices that promote innovation, modernization, and efficiency.
- ***Proposition 47 Workload (\$21 million).*** The budget provides \$21 million in 2016-17 for trial courts to process resentencing and reclassification petitions from offenders convicted of felonies that Proposition 47 (2014) reduced to misdemeanors.
- ***Base Increase (\$20 million).*** The budget includes a \$20 million augmentation for trial court operations. Trial courts have full discretion in the use of these funds.
- ***Health Benefit and Retirement Costs (\$16 million).*** The budget includes \$16 million for increased trial court health benefit and retirement costs.
- ***State Level Reserve (\$10 million).*** The budget package eliminates a current statutory requirement that the judicial branch maintain a statewide reserve of

2 percent of the total funds appropriated for trial court operations for emergencies, unanticipated expenses, or budgetary shortfalls. Instead, the budget provides a one-time \$10 million General Fund augmentation to fund a state level reserve that would be available to trial courts for emergencies.

The above augmentations are partially offset by a \$34 million reduction in General Fund support for trial court operations in 2016-17 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.

Improvement and Modernization Fund (IMF). In recent years, the judicial branch's IMF experienced persistent operational shortfalls that steadily depleted the fund balance. (The IMF is a judicial branch special fund that supports various projects and programs that broadly benefit the trial courts, such as information technology [IT] projects.) To address this issue, the budget includes a couple of actions to shift costs from the IMF to the General Fund. For example, the IMF currently provides \$7 million annually to support the California Case Management System Version 3 (CCMS V3) in four courts. (The CCMS V3 is a civil, small claims, probate, and mental health case management system.) The budget provides funds to replace this system (at a cost of \$25 million over three years). This will eventually eliminate the need for the \$7 million expenditure from the IMF.

Capital Outlay. The budget provides \$392 million for various court construction projects. This amount consists of (1) \$303 million in lease revenue bond authority for the construction or renovation of five previously approved projects

(Willows, El Centro, Indio, Redding, and Sonora), (2) \$85 million from the Immediate and Critical Needs Account (ICNA) for design and construction activities for ten projects, and (3) \$4 million from ICNA for the modification of two existing court facilities in Los Angeles. (ICNA receives revenue from certain court fee and fine increases.)

