California State Budget
2018-19

Edmund G. Brown Jr. Governor
State of California

This page intentionally blank to facilitate double-sided printing.

Table of Contents

This page intentionally blank to facilitate double-sided printing.

Introduction

During the years leading up to 2011, California's fiscal troubles were monumental, with huge annual budget deficits and perennially late budgets. Many questioned whether California was governable at all, with the media calling the state "a fiscal basket case" and comparing it to insolvent nations like Greece.

Today, California has passed eight consecutive on-time budgets, kept its spending in line with revenues, and fully filled its Rainy Day Fund.

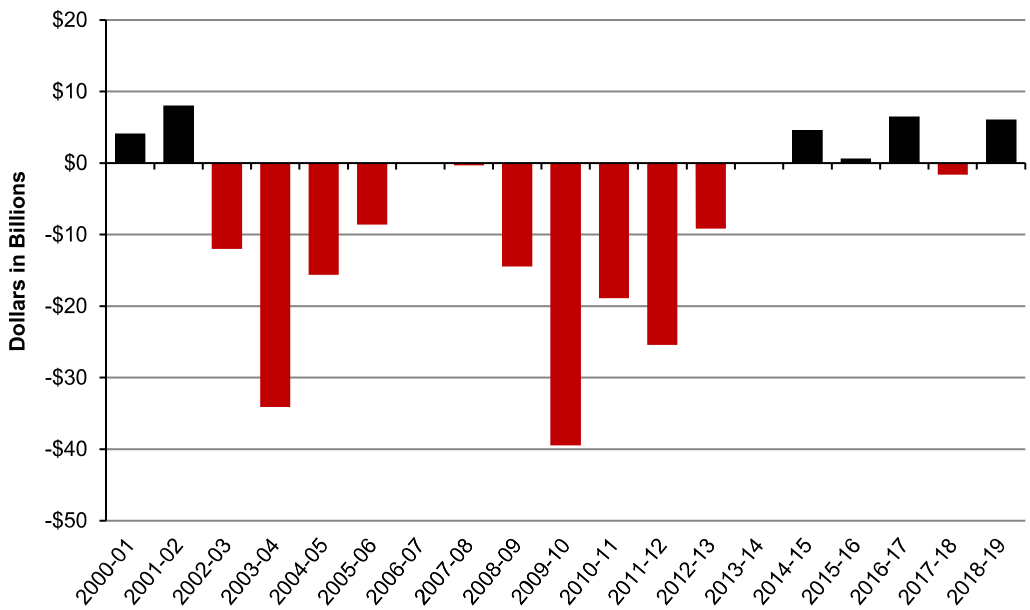
As the state's economy has recovered from the Great Recession, the past six budgets have significantly increased spending—through historic growth in education funding, the creation and expansion of the state's first Earned Income Tax Credit, a minimum wage that will increase to $15 per hour over time, and the expansion of health care coverage to millions of Californians. The state has also paid down its budgetary borrowing and tackled such long-standing problems as restoring fiscal health to its retirement benefit plans and making major improvements to the state's transportation and water systems.

The state must continue to plan and save for the next recession. By the end of 2018-19, the current economic expansion will have matched the longest in post-war history. To protect against future cuts, the Budget takes a prudent approach—fully filling the Rainy Day Fund and emphasizing one-time spending. While the state still faces large long-term risks, California is in better shape to weather a recession than at any other time in recent history.

Maintaining a Balanced Budget in Uncertain Times

California's fiscal stability—from a balanced budget and a recovering state economy—has been a welcome reprieve from prior budget deficits. As shown in Figure INT-01, the state's short periods of balanced budgets in the 2000s were followed by massive budget shortfalls. While each of these prior crises was preceded by a stock market crash, actions by the federal government could also easily overwhelm the fiscal capacity of the state. California's relationship with the federal government has never been more uncertain.

Figure INT-01
Balanced Budgets Have Been Quickly Followed by Huge Deficits[1/]



[1/] Budget shortfalls or surplus, measured by the annual Governor's Budget (January).

Federal Government and Tax Bill

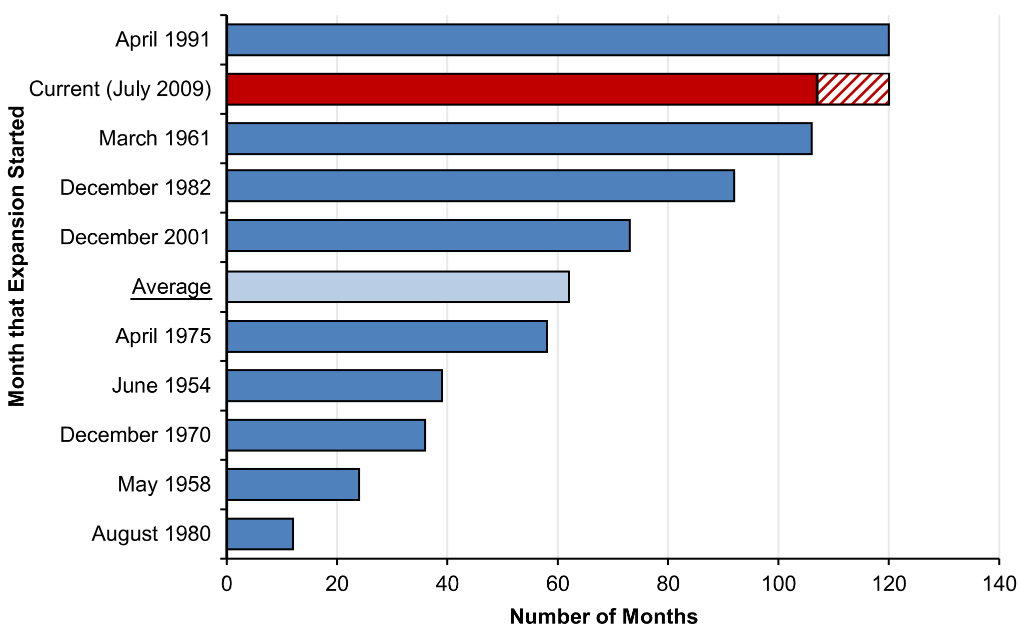
The economic forecast underlying the budget assumes the tax changes passed by the federal government in late 2017 will provide a temporary boost to the national economy and provide fiscal gains to many Americans, especially the wealthiest. However, this boost is likely to come at a long-term cost as it will take economic growth from future years and increase income inequality. By growing the federal deficit to more than $1 trillion each year, the tax package is essentially borrowing from the future to subsidize corporate stock buybacks and executive bonuses. However, the full implications to the state's taxpayers and federal-state programs will not be known for many years.

The increasing federal deficit caused by the tax bill will also create more pressure for the federal government to cut spending. Historically, this has meant shifting a greater cost burden to states. For instance, the congressional Medicaid proposals that have been debated over the past two years would have shifted tens of billions of dollars in permanent Medi-Cal costs to the state General Fund. Although they have been defeated to date, there is a major risk that they, or similar proposals, could reappear in future years.

Recession

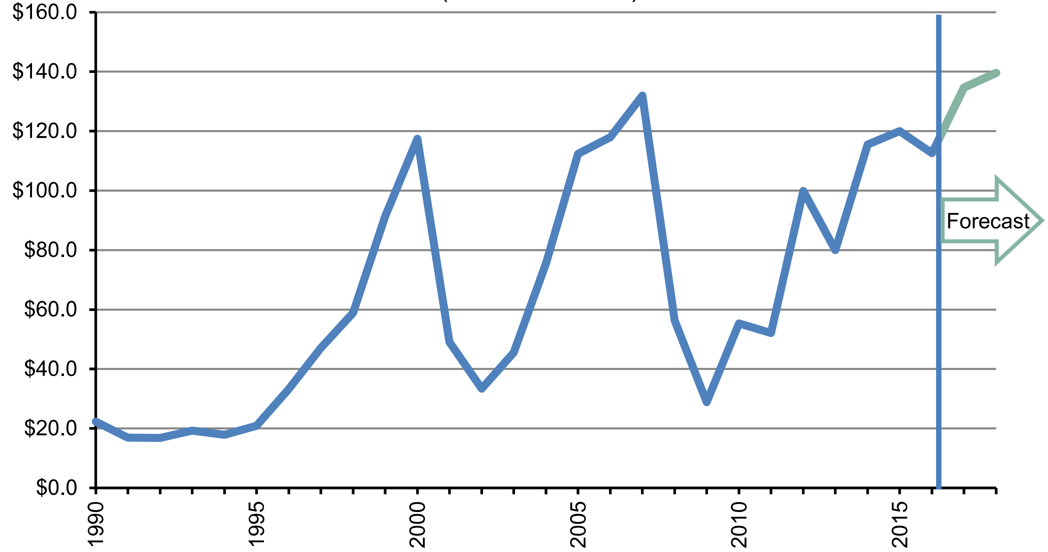
The Budget assumes the continued expansion of the economy and a balanced budget through the forecast period. But economic expansions don't last forever. In the modern era, the average expansion has lasted about five years. By the end of the 2018-19 fiscal year, as shown in Figure INT-02, the U.S. will have matched the longest recovery in modern history. In recent history, the state's unemployment rate has dipped below 5 percent only twice, in 2000 and 2006. Each time, full employment was short-lived at 7 months and 11 months, respectively. The state's unemployment rate has fallen to an all-time low of 4.2 percent, and has been below 5 percent for more than a year.

Figure INT-02
Current Recovery Is Approaching The Longest Ever



The state's most volatile revenue source—capital gains—is expected to reach all-time highs in 2017 and 2018 and is forecast to stay at levels never achieved previously as shown in Figure INT-03. To achieve these levels, the stock market would need to continue an unprecedented run.

Figure INT-03
Volatile Capital Gains on the Rise
(Dollars in Billions)



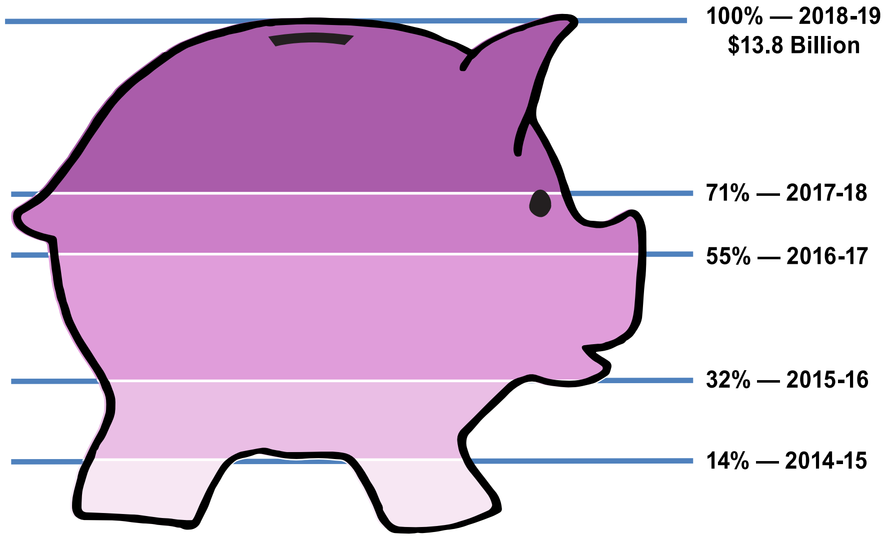
Planning for the Next Recession

The next recession will be upon California soon enough, so a full Rainy Day Fund and a commitment to prudent one-time spending are the best tools available to guide the state through a downturn.

Filling the Rainy Day Fund

Proposition 2, passed by the voters in 2014, establishes a constitutional goal of reserving 10 percent of tax revenues in a Rainy Day Fund by increasing deposits in years with high capital gains. At the end of 2017-18, the state's Rainy Day Fund has a total balance of $9.4 billion (71 percent of the constitutional target). As shown in Figure INT-04, the state has quickly and aggressively filled the state's Rainy Day Fund in the past few years, including making optional supplemental deposits in 2016-17 and 2018-19, to fully fill the Rainy Day Fund before the next recession begins.