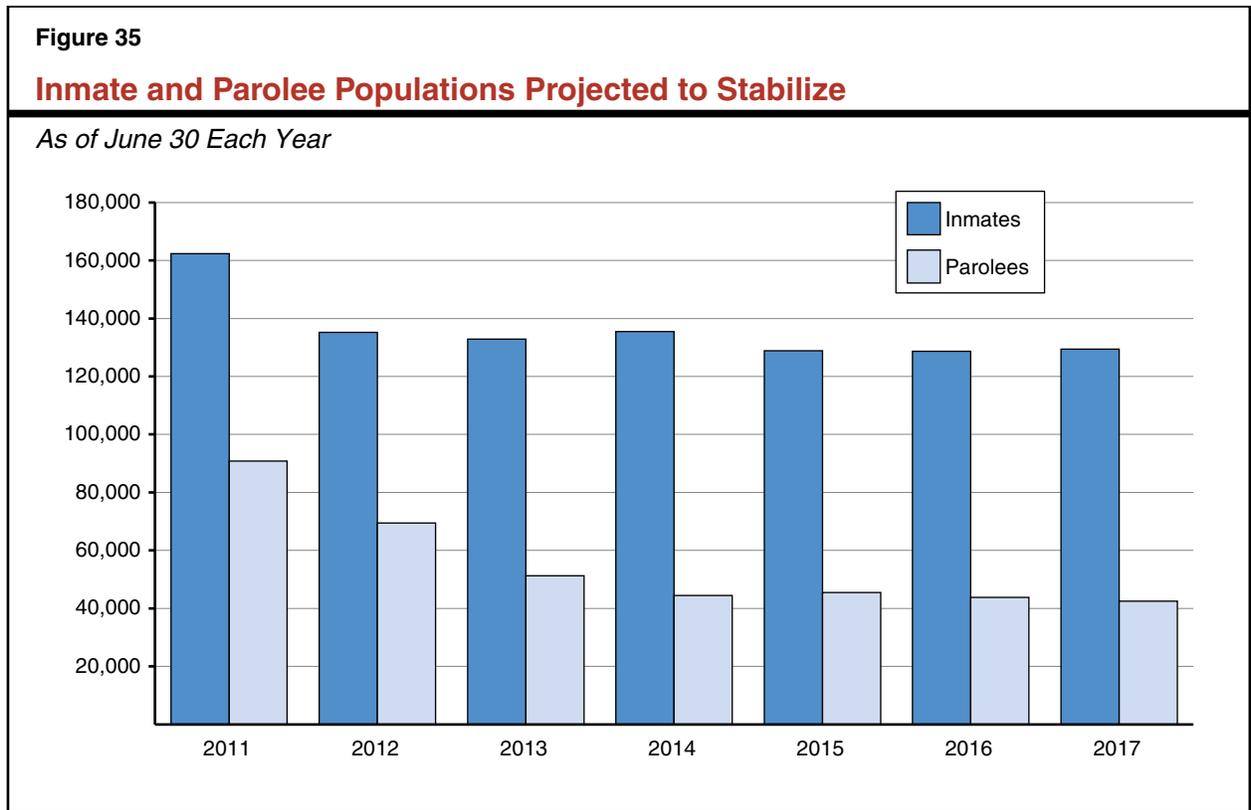
Corrections and Rehabilitation

The budget act provides \$10.5 billion from the General Fund for support of the California Department of Corrections and Rehabilitation. This is a net increase of \$308 million, or 3 percent, above the revised 2015-16 level of spending. This increase primarily reflects additional costs related to (1) inmate medical care, (2) the expansion of inmate rehabilitation and alternative custody programs, and (3) debt service on lease revenue bonds. These increases are partially offset by savings primarily related to (1) the conversion of segregated housing units to general population

housing units, (2) reduced funding for the basic correctional officer academy, and (3) the use of fewer out-of-state contract beds for inmates.

Adult Correctional Population. Figure 35 shows the recent and projected changes in the inmate and parolee populations. As shown in the figure, the prison population is projected to stabilize at about 129,000 inmates through the end of 2016-17. The parole population is projected to decline from 44,000 to about 43,000 parolees by the end of 2016-17.

Rehabilitation Programming. The budget includes a \$64 million increase from the General Fund related to rehabilitation programming. This includes (1) \$21 million to expand substance use disorder treatment services, (2) \$16 million to expand programs targeted at long-term offenders, and (3) \$27 million to expand various other programs (such as inmate education and vocation programs) and support IT projects related to rehabilitation programming.



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 \$54 million, or 3 percent, above the revised 2015-16 level of spending. This includes (1) \$36 million for modifications to the Electronic Health Record System, which will serve as the primary health record for all inmates; (2) \$12 million to implement a uniform medical supervisory staffing model at all state prisons; and (3) \$7 million to augment janitorial services at the California Health Care Facility in Stockton. This increase was somewhat offset by reductions in spending elsewhere, such as on inmate pharmaceuticals.

Alternative Housing Programs. The budget includes \$35 million from the General Fund to expand alternative housing for inmates. This includes \$32 million for the Male Community Reentry Program, which provides beds in community facilities that prepare inmates for transition out of prison. The remaining \$3 million is to expand the Alternative Custody Program to comply with a court order requiring that the program serve male inmates.

Segregated Housing Unit Conversion and Investigative Services Unit (ISU) Staffing. The budget includes a \$22 million net General Fund reduction related to the conversion of segregated housing units to less expensive general population housing units. This includes (1) a \$25 million reduction resulting from the conversion of segregated housing units currently holding around 1,000 inmates to general population units and (2) a \$3 million increase for 22 positions for the ISU to investigate gang activity.

Department of Justice (DOJ)

The budget provides \$575 million for support of DOJ in 2016-17—an increase of \$43 million, or 8 percent, from the revised

2015-16 level of spending. This amount includes \$216 million from the General Fund—an increase of \$11 million, or 5 percent, from the revised 2015-16 level of spending. The budget includes 90 permanent positions and approximately \$24 million (\$10 million from the General Fund and \$14 million from other funds) for DOJ to implement legislation enacted in prior years and to increase DOJ's capacity to address increased workload. This includes: (1) new workload related to the required reporting of certain data by state and local law enforcement agencies (\$10 million), (2) increased enforcement activities related to Medi-Cal fraud or elder abuse (\$8 million), and (3) enforcement activities related to the removal of firearms from prohibited persons (\$5 million).

In addition, the budget provides 24 positions and about \$9 million on a limited-term basis from special funds to support various DOJ activities. This includes 20 positions and \$3 million annually over three years from the Gambling Control Fund to address the current cardroom licensing backlog. Most of the remaining funds would come from the Firearms Safety and Enforcement Special Fund to support contracts with local law enforcement agencies who remove firearms from prohibited persons with mental illness and with domestic violence restraining orders.