Figure INT-04
Filling Up the Rainy Day Fund Before the Next Recession



To address the inevitability of the next recession, the Budget adds two additional reserves to state law. The Budget Deficit Savings Account will facilitate the supplemental payment to fully fill the state's Rainy Day Fund, and the Safety Net Reserve Fund will protect against cuts to certain health and welfare programs during the next recession.

Focusing on One-Time Expenditures

After accounting for costs to continue existing programs, the Budget makes few new targeted ongoing commitments. Instead, in recognition of the growing risks that the state budget faces, the Budget commits $4 billion in one-time General Fund spending, focused on infrastructure, homelessness, and mental health.

Moving Government Closer to the People

To both balance the budget and improve the state's ability to serve its residents, the state has taken major steps since 2011 to move government decision-making closer to the people.

2011 Public Safety Realignment

The 2011 Public Safety Realignment shifted various public safety programs to local governments while providing an ongoing constitutionally-protected funding source for these programs. The state began a major reduction in the size of the prison system due to federal court orders and the ability of counties to better serve lower-level offenders at a lesser cost. Since 2011, the state's prison population has been reduced by nearly 20 percent (from 162,000 in 2011 to 131,000 in 2017). As part of this realignment, roughly $8 billion in flexible funding will be distributed next year to local governments.

Local Control Funding Formula

In 2013, the state enacted the K-12 Local Control Funding Formula to enhance school district fiscal flexibility. By eliminating 43 categorical programs and revamping state allocation formulas, school districts now have the freedom to innovate locally and focus improvement on English learners, students from low-income families, and youth in foster care. With $3.67 billion in new funding for the formula in 2018-19, the Budget will achieve full implementation of the formula two years earlier than originally scheduled and provide nearly 1.0 percent growth on top of the fully implemented amounts.

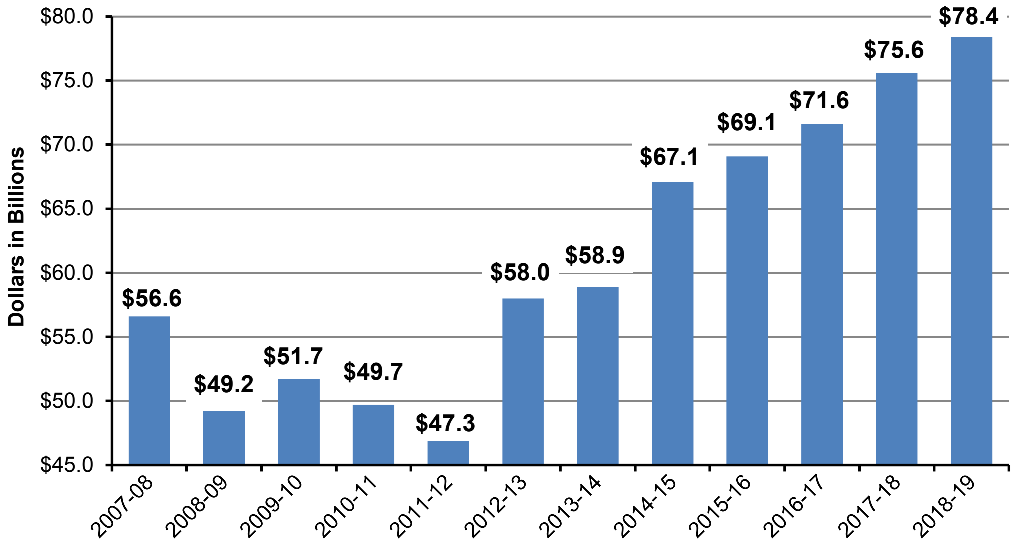
Increasing Money for Schools

Proposition 30 in 2012 and Proposition 55 in 2016, as passed by the voters, increased funding for public education from their reduced levels during the Great Recession.

K-12 Education

As shown in Figure INT-05, the minimum guarantee of funding for K-14 schools in 2007-08 was $56.6 billion, dropping to $47.3 billion in 2011-12 at the depth of the state budget crisis. From this recent low, funding has grown substantially, and will continue to grow to $78.4 billion in 2018-19—an increase of $31 billion (66 percent) in seven years.

Figure INT-05
Proposition 98 Funding
2007-08 to 2018-19

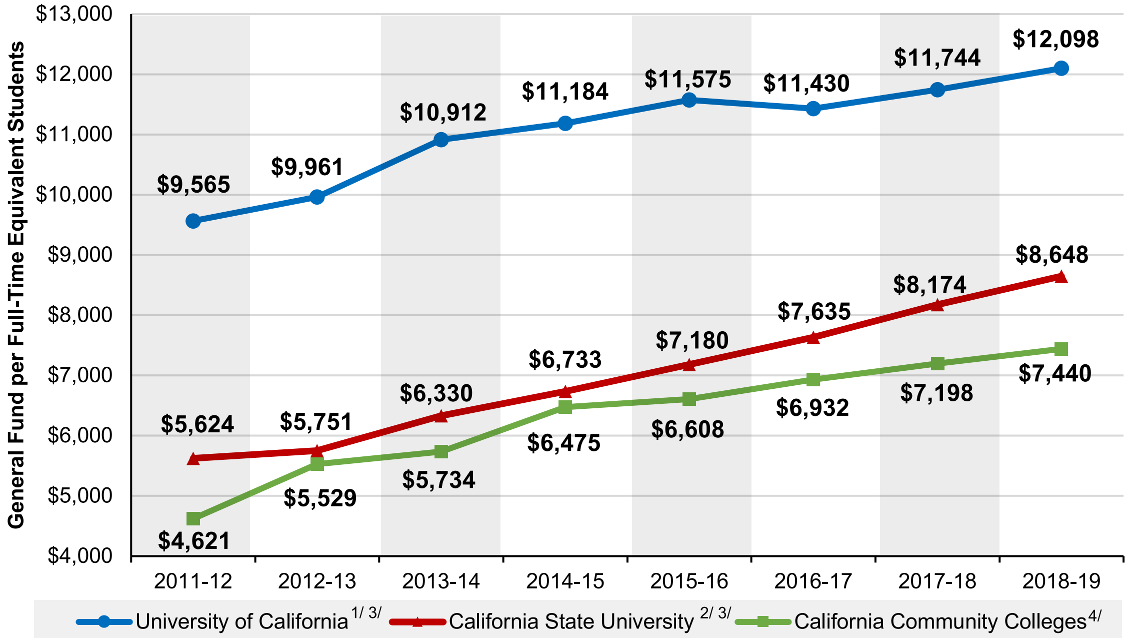


For K-12 schools, 2018-19 funding levels will increase by about $4,633 per student over 2011-12 levels. As noted above, available funding will allow the state to reach 100-percent implementation of the Local Control Funding Formula this year, correcting historical inequities in school district funding. While many districts have seized the opportunities offered under the formula to better serve their students, others have been slower to make changes. To improve student achievement and transparency, the Budget requires school districts to create a link between their local accountability plans and their budgets to show how increased funding is being spent to support English learners, students from low-income families, and youth in foster care. The Budget also provides $300 million to districts to target improvements for the state's lowest performing students.

Higher Education

The Budget continues to keep student fees low, promote new technology and innovation, and improve graduation rates. The Budget provides each university system with an ongoing increase and the community colleges with a total increase of $609 million (4 percent). New funding is dedicated to the California State University to further improve its four-year graduation rates as laid out in its Graduation Initiative. As shown in Figure INT-06, per-student General Fund levels have increased significantly since 2011-12. Since their recent lows, the University of California has received $1.2 billion in new funding, the California State University (CSU) has received $1.7 billion, and the community colleges $2.4 billion. Over the same time period, funding for state financial aid that primarily supports low-income students has increased by $700 million, to a total of $2.4 billion.

Figure INT-06
Per Student Funding for Public Higher Education Has Been Increasing Since 2011



[1/] Appropriations to the UC are adjusted to exclude one-time funds of $5 million in 2011-12, $5 million in 2012-13, $4 million in 2014-15, $122 million in 2015-16, $261.6 million in 2016-17, $176.6 million in 2017-18, and $213.8 million in 2018-19.

[2/] Appropriations to the CSU are adjusted to exclude one-time funds of $4.6 million in 2015-16, $48.3 million in 2016-17, $44.2 million in 2017-18, and $126.6 million in 2018-19.

[3/] Appropriations to the UC beginning in 2013-14 and the CSU beginning in 2014-15 are adjusted to exclude funds used to pay state general obligation bond debt service to allow for comparisons to earlier years.

[4/] Community college funding reflects total Proposition 98 funding (including both General Fund and property taxes), excluding funding for adult education.

Given these recent and proposed funding increases, coupled with the current level of resources available to postsecondary education institutions, the Budget reflects flat tuition and expects the universities and community colleges to continue to improve students' success with the proposed level of resources. With no tuition increases this year, university tuition, adjusted for inflation, will be below 2011-12 levels.

In 2010, through legislation (SB 1440), the state created the Associate Degree for Transfer—a process to simplify the transfer of community college students to the CSU system. Last year alone, over 38,000 students earned an Associate Degree for Transfer from a community college and 18,000 of these students successfully transferred to the CSU for the 2017 fall term. Over the past few years, the state has made successful efforts to integrate both the University of California and the state's nonprofit colleges and universities into this transfer process.

The state's decades-old community college apportionment formula—which favors counting the number of students at a desk at a particular point in time—is not the most effective way for community colleges to reach their student achievement goals. Instead, the Budget adopts a new funding formula that provides supplemental funding to those districts that serve low-income students and provides funding to districts for each student who meets specified student success metrics, including completion of a degree or certificate with additional funding for low-income students. As the formula is implemented, no district will receive less funding than currently provided. The formula will be implemented over the next three years.

Currently, public universities and community colleges are inadequately serving the 2.5 million Californians between the ages of 25 and 34 who are in the workforce but lack a postsecondary degree or credential. Consequently, these young adults lack the skills and education to succeed in the modern economy and, therefore, are particularly at risk of being laid off during a recession. Often, these individuals seek educational assistance outside of California or through for-profit institutions, paying tens of thousands of dollars to try to get ahead but too often ending up buried in debt. To serve these workers—who lack the time and ability to enroll in traditional classes—the Budget creates the California Online College. While this innovative new college will take time to get up and running, it will offer millions of state residents a new, low-cost path to economic success by taking advantage of modern technology.

Counteracting the Effects of Poverty

The Census Bureau has reported that 14.3 percent of California residents are living in poverty—slightly above the national average of 14.0 percent. The Census Bureau's supplemental measure of poverty, which considers broader definitions of income and living costs, reflects an even higher poverty rate—primarily due to the state's high cost of housing. While California's economic condition has improved since the Great Recession, much of the gains have accrued to the state's wealthiest residents.

Affordable housing and Homelessness

Housing affordability for Californians continues to be a problem. Approximately one in five households in California in 2016 paid more than 50 percent of their household income toward housing costs. Over half of all California renters pay 30 percent or more of household income towards housing, with more than 25 percent paying 50 percent or more.

In 2017, the Legislature passed and the Governor signed a package of bills designed to increase housing supply and affordability. In the coming year, from that package, new revenues dedicated to addressing the rising cost of housing will begin to flow from a fee on real estate transactions and a $4 billion general obligation bond. The Budget includes $255 million from the real estate fee and $277 million from the bond, assuming voter approval in November 2018. In addition, the Budget includes $500 million to assist local governments in their immediate efforts to address homelessness. The Budget also anticipates placing the $2 billion No Place Like Home bond on the November ballot to accelerate the delivery of housing projects to serve individuals with mental illness. Altogether, the Budget includes $5 billion related to affordable housing and homelessness, across multiple state departments and programs.

Other Poverty-Focused Efforts

California has an extensive safety net for the state's neediest residents who live in poverty. Since 2012, the General Fund has newly committed more than $20 billion annually in poverty-focused programs (see Figure INT-07). In addition to full implementation of the K-12 Local Control Funding Formula—which heavily emphasizes services to the state's neediest students—the Budget increases funding for programs designed to counteract poverty, focusing new efforts in CalWORKs and child care. In total, the Budget funds:

- The rising state minimum wage, which increased to $11 per hour in 2018 and is scheduled to eventually rise to $15 per hour.
- The expansion of health care coverage under the federal Affordable Care Act, which provides millions of Californians with coverage, and expansion of full medical coverage to about 200,000 undocumented children.
- The restoration of various health benefits to low-income Californians that were eliminated during the recession, including adult dental services.
- The continuance of the state's Earned Income Tax Credit, which was created in 2015, and enhanced and expanded in 2017 and 2018.
- The increase in CalWORKs grants and the repeal of the maximum family grant rule, which denied aid to children who were born while their parents were receiving aid.
- The elimination of the SSI/SSP "cash out" policy expanding federal funding for food assistance to approximately 370,000 households, while holding harmless households potentially affected by the change.
- The increases in child care and early education provider rates and the number of children served, totaling $1.3 billion.

Figure INT-07

Major Ongoing Poverty-Focused Budget Actions Since 2012

	Total Budget Impact
Minimum Wage	
• Increase from $8/hour to $10/hour	$173.3 million
• Increase from $10/hour to $15/hour and extend paid sick leave	$3.5 billion
Medi-Cal	
• Optional expansion under Affordable Care Act	$2.6 billion
• Exemptions from provider cuts	$213.8 million
• Adult dental restoration	$287.4 million
• Full Scope Services for undocumented children	$290.8 million
• Estate recovery limitations	$19.5 million
• Drug Medi-Cal Organized Delivery System Waiver[1]	$153.8 million
CalWORKs	
• 21.4 percent in cost-of-living increases[2]	$638.8 million
• Repeal Maximum Family Grant Rule[2]	$223.5 million
• Enhanced employment and early engagement services	$285.4 million
• Expansion of designated housing assistance	$95 million
• Elimination of once-in-a-lifetime restriction on homelessness assistance	$37 million
• Increase homelessness assistance daily rate from $65 to $85	$15.3 million
• Diaper assistance	$19.8 million
CalFresh	
• Work Incentive Nutritional Supplement	$29 million
• SSI Cash-Out Reversal (excludes one-time hold harmless benefits)	$22.3 million
• State Utility Assistance Subsidy	$11.1 million
SSI/SSP	
• 2.76 percent cost-of-living increase	$73 million
In-Home Supportive Services	
• Overtime	$311.5 million
• Restoration of 7 percent of hours	$311.7 million
Earned Income Tax Credit	
• Creation and expansion of California credit (includes administrative and outreach costs)	$445.9 million
Child Care	
• Various increases to rates and slots	$700 million
Cal Grants	
• Various augmentations and restorations	$183.7 million
Proposition 98	
• Local Control Funding Formula—Supplemental and concentration grants for low-income and English Learner students	$9.9 billion
• State Preschool—various increases to rates and slots and minimum wage costs	$599.5 million
• Community College Student Equity funding increases	$165 million
• Community College Student Success Completion Grant	$131.8 million
Total:	**$21.4 billion ($10.7 billion Prop 98, $10.3 billion General Fund, $0.4 billion Local Realignment Fund)**

Note: Fiscal estimates reflect fully implemented costs.

[1] Portions of the total costs are reflected under ACA optional expansion and existing Drug Medi-Cal base services.

[2] Funded by General Fund and 1991-92 State-Local Realignment Revenues.

Combating Climate Change

California has acted decisively and aggressively to reduce greenhouse gas emissions and address climate change, with a state goal to reduce emissions 40 percent below 1990 levels by 2030. The state's most cost-effective approach to meeting that target is the Cap and Trade Program, which allows the private sector to determine the most appropriate path for reducing emissions through the quarterly auction of pollution credits. In addition to the direct emission reductions required under the program, the state has appropriated $6.9 billion in auction proceeds to further reduce emissions by funding transit and high-speed rail, affordable housing near jobs and services, forest and watershed improvements, healthy soils, recycling and home energy upgrades. Further, the state has prioritized the expenditure of these funds in disadvantaged communities.

The Administration worked with the Legislature last year to strengthen Cap and Trade by extending the program through 2030, The Budget includes a $1.4 billion Cap and Trade Expenditure Plan to invest in programs that further reduce emissions and support climate resiliency efforts, including $210 million for forest improvement and fire prevention projects that protect the state's forests from wildfires and $200 million to provide rebates for zero-emission vehicles to meet the Governor's Executive Order goal of 5 million zero-emission vehicles on the road by 2030.

Enhancing Public Safety

The public safety goal of the Administration and the Legislature has been to give offenders the greatest opportunity for rehabilitation—thereby reducing recidivism and increasing overall public safety in a cost-effective manner. Over the past seven years, both in response to a federally imposed population cap and voter directives, the prison population has been reduced by 20 percent.

Over the prior two decades, corrections spending was one of the fastest growing components of the state budget—averaging 12.5 percent annual growth. The department's budget was notoriously difficult to control, with spending exceeding budgeted amounts—often by hundreds of millions of dollars.

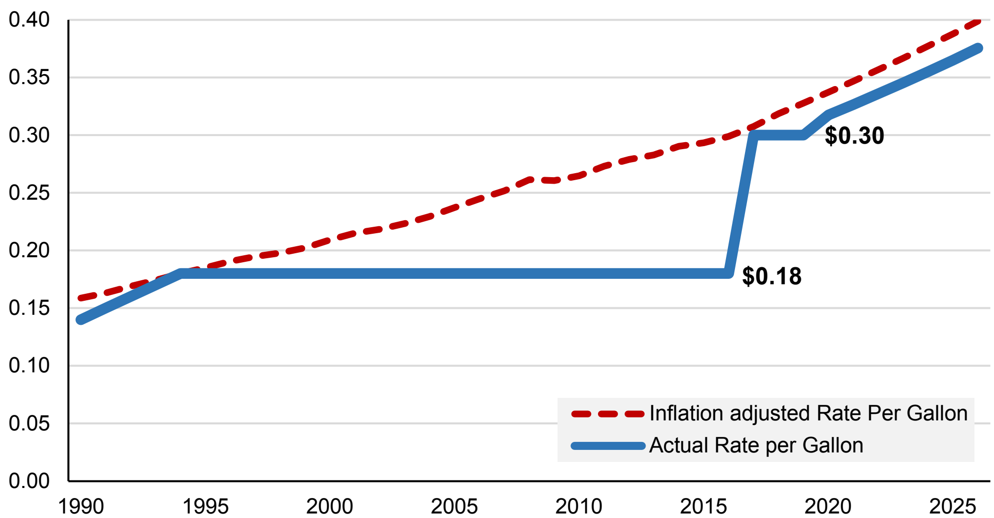
In contrast, over the past eight years, annual corrections spending growth has been reduced to 2.7 percent while focusing more dollars on health care and rehabilitation. While corrections spending represented 11.4 percent of 2011-12 General Fund spending, it now represents only 8.6 percent under the Budget.

Strengthening Infrastructure

The construction and maintenance of key physical infrastructure is one of the core functions of state government. Infrastructure allows for the movement of goods across the state and the delivery of public services. The deferred maintenance on existing state infrastructure is staggering—estimated to total $67 billion. The 2015 and 2016 Budgets contained hundreds of millions of dollars to begin addressing the most critical deferred maintenance projects. The Budget adds $333.5 million to this effort, with funding for the universities, courts, other state facilities, and flood control. The 2016 Budget also began a major investment in renovating Sacramento's aged and inadequate state office infrastructure including the state Capitol Annex, and the Budget provides $630 million to continue these efforts. Under the state Constitution, once the state's Rainy Day Fund is filled, the balance of deposits will be dedicated for infrastructure projects. The Budget allocates these future funds—providing the first $415 million annually to state government infrastructure costs with any remaining funds split evenly between high-priority housing and rail projects.

The Budget reflects the first full year of funding under the Road Repair and Accountability Act of 2017 (SB 1), which provides stable, long-term funding for both state and local transportation infrastructure priorities. California was facing the effects of inflation that had significantly eroded the purchasing power of the gas tax since the last time it was raised in 1994. The package reverses that trend (see Figure INT-08) and provides $55 billion in new funding over the next decade, split evenly between state and local projects.

Figure INT-08
SB 1 Restored Lost Purchasing Power for the Gas Tax



For 2018-19, the Budget includes $4.6 billion in new transportation funding, which:

- Focuses on "fix-it-first" investments to repair neighborhood roads, state highways, and bridges ($2.8 billion).
- Makes key investments in trade and commute corridors to support continued economic growth and implement a sustainable freight strategy ($556 million).
- Matches locally generated funds for high-priority transportation projects ($200 million).
- Invests in passenger rail and public transit modernization and improvement ($721 million).

In addition to significant transportation funding, the Budget also reflects the first $1.24 billion of expenditures from the recently passed natural resources bond (Proposition 68), and funding to restart the state's court construction program to complete ten courthouses.

Supporting Job Creation

Since January 2011, California has added 2.7 million jobs to the economy. While state government can only have a limited influence over the state's dynamic economy, the stability of a balanced state budget has given businesses the certainty and the reassurance they need to invest in California. In addition, the Administration redirected billions of dollars that were once spent ineffectively through the enterprise zone and redevelopment programs to more proven tools, like a sales tax exemption for manufacturing equipment and the California Competes tax credit program. To continue these efforts, the Budget extends the California Competes program for another five years with $180 million in credits awarded annually. An additional $20 million annually will directly assist small businesses.

Paying Down Debts and Liabilities

In May 2011, Governor Brown identified a $35 billion Wall of Debt— an unprecedented level of debts, deferrals, and budgetary obligations accumulated over the prior decade. That debt has been substantially reduced, now standing at less than $5 billion after the appropriated payments in 2018-19. In addition to strengthening the Rainy Day Fund, Proposition 2 requires the state pay down a certain amount of debt in each budget. Additional Proposition 2 debt payments over the next few years for eligible components will further shrink this debt. The Budget provides $254 million, plus estimated interest, to repay counties for prior mental health mandated costs.

While short-term debts and budgetary borrowing have been largely eliminated, long-term liabilities remain. As shown in Figure INT-09, the state has $291 billion in long-term costs, debts, and liabilities. The vast majority of these liabilities—$287 billion—are related to retirement costs of state and University of California employees.

Figure INT-09

Debts and Liabilities Eligible for Accelerated Payments Under Proposition 2

(Dollars in Millions)

	Outstanding Amount at Start of 2018-19 [2/]	2018 Budget Act Pay Down
Budgetary Borrowing		
Loans from Special Funds	$1,248	$205
Weight Fees	1,150	382
Underfunding of Proposition 98—Settle-Up	440	100
Non-Proposition 98 Mandates (Pre 2004)	18	7
Pre-Proposition 42 Transportation Loans	471	235
State Retirement Liabilities		
State Retiree Health	91,008	195
State Employee Pensions	58,765	623
Teachers' Pensions [1/]	103,468	0
Judges' Pensions	3,277	0
Deferred payments to CalPERS	682	0
University of California Retirement Liabilities		
University of California Employee Pensions	10,851	0
University of California Retiree Health	19,331	0
Total	**$290,709**	**$1,747**

[1/] The state portion of the unfunded liability for teachers' pensions is $35.3 billion.

[2/] For retiree health and pensions, the amounts reflect latest actuarial report available.

Over the past several years, the Governor and Legislature have taken significant steps to address the long-term costs of retirement programs.