In addition to funding provided in the budget, the Legislature approved legislation in August—Chapter 281 of 2016 (SB 1187, Lara)—to provide \$37 million from the General Fund to DOJ for the payment of a legal settlement to the Pauma Band of Luiseno Mission Indians of the Pauma and Yuima Reservation. This settlement is in regards to payments that the tribe had previously made to the state for operating gaming devices in the state.

Other Criminal Justice Programs

Board of State and Community Corrections (BSCC). The budget includes \$223 million

(\$137 million from the General Fund and \$85 million from other funds) for BSCC, which is responsible for administering various public safety grants, overseeing local correctional standards, providing technical assistance to local criminal justice agencies, and collecting data. The budget includes \$61 million in one-time General Fund increases for local law enforcement grants. This consists of (1) \$20 million to cities to improve relations between police and high-risk populations (such as homeless individuals), (2) \$15 million for a pilot program that seeks to divert low-level prostitution and drug offenders into rehabilitation services in lieu of jail and prosecution, (3) \$10 million for police station infrastructure in Fresno County, (4) \$10 million for regional crime task forces, and (5) \$5.5 million for the City of Salinas for violence and gang prevention efforts.

The budget also provides an additional \$270 million in lease revenue bonds for adult local criminal justice facilities (such as jails) to be administered by BSCC. Of this amount, \$250 million will be allocated through a competitive grant process, with projects that include mental health or rehabilitation program space receiving greater priority. The remaining \$20 million will be allocated to Napa County to repair damages its jail sustained in the 2014 earthquake.

Proposition 47. Proposition 47 reduced the penalties for certain crimes and requires that the resulting state savings, as estimated by DOF, be spent on designated programs. Specifically, the measure requires the savings be continuously appropriated as follows: (1) 65 percent for recidivism reduction programs, (2) 25 percent

for school truancy and dropout prevention, and (3) 10 percent for victim services. The administration currently estimates that \$39 million in state savings will be available for expenditure in 2016-17. Separate from the amount that will be appropriated under Proposition 47, the budget includes one-time funding from the General Fund of (1) \$18 million for school truancy and dropout prevention and (2) \$10 million for recidivism reduction programs.

Criminal Fine and Fee Revenue. The budget includes various actions—such as expenditure reductions, cost shifts, and cash flow loan authority—to address operational shortfalls and insolvency in various state funds resulting from declines in criminal fine and fee revenue. Such actions primarily include shifting nearly \$104 million in costs from various funds that receive fine and fee revenue to the General Fund in 2016-17. This includes \$75 million from the Trial Court Trust Fund, \$17 million from the Peace Officer’s Training Fund, \$9 million from the IMF, and \$3 million from the Corrections Training Fund.

Victim’s Compensation and Government Claims Board (VCGCB). In adopting the 2016-17 budget package, the Legislature adopted legislation to shift most of VCGCB’s responsibilities unrelated to victims—such as the Government Claims Program—to other state agencies, including the Department of General Services. Under the legislation, VCGCB will be renamed the Victim Compensation Board and will continue to have responsibility for some non-victim programs (such as compensation of individuals wrongfully convicted of crimes and the Good Samaritan Program).

OTHER MAJOR PROVISIONS

Housing for the Homeless

No Place Like Home Program. The budget package establishes the \$2 billion No Place Like Home Program to construct and rehabilitate permanent supportive housing for those with mental illness who are homeless. The program authorizes the issuance of bonds backed by personal income tax revenues raised under the Mental Health Services Act (Proposition 63 of 2004). These funds are allocated as follows:

- **\$1.8 Billion for a Competitive Grant Program.** The Department of Housing and Community Development (HCD) will administer a competitive grant program to fund construction and rehabilitation of supportive housing.
- **\$200 Million on a Per Capita Basis.** The HCD also will divide \$200 million among counties to fund supportive housing projects based on counties' shares of the state's homeless population.

These programs will be administered over a number of years. The *2016-17 Budget Act* appropriates \$268 million and 10.4 positions at HCD for these purposes in 2016-17.

Emergency Solutions Grant Program. The budget package also allocates \$35 million to HCD for the California Emergency Solutions Grant Program. Under this program, HCD will award grants to local governments and nonprofits to provide a variety of services to those who are homeless, including rapid rehousing, shelters, essential services, and homelessness prevention activities. In addition, the budget allocates \$10 million to the Office of Emergency Services to fund specialized services for homeless youth in certain counties.