In 2012, the California Public Employees' Pension Reform Act was enacted to save billions of taxpayer dollars by capping pension benefits, increasing the retirement age, stopping abusive practices, and requiring employees to pay at least half of their pension costs. In 2014, a funding plan was implemented to restore fiscal solvency to the state's teacher pension system by 2046. In 2015, the state and its employees began to share equally in the prefunding of retiree health benefits to eliminate a then $72 billion unfunded liability in the coming decades. In 2017, the state made a $6 billion supplemental payment to CalPERS that is estimated to save a net $4.8 billion in required pension contributions over the next two decades.

Despite these efforts, California's unfunded liabilities continue to rise. If not for the above-noted efforts, these liabilities would be billions of dollars higher. Accounting for all of these actions, and under current assumptions, the state now has plans in place to pay off these liabilities. The state's multi-year spending forecast accounts for the expected increases in these costs while keeping spending in line with revenues. In other words, the state can continue to manage its retirement expenses while waiting for the long-term savings under 2012's pension reform law to phase in. The growing costs will be expensive, but paying more now will reduce the liabilities and help preserve the ability of the state to keep providing these benefits over the long term.

Maintaining Fiscal Balance: An Ongoing Challenge

The past six years have been the longest stretch of balanced budgets in recent history. With a volatile revenue structure and limited spending flexibility, the California budget demands constant vigilance to stay in balance. These six years of relative fiscal stability illustrate the benefits of a prudent approach to budgeting—building up a Rainy Day Fund, avoiding overcommitting one-time revenues and making tough decisions when necessary. These years provide a sharp contrast to the decade of budget crises that preceded it—a decade that was defined by using one-time revenues from capital gains for ongoing expenditures while deferring tough decisions through borrowing and gimmicks. The next recession will be upon California soon enough, but a full Rainy Day Fund and a commitment to prudent one-time spending are the best tools available to guide the state through it.

Summary Charts

This section provides various statewide budget charts and tables.

Figure SUM-01
2018 Budget Act
General Fund Budget Summary
(Dollars in Millions)

	2017-18	2018-19
Prior Year Balance	$5,702	$8,483
Revenues and Transfers	$129,825	$133,332
Total Resources Available	**$135,527**	**$141,815**
Non-Proposition 98 Expenditures	$73,663	$83,818
Proposition 98 Expenditures	$53,381	$54,870
Total Expenditures	**$127,044**	**$138,688**
Fund Balance	**$8,483**	**$3,127**
Reserve for Liquidation of Encumbrances	$1,165	$1,165
Special Fund for Economic Uncertainties	$7,318	$1,962
Safety Net Reserve		**$200**
Budget Stabilization Account/Rainy Day Fund	**$9,410**	**$13,768**

Figure SUM-02
General Fund Expenditures by Agency
(Dollars in Millions)

			Change from 2017-18	
	2017-18	2018-19	Dollar Change	Percent Change
Legislative, Judicial, Executive	$3,397	$4,535	$1,138	33.5%
Business, Consumer Services & Housing	404	443	39	9.7%
Transportation	232	229	-3	-1.3%
Natural Resources	3,506	3,542	36	1.0%
Environmental Protection	214	130	-84	-39.3%
Health and Human Services	35,663	39,480	3,817	10.7%
Corrections and Rehabilitation	11,686	12,091	405	3.5%
K-12 Education	54,005	55,919	1,914	3.5%
Higher Education	15,123	16,082	959	6.3%
Labor and Workforce Development	147	143	-4	-2.7%
Government Operations	1,135	1,824	689	60.7%
General Government:				
Non-Agency Departments	784	1,109	325	41.5%
Tax Relief/Local Government	433	466	33	7.6%
Statewide Expenditures	315	2,695	2,380	755.6%
Total	**$127,044**	**$138,688**	**$11,644**	**9.2%**

Note: Numbers may not add due to rounding.

Figure SUM-03

2018-19 Total State Expenditures by Agency

(Dollars in Millions)

	General Fund	Special Funds	Bond Funds	Totals
Legislative, Judicial, Executive	$4,535	$3,864	$303	$8,702
Business, Consumer Services & Housing	443	944	635	2,022
Transportation	229	13,696	637	14,562
Natural Resources	3,542	1,702	1,363	6,607
Environmental Protection	130	3,827	202	4,159
Health and Human Services	39,480	24,839	-	64,319
Corrections and Rehabilitation	12,091	2,909	-	15,000
K-12 Education	55,919	106	656	56,681
Higher Education	16,082	173	335	16,590
Labor and Workforce Development	143	739	-	882
Government Operations	1,824	-309	7	1,522
General Government				
Non-Agency Departments	1,109	1,859	33	3,001
Tax Relief/Local Government	466	2,593	-	3,059
Statewide Expenditures	2,695	1,570	2	4,267
Total	**$138,688**	**$58,512**	**$4,173**	**$201,373**

Note: Numbers may not add due to rounding.

Figure SUM-04

General Fund Revenue Sources

(Dollars in Millions)

	2017-18	2018-19	Change from 2017-18: Dollar Change	Change from 2017-18: Percent Change
Personal Income Tax	$91,971	$95,011	$3,040	3.3%
Sales and Use Tax	25,384	26,674	1,290	5.1%
Corporation Tax	11,246	12,259	1,013	9.0%
Insurance Tax	2,514	2,576	62	2.5%
Alcoholic Beverage Taxes and Fees	371	377	6	1.6%
Cigarette Tax	67	65	-2	-3.0%
Motor Vehicle Fees	27	27	0	0.0%
Other	942	701	-241	-25.6%
Subtotal	**$132,522**	**$137,690**	**$5,168**	**3.9%**
Transfer to the Budget Stabilization Account/Rainy Day Fund	-2,697	-4,358	-1,661	61.6%
Total	**$129,825**	**$133,332**	**$3,507**	**2.7%**

Note: Numbers may not add due to rounding.

Figure SUM-05

2018-19 Revenue Sources

(Dollars in Millions)

	General Fund	Special Funds	Total	Change From 2017-18
Personal Income Tax	$95,011	$2,225	$97,236	$3,213
Sales and Use Tax	26,674	12,041	38,715	2,074
Corporation Tax	12,259	-	12,259	1,013
Highway Users Taxes	-	7,691	7,691	789
Insurance Tax	2,576	-	2,576	62
Alcoholic Beverage Taxes and Fees	377	-	377	6
Cigarette Tax	65	2,000	2,065	-53
Motor Vehicle Fees	27	9,330	9,357	1,013
Other Regulatory Fees	2	8,575	8,577	-1,136
Other	699	15,679	16,378	254
Subtotal	**$137,690**	**$57,541**	**$195,231**	**$7,235**
Transfer to the Budget Stabilization Account/Rainy Day Fund	-4,358	4,358	0	0
Total	**$133,332**	**$61,899**	**$195,231**	**$7,235**

Note: Numbers may not add due to rounding.

K-12 Education

California provides instruction and support services to roughly six million students in grades kindergarten through twelve in more than 10,000 schools throughout the state. A system of 58 county offices of education, more than 1,000 local school districts, and more than 1,000 charter schools provide students with instruction in English, mathematics, history, science, and other core competencies to provide them with the skills they will need upon graduation for either entry into the workforce or higher education.

The Budget includes total funding of $97.2 billion ($56.1 billion General Fund and $41.1 billion other funds) for all K-12 education programs.

Proposition 98

Proposition 98 is a voter-approved constitutional amendment that guarantees minimum funding levels for K-12 schools and community colleges. The guarantee, which went into effect in 1988-89, determines education funding levels according to multiple factors including the level of funding in 1986-87, General Fund revenues, local property tax revenues, per capita personal income, civilian population, and school attendance growth or decline.

In 2011-12, at the depth of the state budget crisis, the minimum guarantee dropped from the previous high of $56.6 billion in 2007-08 to $47.3 billion. Over the past seven years, primarily driven by significant increases in state General Fund revenues and the passage of Propositions 30 and 55, the minimum guarantee has increased by $31 billion to $78.4 billion. With these significant increases in the minimum guarantee, the Administration and the Legislature have paid down debt owed to schools, fully implemented the Local Control Funding Formula (LCFF), and provided schools with large grants of flexible, discretionary funding to invest in local priorities. For K-12 schools, this increase results in Proposition 98 per pupil spending of $11,640, a $4,633 increase over the 2011-12 per pupil spending levels. Additionally, over this period of time, per pupil spending from all state, federal, and local sources increased by approximately $5,700 per pupil to $16,352.

The state also postponed $19 billion in payments to K-14 schools during the recession, in the form of inter-year budgetary apportionment deferrals ($10.6 billion), settle-up payments owed for past Proposition 98 fiscal years ($4.3 billion), outstanding mandate claims ($4.2 billion), and the balance owed in the *Williams* settlement ($800 million). By appropriating large increases in Proposition 98 funds to pay down these outstanding obligations, the state eliminated inter-year budgetary deferrals and the *Williams* settlement balance in 2014-15, and reduced the outstanding mandate claim balances and settle-up debt in 2018-19 to approximately $1.1 billion and $340 million, respectively.

Proposition 30

In November 2012, voters passed Proposition 30, the Governor's tax initiative, which temporarily raised the state sales and personal income tax and provided significant additional funding for K-14 schools. Without the passage of Proposition 30, the state anticipated $5.4 billion in additional cuts to K-14 schools in 2012-13. Instead, from 2012-13 through 2018-19, Proposition 30 (as extended by Proposition 55 beginning January 2019) accounts for $50 billion in state revenue, which has allowed the state to shift from making substantial reductions to making substantial investments in education. Proposition 55 extends the personal income tax rates through 2030.

Local Control Funding Formula

In 2013, the Administration and Legislature created the LCFF to replace the prior revenue limit school finance system, which was inequitable, overly complex, and administratively costly. The transition to LCFF represented a fundamental shift from state control of educational programs and fiscal priorities to a more locally determined model that allows communities the flexibility to serve their unique student populations. Specifically, the state eliminated 43 categorical programs and revamped state allocation formulas, targeting flexible funding to school districts more equitably with a focus on reducing the academic achievement gap. The formula responds to research and practical experience that indicates students from low-income families, English language learners, and youth in foster care often require supplemental services and support to be successful in school.

The school district and charter school LCFF formula includes the following major components:

- A grade-span base grant for each local educational agency per unit of average daily attendance, including a base grant rate adjustment of 10.4 percent to support lower class sizes in grades K-3, and an adjustment of 2.6 percent to reflect the cost of operating career technical education programs in high schools.
- A supplemental grant of 20 percent of the adjusted base rate for English learners, students from low-income families, and youth in foster care to support increased services to students with higher needs.
- An additional concentration grant of 50 percent of the adjusted base rate for each English learner, student from low-income families, and youth in foster care above 55 percent of the enrollment served by the local educational agency.

The enacted county office of education formula includes: (1) a base grant for each county office of education per unit of average daily attendance to support instruction of students who attend community schools and juvenile court schools, and (2) unrestricted funding, inclusive of the resources necessary for administrative and technical support of local educational agencies in developing and approving local accountability plans, based on the average daily attendance of all students in the county.

The Budget provides $3.7 billion in new funding for the LCFF, which fully implements the school district and charter school formula two years earlier than originally scheduled, including both a 2.71 percent COLA and an additional $570 million above the COLA as an ongoing increase to the formula. Since the enactment of LCFF, the state has allocated over $21 billion in additional ongoing resources to school districts and charter schools through the formula. The county office of education formula was fully implemented in 2014-15.

The Budget also provides $300 million one-time Proposition 98 General Fund for the Low-Performing Students Block Grant, which will provide resources in addition to LCFF funds to local educational agencies with students who: (1) perform at the lowest levels on the state's academic assessments, and (2) do not generate supplemental LCFF funds or state or federal special education resources.

K-12 Accountability

The student academic achievement gap is the most persistent and difficult challenge facing California's public school system. For decades, data shows an inequity in academic outcomes between the state's student subgroup—especially for students with disabilities, foster and homeless youth, English language learners, and students of color. Prior to the implementation of the LCFF, the state predetermined program funding allocations for local educational agencies that did not address changing student needs and measured student achievement based solely on test scores and graduation rates. The adoption of the LCFF marked a redirection of resources aimed at closing the achievement gap, allowing local educational agencies greater authority to target spending to local needs. This shift required the state to redesign its K-12 accountability system to ensure that local educational agencies adopted spending plans that reflected their students' needs based on a complete evaluation of their own local education system.

Parallel to the transition to a new education finance and accountability system, in 2010, the State Board of Education also adopted new, more rigorous state standards for English language arts and mathematics. In addition to defining curriculum content for grades K-12, these standards focused on developing the critical thinking and analytical skills students need to be ready for college-level courses and the workforce. To measure student proficiency in these new standards, in 2015 the state implemented new computer-based, adaptive assessments for the first time, reducing the number of assessments that students are required to take while increasing the precision of those assessments to identify content areas where students either excel or need additional support.

The Local Control and Accountability Plan (LCAP) is the foundation of the state's new accountability system, and is developed by local educational agencies in collaboration with school and community stakeholders to improve student outcomes. First required of local educational agencies for the 2014-15 school year, the purpose of the LCAP process is to develop local multi-year strategies and funding plans to continuously improve student achievement, based on multiple measures of student success. These measures—which include student test scores, suspension rates, English learner progress, and several other indicators—are aggregated for public review on the California School Dashboard, which became available for the first time in fall 2017. The state uses the Dashboard to identify school districts with consistently low-performing student subgroups to connect them with a network of resources available through the new statewide system of support. Within the system of support, school districts, county offices of education, the California Collaborative for Educational Excellence, and the Department of Education work collaboratively to identify barriers to student achievement and share expertise to address those barriers. The LCAP, the Dashboard, and the statewide system of support replace the state's previous high stakes testing-driven accountability system to give a more comprehensive view of student achievement and more opportunities for school communities to make meaningful changes to improve student outcomes.

The Budget makes $82.8 million in investments for the state's new accountability system and capacity-building within the statewide system of support, including:

- Statewide System of Support—$57.8 million Proposition 98 General Fund for county offices of education to provide technical assistance to school districts, of which $4 million will go towards geographical regional leads to build systemwide capacity to support school district improvement.
- Multi-Tiered Systems of Support (MTSS)—$15 million one-time Proposition 98 General Fund to expand the state's MTSS framework to foster positive school climate in both academic and behavioral areas.
- Community Engagement Initiative—$13.3 million one-time Proposition 98 General Fund for the California Collaborative for Educational Excellence and a co-lead county office of education to help school districts build capacity for community engagement in the LCAP process.
- California Collaborative for Educational Excellence—$11.5 million Proposition 98 General Fund to support the Collaborative in its role within the statewide system of support.
- Special Education Local Plan Area (SELPA) Technical Assistance—$10 million Proposition 98 General Fund for SELPAs to assist county offices of education in providing technical assistance to school districts identified for differentiated assistance (specific to students with exceptional needs) within the statewide system of support.
- Dashboard Improvement—$300,000 one-time Proposition 98 General Fund to improve the user interface of the California School Dashboard.
- LCFF Budget Summary for Parents—$200,000 one-time Proposition 98 General Fund to develop the electronic template for the LCFF Budget Summary for Parents, which will help stakeholders better understand funding decisions made within the LCAP.
- LCAP Redesign—$200,000 one-time Proposition 98 General Fund to support intended future legislation to streamline the LCAP.

Proposition 98 Certification

In 1989, shortly after Proposition 98 was passed by voters, the state enacted a certification process intended to finalize the calculations of the minimum school funding formula in each fiscal year. Under this process, the Department of Finance, the Superintendent of Public Instruction, and the Chancellor of the Community Colleges were to jointly certify the calculation of the minimum guarantee within nine months after the close of each fiscal year. Given the compressed timeframe, differing interpretations of the law, and other issues, certification of the minimum guarantee has been delayed for many years. The last time the state certified the minimum guarantee was in 2008-09.

Consistent with the focus of the Administration and the Legislature on retiring debt and liabilities, the Budget enacts a new Proposition 98 certification process designed to: (1) provide a new mechanism to ensure annual certifications, (2) increase certainty around the payment of future certification settlements, (3) provide the state with additional budgeting flexibility, and (4) certify the guarantee for the prior years of 2009-10 through 2016-17.

Under the new certification process, Finance will publish a tentative calculation of the prior year's Proposition 98 minimum guarantee in the May Revision. This estimate will include all of the relevant factors used in the calculation of the guarantee, reflecting Finance's, the Superintendent's, and the Chancellor's final estimates for the year. Following the publication, a public review and comment period will allow interested parties and stakeholders to ask questions and submit comments regarding the certification to Finance. Finance will be required to respond to and publish all relevant comments prior to posting the final calculation of the guarantee. If no legal challenge to the calculation is made by October 1, the guarantee will be deemed certified. Any funding in excess of the required minimum level may be determined through the certification process and may be applied to meet guarantee obligations in future fiscal years. Any additional amount owed will be paid over a specified period of time.

As part of the certification included in the Budget, the Proposition 98 minimum guarantee was rebenched in 2015-16 to reflect the inclusion of additional child care wraparound services that were funded within the guarantee beginning in 2015-16. To further the certainty that the new certification process will provide, the Budget also continuously appropriates funding for the LCFF, including the annual cost-of-living adjustment. Doing so provides the same level of certainty for budget planning that local educational agencies enjoyed under the previous revenue limit system.

Career Technical Education

Career technical education funding in California has undergone a significant transformation in recent years. Prior to the adoption of the LCFF, the state provided more than $500 million annually to support a collection of targeted career technical education categorical programs, most notably the Regional Occupational Centers and Programs (ROCPs). The 2013 Budget collapsed almost all of this previous categorical funding into the LCFF in the form of a 9-12 grade span adjustment and required local educational agencies to describe how they intend to meet the career technical education needs of their students consistent with state-adopted standards in their LCAPs. This approach changed both state and local conversations around career technical education, as funding for these programs was now tied directly to decisions made at the local level around how best to use resources to improve student outcomes.

Acknowledging that a shift to local decision-making could be difficult, the 2013 Budget included a two-year maintenance-of-effort requirement for local educational agencies to maintain their 2012-13 levels of spending on ROCPs, providing them with additional time to structure more long-term service delivery arrangements. Further, both the 2013 and 2014 Budgets provided $250 million in one-time Proposition 98 General Fund to support the Career Pathways Trust Program, which provided one-time competitive grants to create innovative programs and partnerships linking rigorous academic standards to career pathways in high-need and high-growth sectors of the economy. This program was followed by the Career Technical Education Incentive Grant Program, which provided $900 million over a three-year period to encourage the creation and expansion of high-quality career technical education programs during local educational agencies' implementation of the LCFF. These investments supplemented the ongoing funding that was rolled into the LCFF in recognition of the higher cost of offering career technical education programs at the high school level.

Funding allocated through the LCFF should pay for a full range of educational costs, including career technical education. However, in recognition that high-quality career technical education programs play a valuable role in preparing students to meet the state's labor market demands, the Budget includes $164 million ongoing Proposition 98 funding to establish a K-12 specific component within the Strong Workforce Program. This workforce development proposal is designed to encourage local educational agencies to offer high-quality career technical education programs that are aligned with needed industry skills and regional workforce development efforts occurring through the existing Strong Workforce Program, which is funded at $248 million annually. The state's investment in career technical education is further complemented by the inclusion of $150 million ongoing Proposition 98 General Fund to make permanent the Career Technical Education Incentive Grant Program, mentioned above.

Together, these programs, along with the funding provided through the LCFF, will enhance students' opportunities to participate in effective, high-quality career technical education programs that are aligned not only with college and career-readiness standards, but also with the needs of employers, industry, and labor.

Mandates

Under the traditional state mandate reimbursement claims process, local educational agencies were reimbursed for the costs incurred to perform specified mandated activities. Local educational agencies were required to follow specific claiming instructions and maintain documentation supporting the amounts claimed. The entire process was labor intensive and burdensome. Moreover, the traditional reimbursement process did not create an incentive for local educational agencies to perform mandated activities in a cost-effective or efficient manner given that any administrative compliance costs incurred were reimbursed. Further, local educational agencies determined the cost of performing specified mandated activities, resulting in significant variance in claimed costs among local educational agencies.

To address these issues, the K-12 Mandate Block Grant Program was created as part of the 2012 Budget. In lieu of filing reimbursement claims for specific state-mandated programs, local educational agencies can participate in the block grant and receive funding for mandated programs based on specified funding rates per unit of average daily attendance. The block grant significantly simplifies the mandate reimbursement process by eliminating the need to submit reimbursement claims for individual mandated programs and maintaining applicable supporting documentation for many years. Moreover, the block grant allows local educational agencies to plan on a dedicated funding source to support mandated programs, while also allowing the state to more effectively plan and budget for mandated costs. As of 2017-18, nearly 98 percent of local educational agencies have elected to participate in the block grant.

While the K-12 Mandate Block Grant Program addressed the prospective funding of these requirements on schools, unpaid local educational agency reimbursement claims prior to 2012-13 totaled in the billions of dollars. As part of the Administration's emphasis on paying down debt, more than $5.7 billion in one-time funding has been provided to school districts, charter schools and county offices of education since 2014-15 to use at local discretion, while offsetting outstanding reimbursements claims for these entities. These funds have provided substantial resources to support critical investments in content standards implementation, technology, professional development, induction programs for beginning teachers, deferred maintenance, and employee benefits. The Budget builds on the commitment to retire debt by providing an additional $1.1 billion for school districts, charter schools and county offices of education to further support local priorities. These funds, coupled with previous discretionary funding, allows the state to retire approximately $4.5 billion in outstanding K-12 mandate debt and reduce the amount owed to local educational agencies from a recent high of approximately $5.5 billion (both from debt incurred prior to the creation of the block grant and from claims submitted since then) to nearly $1 billion.

Similar to K-12 local educational agencies, community college districts received discretionary funding of $787 million since 2014-15. Districts can use the funding for local needs and priorities such as deferred maintenance, technology infrastructure, professional development, and developing open education resources and zero-textbook-cost degrees. In addition to providing districts with a discretionary resource to address critical local needs, the funding also offsets any applicable outstanding mandate reimbursement claims for these entities. As a result, outstanding community college mandate debt has been reduced from approximately $565 million to $110 million.

Teacher Workforce

In recognition of the need to recruit and retain qualified individuals into the teaching profession, the Administration and the Legislature have targeted teacher workforce investments. Over the last few years, these targeted investments have included the following:

- Educator Effectiveness Block Grant—$490 million one-time Proposition 98 General Fund in 2015-16 to support educator professional development.
- Classified School Employee Credentialing Grant Program—$45 million total one-time Proposition 98 General Fund in 2016-17 and 2017-18 to support at least 2,250 classified employees electing to participate in a teacher preparation program and become certificated classroom teachers in California public schools.
- Integrated Teacher Preparation Program—$10 million one-time non-Proposition 98 General Fund in 2016-17 to create pathways that allow university students to graduate with a bachelor’s degree and a preliminary teaching credential within four years.
- California Educator Development Grant Program—$9 million one-time federal Title II funds in 2017-18 for competitive grants that assist local educational agencies in attracting and supporting the preparation and continued learning of teachers, principals, and other school leaders in high-need subjects and schools.
- California Center on Teaching Careers—$5 million one-time Proposition 98 General Fund in 2016-17 to support statewide teacher recruitment and retention efforts.
- Bilingual Educator Professional Development Grant Program—$5 million one-time Proposition 98 General Fund in 2017-18 for competitive grants to support professional development for teachers and paraprofessionals seeking to provide instruction in bilingual and multilingual settings.