Employee Compensation

Labor Agreements Significantly Increase State Annual Costs . . . As part of his 2015-16 budget proposal, the Governor introduced his goal of using the collective bargaining process to implement a funding plan for retiree health benefit liabilities. Specifically, the Governor proposed that (1) the state and employees each regularly contribute an equal amount of money to prefund retiree health benefits and (2) retiree health benefits be reduced for future state employees. Since January 2015, the Legislature and affected union members have ratified memoranda of understanding that implement the Governor's plan for five of the state's 21 bargaining units. These employees and their managers represent about 30 percent of the state's workforce and 40 percent of the state's General Fund payroll costs. Our analyses of these agreements are available on our website.

In order to achieve the Governor's goal at the collective bargaining table, the state agreed to provide various pay and benefit increases for these employees in the near-term. The pay and benefit increases established by these agreements—along with the state contributions to match employee payments to a retiree health funding account—represent a significant new budgetary commitment for the state with both near- and long-term effects. The budget package assumes that these new costs will be \$603.2 million (\$336.1 million General Fund) in 2016-17. Recognizing that the administration actively is bargaining with 15 other bargaining units, the budget sets aside about \$500 million (\$200 million General Fund) in 2016-17 to pay for increased costs resulting from possible future agreements. If the Legislature and affected union members ratify similar agreements for these 15 bargaining units before July 1, 2017,

(1) the state's costs in 2016-17 could be hundreds of millions of dollars higher than currently appropriated in the budget and (2) by 2019-20, the state's annual employee compensation costs could be billions of dollars higher than costs in 2016-17.

. . . But Likely Would Reduce State Costs in a Few Decades. The recently ratified labor agreements will institute a new arrangement to begin addressing the large unfunded state liabilities for retiree health benefits. While the administration's plan seems to be to keep making pay-as-you-go benefit payments for many years, the new arrangement would—within the next few years—begin to fund “normal costs” each year for the future retiree health benefits earned by today's employees. The agreements will deposit these payments in invested accounts that will generate earnings and gradually reduce unfunded liabilities over the next three decades or so. (In addition to the regular payments to prefund retiree health benefits established by these labor agreements, the Legislature amended the *2015-16 Budget Act* to deposit \$240 million as a one-time payment to retiree health prefunding accounts as part of Chapter 2 of 2016 [AB 133, Committee on Budget].)

Statewide Infrastructure

State Office Buildings. The budget package creates a new fund—the State Project Infrastructure Fund—and transfers \$1 billion into this fund from the General Fund (with an additional \$300 million in 2017-18). The new fund is continuously appropriated for the renovation and construction of state buildings. The initial projects identified to be supported from this fund are two new office buildings in Sacramento (one of which would replace the current Natural Resources building) and a new or remodeled annex to the State Capitol building. The administration expects to spend \$10.1 million on the initial stages of these projects in 2016-17. The budget package includes

budget trailer legislation, which governs the use of the fund and requires certain notifications and reporting to the Legislature.

Deferred Maintenance. The budget includes one-time spending totaling \$688 million to address backlogs of deferred maintenance at various state facilities. Of the total, \$485 million is from non-Proposition 98 General Fund and supports various entities, as shown in Figure 36 (see next page). The budget also includes \$185 million from budget-year and prior-years' Proposition 98 funds for the California Community Colleges (CCC). This funding could be used to address deferred maintenance and instructional equipment needs. The CCC funding is described in more detail in the “Higher Education” section of this report. The remaining \$18 million is from the MVA for the deferred maintenance needs at CHP and DMV. (By comparison, the *2015-16 Budget Act* included a total of \$268 million—\$120 million in non-Proposition 98 General Fund support and \$148 million in Proposition 98 funds—for these purposes.)

The budget requires that the administration provide the Legislature with a list of deferred maintenance projects to be funded from the General Fund (non-Proposition 98) and MVA prior to allocation of funds to the recipient departments. The budget also requires legislative notification for any changes to these lists.

Debt Service. The budget provides \$7.8 billion from the General Fund and other funds for debt service payments in 2016-17. This represents an increase of 3 percent from 2015-16, and reflects additional debt service costs related to transportation, resources, community colleges, health, corrections, and other projects. The total includes \$6.8 billion for general obligation bonds (\$4.8 billion from the General Fund), and \$962 million for lease revenue bonds (\$626 million from the General Fund). Debt service payments for the University of California and the California State University are made directly

from their main state support appropriations and are reflected in the above total.