Additionally, the California Commission on Teacher Credentialing, as the state's licensing board for public school teachers, has implemented a variety of initiatives to align educator preparation with new K-12 academic content standards and improve the availability of statewide teacher workforce data. Specific activities include:

- Consolidating the number of Special Education Credentials from seven to five by embedding the existing Physical and Health Impairments and Language and Academic Development authorizations into both the Mild/Moderate and Moderate/Severe credentials.
- Extending the validity period for teacher licensing exams.
- Updating teacher and administrator standards to reflect adoption of the California State Standards and California's Next Generation Science Standards.
- Creating an online dashboard on teacher supply and demand and educator preparation.
- Establishing the Teaching Permit for Statutory Leave to authorize long-term substitutes for teachers on extended leave.
- Revising the accreditation system for teacher preparation programs to focus on program outcomes such as program completion factors, teacher placements, and employer satisfaction.

Although many of the recent investments in the teacher workforce have been targeted at science, technology, engineering and mathematics (STEM), bilingual, and special education fields, for decades there has been a particularly acute shortage in the number of fully credentialed special education teachers. Most concerning, the number of special education teachers providing instruction with a substandard credential continues to rise. In response to this shortage, and because two-thirds of school districts have been identified as having poor special education performance, the Budget provides an additional $100 million investment to increase and retain special education teachers, as well as an additional $25 million investment for bilingual and STEM education fields:

- Teacher Residency Grant Program—$75 million one-time Proposition 98 General Fund to support locally sponsored, one-year intensive, mentored, clinical teacher preparation programs with $50 million aimed at preparing and retaining special education teachers and $25 million aimed at bilingual and STEM teachers.

- Local Solutions Grant Program—$50 million one-time Proposition 98 General Fund to provide one-time competitive grants to local educational agencies to develop and implement new, or expand existing, locally identified solutions that address a local need for special education teachers.

Other K-12 Budget Adjustments

In addition to the augmentations described above, the Budget also provides:

- Classified School Employee Summer Assistance Program—$50 million one-time Proposition 98 General Fund to provide state matching funds to classified school employees that elect to have a portion of their monthly paychecks withheld during the school year and then paid during the summer recess period.
- Classified School Employee Professional Development Block Grant Program—$50 million one-time Proposition 98 General Fund for professional development opportunities for classified staff, with a priority on professional development for the implementation of school safety plans.
- English Language Proficiency Assessment for California (ELPAC)—$27.1 million one-time Proposition 98 General Fund to convert the paper-based ELPAC to a computer-based assessment and to develop an ELPAC assessment specific to students with exceptional needs.
- Charter School Facility Grant Program—$21.1 million one-time and $24.8 million ongoing Proposition 98 General Fund to reflect increases in programmatic costs.
- Kids Code After School Program—$15 million one-time Proposition 98 General Fund to increase opportunities for students in after-school programs to access computer coding education.
- Fire-Related Support—$4.4 million Proposition 98 General Fund over two years in property tax relief to schools impacted by the fires in Northern and Southern California in 2017, and an additional $25 million Proposition 98 General Fund relief through the LCFF. The Budget also holds harmless the average daily attendance used in calculating the LCFF for these counties for three years.
- California-Grown Fresh School Meals Grants—$1 million one-time Proposition 98 General Fund to encourage the purchase of California-grown food by schools and expand the number of freshly prepared school meals offered that use California-grown ingredients.

- Fiscal Crisis and Management Assistance Team (FCMAT)—$972,000 Proposition 98 General Fund to allow FCMAT to coordinate with county offices of education to offer more proactive and preventive services to fiscally distressed school districts, specifically those with a qualified interim budget status (school districts that may not meet their financial obligations in the current year or subsequent two years).

Child Care and State Preschool

The state funds nine child care and early education programs as well as dozens of other programs that support child care quality and access, including family resource and referral agencies and local child care planning councils. These programs are administered by the Department of Education and the Department of Social Services. Families can access child care and early education subsidies through providers that contract directly with the Department of Education, local educational agencies, or through vouchers from county welfare departments or alternative payment program agencies.

During the economic downturn, state child care and early education programs experienced significant cuts, with reductions of almost $1 billion in funding. However, since 2013, the state has increased funding by $700 million non-Proposition 98 General Fund and $600 million Proposition 98 General Fund. These investments have improved services by:

- Increasing Provider Reimbursement Rates—The state updated child care provider reimbursement rates to pay child care providers that accept vouchers rates that reflect the current cost of care. Prior to these rate increases (which began in 2014), providers received reimbursement rates that were based on the cost of care in 2005. The state also increased the rates of providers that contract directly with the Department of Education by more than 26 percent.
- Expanding Access for Families—From 2013 to 2018, the state added more than 58,000 subsidized child care and early education slots. The state also increased income eligibility ceilings for families receiving child care subsidies, both for initial and continuing eligibility determinations. For families with inconsistent incomes or work schedules, the state reduced the frequency of eligibility redeterminations from several times a year to annually. Finally, the state increased State Preschool income eligibility ceilings for children with disabilities to improve inclusivity in that program.

- Reducing Costs for Families—In 2014, the state eliminated fees for families participating in part-day State Preschool. In addition, by increasing income eligibility ceilings for families (described above), the state also increased the number of families exempt from paying fees in all state child care programs.

- Improving the Quality of Care—To increase the quality of subsidized child care, in 2014-15 and 2015-16 the state provided: (1) $50 million ongoing Proposition 98 General Fund for local block grants for State Preschool quality improvement; (2) $24.2 million one-time non-Proposition 98 General Fund for local block grants for quality improvement in infant and toddler care; (3) $10 million one-time Proposition 98 General Fund to provide loans for State Preschool facility expansion; and (4) $25 million one-time Proposition 98 General Fund for State Preschool and transitional kindergarten teacher training. From 2011-12 to 2015-16, the state also invested $75 million one-time federal Race to the Top–Early Learning Challenge funds into the creation of a state/local quality rating and improvement system for child care providers. Further, to verify that transitional kindergarten teachers are appropriately trained to provide instruction for four-year-olds, in 2014-15 the state increased the educational requirements for transitional kindergarten teachers to include 24 units of early childhood education. Finally, in 2018-19 the state increased the frequency of inspections for licensed child care providers from once every three years to annual.

- Streamlining Program Requirements—To improve the experience of participating providers and families, the state: (1) authorized the use of electronic applications for child care subsidies, making it less burdensome for eligible families to access care and more efficient for providers to process applications; (2) eliminated duplicative licensing requirements for State Preschool providers utilizing facilities that meet transitional kindergarten facility standards; and (3) simplified eligibility determinations for providers accepting both state and federal subsidies and serving homeless children by aligning the eligibility requirements for these subsidies.

Included in these investments are augmentations in the Budget that increase provider reimbursement rates and expand access for families. Specifically, the Budget makes the final augmentations associated with the multi-year funding agreement adopted as part of the 2016 Budget by increasing the reimbursement rate for providers that contract directly with the Department of Education by approximately 2.8 percent, and making permanent a temporary hold harmless provision to the 2016 Regional Market Reimbursement Rate Survey for providers accepting vouchers. Additionally, the Budget increases the reimbursement rate adjustment factors for child care providers serving infants, toddlers, children with exceptional needs, and severely disabled children. The Budget also provides the final of three scheduled 2,959 full-day slot increases to the State Preschool program, totaling 8,877 slots over three years, and increases the number of available child care vouchers by 13,407. Overall, the Budget includes approximately $1 billion in new child care investments for 2018-19 and 2019-20.

Finally, the Budget creates the Inclusive Early Education Expansion Program, providing $167.2 million one-time Proposition 98 General Fund through a competitive grant program to increase the availability of inclusive early education and care for children aged zero to five years old, especially in low-income areas and in areas with relatively low access to care. Grant recipients will commit that all children benefiting from grant funds, especially those with disabilities, have access to appropriate settings that support their educational and developmental growth.

Significant Adjustments:

- Alternative Payment Program Expansion—Increases of $15.8 million non-Proposition 98 General Fund and $204.6 million federal Child Care and Development Fund for a total of 13,407 new voucher slots, of which 11,307 are available until June 30, 2020.
- Provider Reimbursement Rate Increases—Increases of $31.6 million Proposition 98 General Fund and $16.1 million non-Proposition 98 General Fund to increase the Standard Reimbursement Rate by approximately 2.8 percent, in addition to cost-of-living adjustments. The Budget also provides $34.2 million non-Proposition 98 General Fund beginning in 2019-20 to make permanent the existing limited-term Regional Market Reimbursement Rate hold harmless provision. Finally, the Budget includes $39.7 million non-Proposition 98 General Fund to increase the reimbursement rate adjustment factors for child care providers serving infants, toddlers, and children with exceptional needs, beginning January 1, 2019.
- Child Care Quality Investments—An increase of $26.4 million federal Child Care and Development Fund in both 2018-19 and 2019-20 to increase inspections of licensed child care providers from once every three years to annual. Additionally, $20 million in available one-time federal Child Care and Development Fund carryover is allocated to the County Pilot for Inclusive Early Care, the Child Care Initiative Project, and licensed child care teacher professional development.
- Full-Year Implementation of 2017 Budget Investments—Increases of $32.3 million non-Proposition 98 General Fund and $28.4 million Proposition 98 General Fund to reflect full-year costs of new policies implemented part-way through the 2017-18 fiscal year. These costs are associated with an update of the Regional Market Reimbursement Rate to the 75th percentile of the 2016 regional market rate survey (beginning January 1, 2018), and an increase of 2,959 slots for full-day State Preschool (beginning April 1, 2018).

- CalWORKs Stage 2 and Stage 3 Child Care—A net increase of $109.2 million non-Proposition 98 General Fund in 2018-19 to reflect increases in the number of CalWORKs child care cases. Total costs for Stages 2 and 3 are $559.9 million and $398.6 million, respectively.
- Federal Child Care and Development and TANF Funds—A decrease of federal TANF from $120.1 million in 2017-18 to $70.6 million in 2018-19. Total TANF and federal Child Care and Development Fund is $938 million.

This page intentionally blank to facilitate double-sided printing.

Higher Education

The Budget represents a significant investment in the state's public higher education segments—the University of California (UC), the California State University (CSU), and the California Community Colleges (CCC)—and the students of California. The Budget provides significant increases in base funding to all three segments that will increase the quality of education and expand access. Moreover, the state has maintained financial aid programs that ensure that students of all backgrounds can succeed. This year also marks the beginning of a new, ambitious online education effort and the continuation of efforts to increase efficiency in the state's system of higher education.

The Budget includes total funding of $34.3 billion ($19.2 billion General Fund and local property tax and $15.1 billion other funds) for all higher education entities in 2018-19.

University of California

The UC has received an additional $1.2 billion General Fund since 2012, reversing several years of cuts. As a result, the level of ongoing General Fund per full-time equivalent student at the UC has grown from $9,565 in 2011-12 to $12,098 in 2018-19, representing a more than 26-percent increase. In exchange for significant and reliable increases in funding, the UC has largely held tuition flat. Further, the agreement between the UC and the Administration in 2015 included significant reforms to the transfer process, promoting the use of new educational technologies, and establishing innovative approaches to financial management—all aimed at keeping student costs low. The Budget reflects the completion of this agreement as UC has finished the two remaining components of the agreement—the completion of activity-based costing pilots and an aggressive, good-faith effort to achieve a ratio of one transfer student for every two new entering freshmen students at each campus. The UC President recently committed to working with the CCC Chancellor to better align the transfer process by creating an admission guarantee and more closely aligning transfer pathways with the existing Associate Degrees for Transfer.

Significant Adjustments:

- Ongoing General Fund Augmentations—An increase of $98.1 million, including a $92.1 million base increase, $5 million to support 500 additional resident undergraduate students in 2018-19, and $1 million to support the Institute for Global Conflict and Cooperation.
- Enrollment Shift—A decrease of $8.6 million General Fund for the UC Office of the President's appropriation and a corresponding increase to the campuses to support enrollment growth targets specified in the 2017 Budget.
- One-Time Funding—One-time General Fund totaling $248.8 million, of which $105 million will support efforts to improve instructional quality, bolster student services, and enroll additional students. Other adjustments include $40 million for graduate medical education, $35 million for deferred maintenance, $25 million for UC Berkeley, $15 million for mental health residency slots, $12 million for Jordan's Syndrome Research, $4 million for legal services for undocumented and immigrant students, faculty, and staff, and $12.8 million for various other one-time purposes.

California State University

The CSU has received an additional $1.7 billion General Fund since 2012, reversing several years of cuts. As a result, the level of ongoing General Fund per full-time equivalent student at the CSU has grown from $5,624 in 2011-12 to $8,648 in 2018-19, nearly a 54-percent increase. As with the UC, in exchange for significant and reliable increases in funding, the CSU has largely held tuition flat. The Budget includes $75 million to support the CSU Graduation Initiative 2025. The Initiative, launched in 2016, establishes goals for increasing on-time graduation rates for undergraduate students, as well as eliminating achievement gaps for Pell-eligible, underrepresented minority, and first-generation students. Graduation Initiative funding will better enable transfer students and first-time freshmen to achieve their educational goals within a two-year and four-year period, respectively. Previous investments in the Initiative have already demonstrated early success, such as increasing the four-year graduation rate for first-time freshmen from 19 percent to 23 percent. Additionally, since the passage of SB 1440 in 2010, the CSU worked with the CCCs to develop and offer Associate Degrees for Transfer.

Through the Associate Degree for Transfer, students have a clearer pathway through the community colleges and are guaranteed to enter the CSU with junior standing.

Significant Adjustments:

- Ongoing General Fund Augmentations—An increase of $197.1 million, including a base augmentation of $92.1 million, an additional $30 million to support CSU's operational costs, and $75 million to support the efforts of the Graduation Initiative.
- One-Time Funding—One-time funds totaling $161.6 million General Fund, including $120 million available over a four-year period for the CSU to provide an additional 3,641 undergraduate students access to the CSU, $35 million for deferred maintenance, $3.8 million to support shark and beach research at CSU Long Beach, $1.5 million to support student hunger programs, and $1 million to support the Mervyn Dymally Institute at CSU Dominguez Hills.

California Community Colleges

Since 2011, the state has made significant investments in the CCCs with overall growth of $2.6 billion Proposition 98 General Fund. The state has also made targeted investments to improve student success. This has included $285 million for the Student Success and Support Program, which has provided education planning services for matriculated students, and $155 million to mitigate disproportionate impacts on access and achievement in underrepresented groups. The Budget integrates these programs and the Student Success for Basic Skills Program to give districts enhanced flexibility to support students, eliminate equity gaps, and support implementation of guided pathways programs. Supported by $150 million one-time funding in the 2017 Budget, colleges are currently developing and implementing guided pathways programs focused on creating clear pathways for students to complete their degrees.

The Budget builds on the reforms and investments of the past several years to further accelerate improvements in student success. Today less than half of community college students complete their programs or transfer within six years. Further, only 42 percent of Latino students and 37 percent of African American students complete a certificate, a degree or transfer within six years. A decades-old community college apportionment formula—which has based funding on the number of students enrolled a particular point in time—is not the most effective way for community colleges to reach their student success goals and close the achievement gap. Instead, the Budget adopts a new student-centered funding formula that provides funding to districts based upon additional factors, including the number of low-income students enrolled and the number of students who meet specified student success metrics, including completion of a degree or certificate. The formula will be implemented over the next three years. Core features of the funding formula include the following:

- Formula Structure and Transition—In 2018-19, 70 percent of funding will be distributed based on enrollment, 20 percent based on enrollment of low-income students, and 10 percent based on student success metrics. In 2019-20, 65 percent of funding will be distributed based on enrollment, 20 percent based on enrollment of low-income students, and 15 percent based on student success metrics. In 2020-21, 60 percent of funding will be distributed based on enrollment, 20 percent based on enrollment of low-income students, and 20 percent based on student success metrics.
- Hold Harmless Provision—In 2018-19, 2019-20, and 2020-21 no district will receive less funding than they received in 2017-18, and each will receive an increase to reflect a cost-of-living adjustment. In 2021-22 and future years, districts will receive no less in apportionment funding than is currently provided. Additionally, the funding formula includes stability provisions that provide districts with additional revenue protection by allowing them to receive the greater of their past-year or current-year total revenue.
- Advisory Committee—Corresponding with the implementation of the Student-Focused Funding Formula, an advisory committee will be established to monitor the implementation of the funding formula and report back to the Legislature and Administration on potential improvements.

Expanding Opportunities for Students' to Improve their Economic Mobility

Currently, there are 2.5 million Californians between the ages of 25 and 34 who are in the workforce but lack a postsecondary degree or credential necessary to increase their earning potential. To serve these workers—who lack the time and ability to enroll in traditional classes—the Budget creates the California Online College. This college provides an opportunity for prospective students to improve their economic success. Specifically, the California Online College will:

- Develop flexible course scheduling not tied to the academic calendar and specialized support services.
- Recognize students' skills and learning acquired from work experience or prior learning through the delivery of competency-based education.

- Develop at least three program pathways by July 1, 2019, and enroll students by the last quarter of 2019. The Chancellor's Office has announced that the first two pathways will be an information technology credential and a medical coding credential.
- Report to the Legislature on student outcomes, including employment and earning gains after completion of programs, and share promising practices in online teaching and learning with all community colleges.

Supporting Workforce and Adult Education Programs

The state has also made significant investments to advance workforce training and adult education. The Strong Workforce Program, created in 2016-17, provides $248 million to expand the availability of career technical education and workforce development courses aligned with regional labor market demand. The Budget builds upon the proven successes of the Strong Workforce Program by providing $164 million for grants to K-12 local educational agencies to develop and expand career technical education programs, aligned with vocational programs offered by higher education institutions and with local workforce needs. The Adult Education Program, formerly named the Adult Education Block Grant Program, established in 2015-16, provides $527 million to support a coordinated approach between K-12 schools, community colleges, and community-based partners to provide educational opportunities to adult learners, including programs that lead to high school diplomas, English as a Second Language courses, and additional career opportunities.

Notable Budget Adjustments

- Student-Focused Funding Formula—An increase of $522.8 million Proposition 98 General Fund to implement a new student-focused funding formula, which includes the following:
  - An increase of $151.3 million to support a base augmentation for apportionments.
  - An increase of $173.1 million for a 2.71-percent cost-of-living adjustment for total apportionment growth.
  - An increase of $58.7 million, of which $35 million is one-time, to support hold harmless provisions and ensure all districts grow by at least the 2018-19 cost-of-living adjustment.
  - An increase of $138.7 million to reflect the amounts earned back by community colleges declining in enrollment during the previous three years.
  - An increase of $59.7 million for enrollment growth of 1 percent.
  - A decrease of $58.7 million to reflect unused growth provided in 2016-17.

- California Online Community College—An increase of $100 million one-time and $20 million ongoing Proposition 98 General Fund to establish an online community college.
- Student Success Completion Grant—An increase of $40.7 million Proposition 98 General Fund that consolidates two existing financial aid programs and establishes the Student Success Completion Grant to provide grants of $649 per semester to qualifying students who enroll in 12 to 14 units and $2,000 per semester to qualifying students who enroll in 15 or more units per semester.
- Full-Time Faculty Hiring— An increase of $50 million Proposition 98 General Fund to hire new full-time faculty for community college districts to move toward meeting the 75-percent full-time faculty target.
- Part-Time Faculty Office Hours— An increase of $50 million one-time Proposition 98 General Fund to compensate part-time faculty for providing and holding office hours.
- K-12 Strong Workforce Program—An increase of $164 million Proposition 98 General Fund in grants to K-12 local educational agencies to expand and align their career technical education programs with programs offered by higher education institutions, and with regional labor market demand, as referenced in the K-12 Education Chapter.
- California College Promise—An increase of $46 million Proposition 98 General Fund to support the implementation of the California College Promise, pursuant to Chapter 735, Statutes of 2017 (AB 19).
- Apprenticeship Programs—An increase of $36.5 million one-time and $22.7 million ongoing Proposition 98 General Fund to support apprenticeship programs.
- Online Education Initiative Competitive Grants—An increase of $35 million one-time Proposition 98 General Fund for community college districts to develop online programs and courses that lead to short-term, industry-valued credentials, or enable a student enrolled in a pathway developed by the California Online Community College to seek continued education through pathways offered by an existing community college.
- Adult Education Program—An increase of $26.6 million Proposition 98 General Fund, which includes a cost-of-living adjustment and $5 million for investments in a data collection and accountability system to ensure comprehensive and shared data reporting by regional consortia members. The formerly named Adult Education Block Grant program was renamed the Adult Education Program.
- Financial Aid Technology Improvements—An increase of $13.5 million one-time and $5 million ongoing Proposition 98 General Fund to upgrade colleges' financial aid management systems for more efficient processing.

- Legal Services for Undocumented and Immigrant Students, Faculty and Staff—$10 million Proposition 98 General Fund to provide legal services to undocumented and immigrant students, faculty and staff on community college campuses.
- Reentry of Incarcerated Individuals Program Grants—An increase of $5 million one-time Proposition 98 General Fund to provide support for currently and formerly incarcerated students, focused on reentry into their communities.

California Student Aid Commission

The California Student Aid Commission, which administers the state's financial aid programs, the largest of which is the Cal Grant, will spend $2.4 billion on financial aid programs in the coming year, supporting over 440,000 students in accessing higher education. This represents an increase of $700 million since 2012 and an increase of almost 150,000 students who receive state-supported financial aid.

Significant Adjustments:

- Cal Grant Program Costs—An increase of $61.3 million in 2017-18 and $127.5 million in 2018-19 to reflect an increase in the number of new and renewal awardees in 2017-18 and 2018-19.
- Temporary Assistance for Needy Families (TANF) Reimbursements—A increase of $22.6 million in federal TANF reimbursements in 2018-19 over the 2017 Budget amount.
- Tuition Award for Students at Private Nonprofit Institutions—An increase of $8.1 million General Fund to maintain the maximum Cal Grant tuition award for new students attending private nonprofit institutions at $9,084, with a new requirement that, beginning in 2019-20, the sector admits each year a specified number of students who have earned transfer degrees from the community colleges and are guaranteed junior standing.
- Cal Grant Eligibility for Youth in Foster Care—An increase of $5.3 million General Fund to reflect increased eligibility for qualified youth in foster care up to age 26 and renewal eligibility of up to 8 years.
- Grant Delivery System—An increase of $5.5 million General Fund to fund the first year of project costs for the Grant Delivery System Modernization project.

UC Hastings College of the Law

Hastings College of Law has received an additional $6.8 million in state General Fund since 2012. In exchange for significant and reliable increases in funding, tuition at Hastings College of Law has been flat for six years.

Significant Adjustments:

- General Fund Base Augmentation—An increase of $1.1 million ongoing to support the College's general operations.
- UC Path Implementation—An increase of $1.5 million General Fund one-time to support the implementation of the UC Path payroll, accounting, time keeping, and human resources system.
- Diversity Pipeline Scholarship Program—$4.5 million General Fund one-time to fund scholarships for students from the American University in Armenia and Historically Black Colleges and Universities to attend UC Hastings.

California State Library

The California State Library serves as the central reference and research library for the Governor and Legislature. Additionally, the State Library provides critical assistance to the 184 library jurisdictions and nearly 1,200 libraries across the state.