Seismic Retrofits. The budget provides \$13 million in one-time General Fund support for programs to encourage property owners to undertake seismic retrofits. Of this amount, \$10 million is allocated to create a loan loss reserve program for residential property and small business owners through the California Pollution Control Authority. Additionally, \$3 million is provided to the Department of Insurance for the Brace and Bolt program, which is administered by the California Residential Mitigation Program and provides homeowners with funds to implement seismic retrofits on residential buildings.

Office of Emergency Services (OES)

The budget provides OES with \$1.4 billion (70 percent from federal funds) in 2016-17. This is a net increase of \$40 million, or 3 percent, compared to the estimated spending level for 2015-16.

Tree Mortality and Drought. The budget provides an additional \$52.2 million from the General Fund for the California Disaster Assistance Act (CDAA) to support local communities suffering from the effects of the drought. Of this amount, \$30 million is to remove hazardous trees from public rights-of-way or that threaten public infrastructure. The remaining \$22.2 million is to support other activities related to the drought, such as providing temporary water tanks or portable toilets to homes

and communities without access to water. In addition to the funds provided for CDAA, the budget provides \$4.5 million from the General Fund for OES staff to provide technical guidance and disaster recovery support related to the drought. (The drought funding provided in the budget is described further in the “Resources and Environmental Protection” section of this report.)

Earthquake Early Warning System.

The budget provides \$10 million from the General Fund and four positions to support the initial implementation of a California Earthquake Early Warning System.

Figure 36	
General Fund (Non-Proposition 98)	
Deferred Maintenance Funding	
<i>(In Millions)</i>	
Department/Program	Amount
Water Resources	\$100.0
State Hospitals	64.0
Parks and Recreation	60.0
Corrections and Rehabilitation	55.0
Judicial branch	45.0
California State University	35.0
University of California	35.0
Developmental Services	18.0
Fish and Wildlife	15.0
Military Department	15.0
General Services	12.0
Veterans Affairs	8.0
Forestry and Fire Protection	8.0
State Special Schools	4.0
California Fairs	4.0
Science Center	3.0
Hastings College of the Law	2.0
Emergency Services	0.8
Conservation Corps	0.7
Food and Agriculture	0.3
San Joaquin River Conservancy	0.2
Total	\$485.0

This funding would be used for initial project costs, including (1) \$6.9 million for capital costs for equipment and seismic stations, (2) \$2.2 million for development of a public education and training plan, (3) \$734,000 for staffing, and (4) \$150,000 to develop a financial strategy for funding the system. The department estimates that the project will cost a total of \$28 million to implement and \$17 million annually thereafter to operate.

Emergency Operations and Critical

Support. The 2016-17 budget provides an increase of \$20 million from the General Fund and 54.5 positions to support a variety of activities across OES. As shown in Figure 37, the funding includes \$10 million (one time) to provide additional fire engines to local fire departments, a total of \$6.1 million for disaster coordination programs and staff, and \$1.5 million for IT. Of the total funding, \$3.5 million

is available to OES no sooner than 30 days after providing the JLBC with additional financial information related to the Recovery Public Assistance Program.

Human Trafficking

Program. The budget provides \$10 million from the General Fund on a one-time basis for the Human Trafficking Victim Assistance Program. This program was created in 2015-16 with \$10 million in one-time Restitution Funds and provides grants to providers of comprehensive services for victims of human trafficking.

California Military Department (CMD)

The budget provides CMD with \$205 million, about two-thirds from federal funds. This is a net increase of \$19 million, or close to 10 percent, compared to the estimated spending level for 2015-16.

Armory Renovations. The budget provides \$22 million (half from the General Fund and half from federal matching funds) to renovate CMD armories. Of this amount, \$19 million is to complete the renovation of armories at Santa Cruz, Escondido, Eureka, and San Bernardino. These projects are some of the initial ones identified in the CMD Armory Strategic Plan, released in 2016. This plan envisions addressing the facility needs at the department’s 91 active armories by renovating roughly three per year. The plan also identifies a strategy for consolidating and divesting certain armories. The remaining \$3 million is for the first

**Figure 37
Emergency Operations and Critical Support Funding**

Program	Ongoing Positions	General Fund
Fire Response		
Fire apparatus	—	\$10,000,000
Fire and Rescue Branch staffing	7	1,712,000
Automated Vehicle Location	—	227,000
Fire apparatus operating costs and maintenance	—	102,000
Disaster Coordination		
Statewide disaster programs	—	3,678,000
Law Enforcement Branch staffing	4	1,107,000
Regional response and readiness	6	879,000
Disaster Logistics Program	3	421,000
Technology		
Information technology	—	1,030,000
Cal EOC support	3	495,000
Facilities		
Regional Coordination Center	—	700,000
Fire Maintenance Shop lease	—	94,000
Other		
Federal Emergency Management Program	—	—
Emergency Operations Incident Support Training	—	—
Public Safety Communications	28	—
Administrative support	3.5	—
Totals	54.5	\$20,445,000

phase of the renovation of the San Diego Readiness Center. (The total estimated project cost for the San Diego Readiness Center renovation is \$12 million.)

Medical Marijuana Regulation

In 2015, the Legislature passed and Governor signed a package of three bills—Chapters 688, 689, and 719 (AB 243, Wood; AB 266, Bonta; and SB 643, McGuire)—that established a new regulatory framework for the medical marijuana industry. The legislation included a new structure for licensing and enforcing medical marijuana cultivation, product manufacturing, testing, transportation, storage, and distribution. The new laws also designated certain state departments to carry out these regulatory and enforcement responsibilities and authorized departments to collect licensing fees to cover regulatory costs. The legislation established a new state fund, the Medical Marijuana Regulation and Safety Act Fund (MMRSAP), into which licensing revenues would be deposited, as well as a \$10 million loan from the General Fund.

The 2016-17 budget package includes additional funding to implement the 2015 legislation, as well

as statutory changes related to the new regulatory structure.

Budget Includes Funding for Multiple Departments. As shown in Figure 38, the budget provides a total of \$33.1 million (\$13.4 million General Fund and \$19.7 million special funds) and 134 positions to six state departments. First, the budget includes funding—primarily for the Department of Consumer Affairs (DCA), California Department of Food and Agriculture (CDFA), and Department of Public Health (DPH)—to develop and implement regulations for different parts of the medical marijuana industry. Second, the budget includes \$8 million for DCA (\$6 million) and CDFA (\$2 million) to begin development of IT projects for licensing of industry participants and tracking of medical marijuana products. Third, the budget includes resources for the Department of Fish and Wildlife and State Water Resources Control Board (SWRCB) to reduce the environmental impacts of marijuana cultivation—such as on water quality and instream flows needed for fish spawning and migration.

Figure 38
2016-17 Funding to Implement Recent Medical Marijuana Legislation

(Dollars in Millions)

Department	Funding			Staffing	Major Responsibilities
	General Fund	Special Fund	Total		
DCA	—	\$9.7 ^a	\$9.7	33	License and enforce marijuana distributors, transporters, dispensaries, and testing laboratories.
DFW	\$7.7	—	7.7	31	Monitor and reduce environmental impacts of marijuana cultivation.
SWRCB	5.2	0.5 ^b	5.7	35	Regulate the environmental impacts of marijuana cultivation on water quality and instream flows.
CDFA	—	5.4 ^a	5.4	18	Regulate marijuana cultivation and issue licenses to growers.
DPH	0.5	3.4 ^a	3.9	14	Regulate medical marijuana product manufacturers.
DPR	—	0.7 ^c	0.7	3	Develop pesticide use guidelines for the cultivation of marijuana.
Totals	\$13.4	\$19.7	\$33.1	134	

^a Medical Cannabis Regulation and Safety Act Fund.

^b Waste Discharge Permit Fund.

^c Department of Pesticide Regulation Fund.

DCA = Department of Consumer Affairs; DFW = Department of Fish and Wildlife; SWRCB = State Water Resources Control Board; CDFA = California Department of Food and Agriculture; DPH = Department of Public Health; and DPR = Department of Pesticide Regulation.

Increase in General Fund Loan. The budget includes an additional \$8 million loan from the General Fund to the Medical Cannabis Regulation and Safety Act Fund (previously, MMRSF). This loan is available to DCA and CDFA to implement the licensing and tracking IT systems described above.

Budget Trailer Legislation. The budget package makes various statutory changes to the 2015-16 legislative package. Specifically, Chapter 32 of 2016 (SB 837, Committee on Budget and Fiscal Review) includes the following provisions:

- **Name Changes.** Changes references from “medical marijuana” to “medical cannabis” in various provisions, including the names of the special fund and DCA bureau created in the original legislation.
- **Licensing.** Clarifies that licensing departments have authority to create license types, set license fees, and conduct enforcement related to licensees. Authorizes implementing departments to provide conditional licenses and establish deadlines for applying for licensure.
- **Testing Laboratory Licensing Authority.** Shifts authority to license laboratories from the DPH to DCA.
- **Product Packaging and Safety.** Adds requirements for labeling and child-proof packaging. Defines and prohibits misbranding and the sale of adulterated products.
- **Protection of Instream Flows.** Provides a limited exemption to the California Environmental Quality Act for SWRCB to adopt guidelines designed to protect aquatic habitats from negative effects associated with diverting water for marijuana cultivation. These guidelines can include interim and

long-term instream flow objectives, limits on diversions, and other requirements.

California Department of Food and Agriculture

The budget includes \$409 million from various funds to support CDFA, which is a decrease of about \$16 million, or 4 percent, from the revised 2015-16 budget. The decrease is due mainly to a technical adjustment downwards of \$20 million to more accurately reflect federal funding levels. The budget includes funding for (1) the regulation of medical marijuana and (2) GHG reduction programs discussed earlier in this report.

Market Match Program. The budget includes \$5 million from the General Fund for the Market Match Program. Chapter 442 of 2015 (AB 1321, Ting) created this program within the Office of Farm to Fork to award grants to certified farmers’ markets that increase the amount of nutrition benefits available to low-income consumers when purchasing fresh fruits, nuts, and vegetables grown in California.

California Public Utilities Commission (CPUC)

The budget provides a total of \$1.6 billion for the CPUC from various funding sources. This amount is similar to the revised 2015-16 spending amount.

Lifeline Program. The budget includes \$483 million (Universal LifeLine Telephone Service Trust Administrative Committee Fund) for the California Lifeline Program, which provides discounted telephone services to low-income households. This amount is roughly the same as the revised 2015-16 spending amount, but reflects a more than 150 percent increase in spending relative to 2013-14 spending (\$192 million). The recent increases in the costs for the program are largely driven by an increase in program enrollment associated with expanding the program in 2014 to include wireless telephone service.

Division of Safety Analysis. The budget includes \$1.7 million (Public Utilities Commission Utilities Reimbursement Account [PUCURA]) and 11 permanent positions to create a Division of Safety Analysis. Unlike existing safety and enforcement staff, the new division would participate as a party in official CPUC proceedings. This would allow the division to provide testimony and analysis related to safety that would be on the formal record at proceedings.

Funding for Outside Legal Counsel. The budget includes \$6 million (PUCURA) to retain outside legal counsel for activities related to federal and state criminal investigations into the CPUC. The legal activities include preparing court filings and assisting the CPUC in producing documents relevant to the investigations. The Attorney General's Office, which typically represents state agencies in legal matters, cannot represent the CPUC on this issue because it is leading the state criminal investigation into CPUC. In addition, the legal staff at the CPUC generally does not have relevant legal expertise related to criminal investigations. The total costs of the outside legal counsel are estimated to be \$12.3 million. The CPUC indicates it is paying for the remaining \$6.3 million out of its baseline state operations budget.

Funding for Arts

California Arts Council (CAC). The budget includes a one-time General Fund augmentation of \$6.8 million for CAC. Of this amount, \$6 million is for arts programs in underserved communities, and \$800,000 is for a program to help inmates transition back into society. Additionally, the budget provides CAC with two positions and \$4 million (increasing to \$6 million in 2017-18) in additional authority to receive reimbursements from the California Department of Corrections and Rehabilitation to expand the Arts-in-Corrections program.

Other Arts Projects. The budget includes a \$4.5 million General Fund augmentation for the following projects through the California Cultural and Historical Endowment: Pasadena Playhouse (\$1 million), Excelsior Auditorium (\$2 million), Lark Musical Society (\$500,000), and Armenian Museum (\$1 million).

Financial Information System for California (FI\$Cal)

An Integrated Financial Management System. Over the last several years, the administration has been engaged in the design, development, and implementation (DD&I) of the FI\$Cal Project. This IT project will replace the state's aging and decentralized IT financial systems with a new system integrating state government processes in the areas of budgeting, accounting, cash management, and procurement. Since the project began, it has changed in scope, schedule, and cost from what was initially anticipated. These changes have been documented in special project reports (SPRs). In February 2016, the California Department of Technology approved the sixth SPR for FI\$Cal. The changes to the project reflected in SPR 6 result in a 24-month schedule extension (to July 2019) and an increase in the project cost by \$237 million (\$125 million General Fund). This brings the total cost of the project to \$910 million (\$494 million General Fund).

The 2016-17 spending plan provides funds to (1) implement the changes proposed in SPR 6 and (2) establish a new state department to maintain and operate the FI\$Cal system. In total, the 2016-17 spending plan provides \$135 million (\$96.3 million General Fund) for FI\$Cal. Below, we provide additional details regarding the 2016-17 spending plan for FI\$Cal.

Provides Funding for New Project Plan. The administration determined the risk of moving forward with an unrealistic project schedule

for FI\$Cal was too large and decided a different approach would be necessary in order to mitigate the risk of a significant disruption to the project in future years. The 2016-17 spending plan provides \$92.5 million (\$71.9 million General Fund) and 121 positions to continue the FI\$Cal Project as proposed in the new project plan—SPR 6—which aims to reduce project risk by creating a more realistic time line. This position total includes 96 existing positions plus 25 new positions.

Establishes Department of FI\$Cal. 2016-17 budget-related legislation establishes the Department of FI\$Cal to provide a permanent administrative structure and an ongoing maintenance and operation (M&O) function for FI\$Cal. Additionally, budget-related legislation revises the current FI\$Cal governance structure by providing broad authority to a newly created position—the Director of the Department of FI\$Cal—to maintain and operate the system, while setting an advisory role for partner agencies that have been engaged in the DD&I of the project. The 2016-17 spending plan provides \$42.6 million (\$24.3 million General Fund) and 122 positions to support the Department of FI\$Cal. This position total includes 99 existing project positions that will shift from DD&I to M&O responsibilities plus 23 new positions. When the department assumes complete responsibility for M&O of the FI\$Cal system in 2019-20, the department is expected to cost \$70.4 million (\$40 million General Fund) annually and include 274 positions.

21st Century (TFC) Project

In 2004, the State Controller's Office (SCO) proposed the TFC Project, the IT effort to replace the existing statewide human resources management and payroll systems used to pay roughly 260,000 state employees. The new system was intended to allow the state to improve management processes such as payroll, benefits administration, and

timekeeping. In February 2013, SCO terminated its \$90 million contract with the vendor after the project experienced various problems during the pilot stage. In November 2013, SCO filed a lawsuit against the vendor for breach of contract. The vendor later filed its own claims against SCO. Following nearly three years of litigation, the parties reached a settlement in June 2016.

Although Settlement Reached, Funds Litigation and Assessments. As part of the settlement, the vendor will pay SCO \$59 million and the vendor will forego its own claims against SCO for \$23 million. The settlement also prevents the parties from pursuing any additional litigation on this matter. Because the settlement was not reached in time to be incorporated in the 2016-17 budget, the spending plan provides limited-term funding of \$4.8 million for eight positions to complete litigation efforts against the vendor. These funds were to support the trial phase, which was expected to begin in June 2016 and continue into 2016-17. In light of the settlement, the funds will not be needed for these purposes. Additionally, the 2016-17 budget includes limited-term funding of \$2.4 million for eight positions beginning in January 2017 (when the litigation was expected to be completed) to assess opportunities for simplifying the state's payrolling process to make development of a new human resources management and payroll system easier and to begin the evaluation of various alternatives for a new system.

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 \$4 billion at the end of 2016. The state is required to make annual interest payments

on these federal loans. The 2016-17 spending plan includes \$111 million (General Fund) to make the interest payment due in the fall of 2016. The federal loans are projected to be fully repaid in 2018.

Increased Oversight of the Labor Code Private Attorneys General Act (PAGA). The spending plan includes \$1.6 million from the Labor and Workforce Development Fund (\$1.5 million ongoing) to support nine new positions at the Department of Industrial Relations and one new position at the Labor and Workforce Development Agency to increase the state's oversight of PAGA. This state law allows employees that bring private legal action to recover unpaid wages from an employer to additionally seek civil penalties for labor law violations that otherwise could only be recovered by the state.

One-Time Funding for Employment Services for Ex-Offenders. The spending plan includes \$3 million from the General Fund on a one-time basis for the Employment Development Department and California Workforce Development Board to provide additional employment services for ex-offenders. These

funds will be distributed based on a competitive application process to local grantees that serve the targeted populations.

Department of Veterans Affairs

The spending plan for the California Department of Veterans Affairs includes \$387 million General Fund in 2016-17, an increase of \$28 million over revised estimates for 2015-16. This amount is expected to be offset by \$68 million from federal reimbursements for Veterans Homes. The General Fund increase includes funding for two budget-related policy changes:

- ***Yountville Kitchen Renovation.*** The spending plan includes \$6 million General Fund in 2016-17 to renovate the kitchen at the Yountville Veterans Home.
- ***Additional Support for Connecting Veterans to Services.*** The spending plan includes \$2.5 million General Fund to support increased efforts to connect veterans to federal, state, and community resources and benefits.

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