Significant Adjustments:

- Augmentation for Literacy Programs—An increase of $2.5 million General Fund ongoing to expand the existing California Library Literacy Services program.
- One-Time Funding for Broadband Grants—$5 million one-time General Fund for broadband equipment grants, with the expectation that $2 million would support connection for public libraries that lack access to the broadband network and $3 million would expand capacity for libraries already connected.
- One-Time Funding for Online Service Systems—$1.5 million one-time General Fund for online systems for use by public libraries to support efficient access to resources.

Health and Human Services

The Health and Human Services Agency oversees departments and other state entities that provide health and social services to California's vulnerable and at-risk residents.

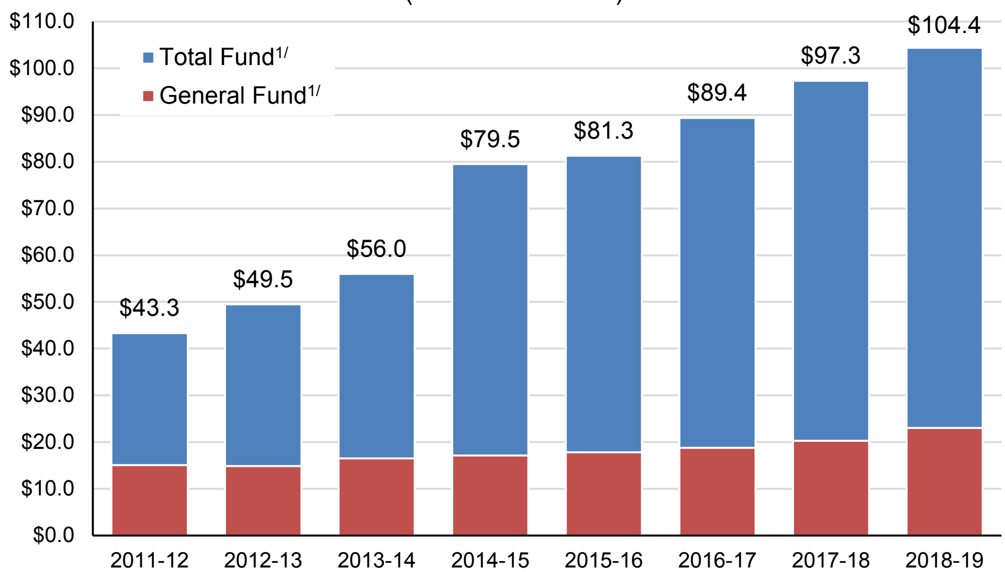
The Budget includes total funding of $160 billion ($39 billion General Fund and $121 billion other funds) for all programs overseen by this Agency.

Department of Health Care Services

Medi-Cal, California's Medicaid program, is administered by the Department of Health Care Services (DHCS). Medi-Cal is a public health care coverage program that provides comprehensive health care services at no or low cost for low-income individuals. The federal government mandates basic services, including: physician services; family nurse practitioner services; nursing facility services; hospital inpatient and outpatient services; laboratory and radiology services; family planning; and early and periodic screening, diagnosis, and treatment services for children. In addition to these mandatory services, the state provides optional benefits such as outpatient drugs, dental, home and community-based services, and medical equipment. The Department also operates the California Children's Services and the Primary and Rural Health programs, and oversees county-operated community mental health and substance use disorder programs.

Since 2011-12, Medi-Cal spending has more than doubled, as shown in Figure HHS-01. Compared to the 2011 Budget, total program costs increased from $43.3 billion ($14.7 billion General Fund), to $104.4 billion ($23 billion General Fund) in the Budget. These changes reflect a significant expansion in the number of individuals receiving coverage through Medi-Cal and the Children's Health Insurance Program (CHIP) from 8.5 million to 13.3 million. Caseload for the Affordable Care Act (ACA) Optional Expansion population is anticipated to cover approximately 3.9 million individuals in 2018-19. In addition, 1.4 million people are expected to receive medical coverage through Covered California in 2018-19. Consequently, California has reduced the uninsured share of its population to less than ten percent.

Figure HHS-01
Medi-Cal Spending Has More Than Doubled
(Dollars in Billions)



[1/] These amounts do not include expenditures from Managed Risk Medical Insurance Board, Department of Mental Health, and Department of Alcohol and Drug Programs prior to transition to the Department of Health Care Services.

As a result of the unprecedented coverage expansions in the Medi-Cal program over this period, the state is projected to spend $18.7 billion ($1.7 billion General Fund) on the ACA Optional Expansion population in 2018-19. This expansion is funded in part by a redirection of some of the savings experienced by counties who have responsibility for indigent health care programs. Under Chapter 24, Statutes of 2013 (AB 85), the state is projected to redirect approximately $773 million in 2018-19 for this purpose. In addition, the Budget includes costs of $365.2 million ($287.7 million General Fund) to expand full scope Medi-Cal coverage to 200,000 children regardless of immigration status as authorized by Chapter 18, Statutes of 2015 (SB 75).

Many of the program reductions from the Great Recession have been restored, including most optional benefits in the Medi-Cal program, such as dental benefits for adults and enteral nutrition, acupuncture, and psychology. Additionally, the state has made significant investments since the passage of the California Healthcare, Research and Prevention Tobacco Tax Act of 2016 (Proposition 56) in various rate increases and supplemental provider payments.

This Budget continues the state's progress toward providing health coverage for all Californians by creating the Council on Health Care Delivery Systems to research and provide potential options to achieve expanded coverage within an efficient health care financing system. The Budget also creates the Health Care Cost Transparency Database to collect and analyze health care cost data to improve transparency, inform policy decisions, reduce disparities, and reduce health care costs.

Significant Adjustments:

- Proposition 56—The Budget includes funding to support growth in Medi-Cal for expenditures above the 2016 Budget Act ($217.7 million), supplemental provider payments ($786.7 million), rate increases ($34.6 million), and a loan assistance program ($220 million) for recently graduated physicians and dentists who agree to work in underserved areas, as detailed in Figure HHS-02.

Figure HHS-02

Medi-Cal Proposition 56 Investments

(Dollars in Millions)

Category	*2018-19*
Physician Services Supplemental Payments	$500.0
Supplemental Payments For Dental Services	210.0
Women's Health Supplemental Payments	49.0
ICF/DD Supplemental Payments[1/]	12.3
AIDS Waiver Supplemental Payments	3.4
Home Health Providers Rate Increase	27.6
Pediatric Day Health Care Facility Rate Increase	7.0
Physician and Dentist Loan Assistance Program	220.0
Other One-Time Supplemental Payments	12.0
Total	**$1,041.3**

1/ Includes Proposition 56 costs for continuous skilled nursing facilities.

- School-Based Mobile Vision—The Budget includes $1 million General Fund for a school-based mobile vision services grant.
- CHIP Reauthorization—In February 2018, the federal government approved a ten-year extension of enhanced federal funding at 88 percent through September 30, 2019, phasing down in future years to the historic ratio of 65 percent.
- ACA Optional Expansion—In January of each year, the state's cost-sharing ratio for the 3.9 million Californians in the optional Medi-Cal expansion increases incrementally until it reaches 10 percent in 2020. The Budget includes $18.7 billion ($1.7 billion General Fund), an increase of $803.2 million ($251 million General Fund) compared to 2017-18 for the optional expansion population.

- Elimination of State-Only Limits on Breast and Cervical Cancer Treatment—The Budget includes $8.4 million General Fund to eliminate the 18-month treatment limitation for breast cancer and 24-month treatment limitation for cervical cancer in the state-only Breast and Cervical Cancer Treatment Program.
- Data Collection and Sharing Initiatives—The Budget includes $50 million ($5 million General Fund) in 2018-19 for the development of Health Information Exchanges to facilitate data sharing of health information between health systems. It also includes funding for changes to the California Health Information Survey to study the accuracy of responses and data collected related to children's health ($750,00 General Fund) and for incorporating questions and increasing efforts to conduct outreach involving long-term services and supports ($3 million General Fund).

Department of Social Services

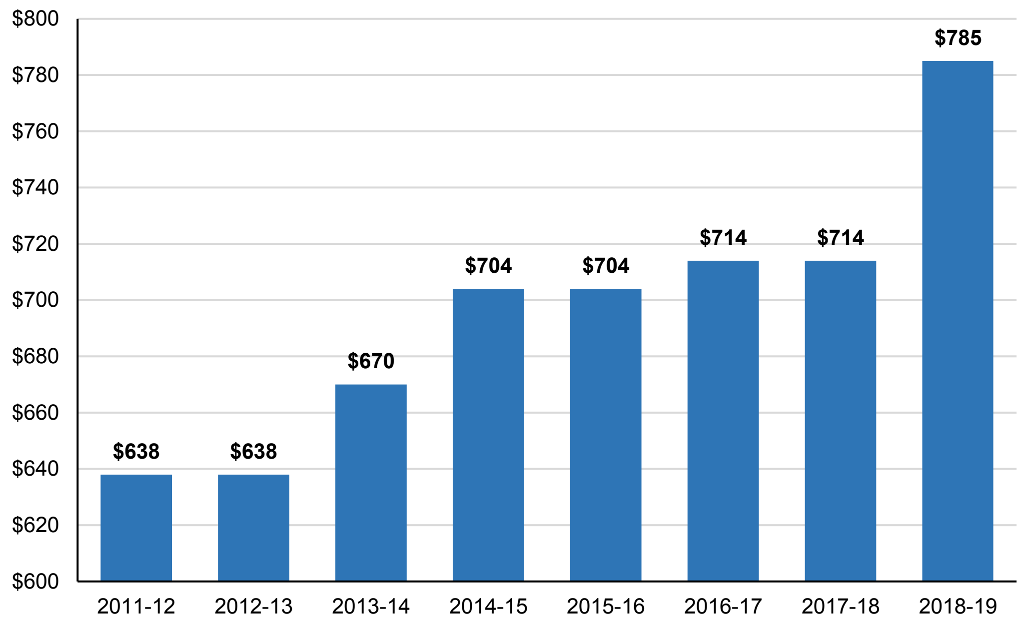
The Department of Social Services (DSS) oversees and administers programs that serve, aid, and protect California's vulnerable children, adults, and seniors in ways that strengthen and preserve families, encourage personal responsibility, and foster independence.
The Department's major programs include CalWORKs, CalFresh, In-Home Supportive Services (IHSS), Supplemental Security Income/State Supplementary Payment (SSI/SSP), Child Welfare Services, Community Care Licensing, and Disability Determination. During the Great Recession, many of these programs experienced substantial funding reductions. Since the beginning of the economic recovery, significant investments have been made to restore program reductions, provide additional flexibility to counties in administering these programs at the local level, and make targeted expansions, with the goal of improving the lives of those individuals and families receiving services.

CalWORKs

Grant levels were reduced by 12 percent during the Great Recession, funding for employment services and child care was drastically reduced, and the state faced substantial federal penalties for failing to meet work participation requirements. As the economy expanded, CalWORKs was redesigned to emphasize employment and provide greater flexibility for participants to meet program requirements during the first 24 months of welfare-to-work participation by: (1) providing housing support to families experiencing homelessness or housing instability and other family stabilization services to remove barriers to employment, (2) expanding the number of child care slots, (3) increasing child care provider rates, and (4) providing a Work Incentive Nutritional Supplement to working families. These programmatic changes have allowed the state to meet federal work participation requirements—avoiding over $1.1 billion in potential penalties.

CalWORKs grant levels were gradually increased beginning in 2014, and with the next scheduled increase in April 2019, grant levels will reach an all-time high. For a family of three, maximum aid payment levels in 2019 will be over 23 percent higher than 2011 levels, as shown in Figure HHS-03. Also noteworthy was the repeal of the maximum family grant rule in 2017—under the rule, grants were not increased when a child was born into a family already receiving aid.

Figure HHS-03
CalWORKs Monthly Maximum Aid Payment Levels
(For a Family of Three)



Additionally, the Budget establishes a Safety Net Reserve Fund for CalWORKs and Medi-Cal to maintain program services and benefits in economic downturns. The Budget includes an initial transfer of $200 million from the General Fund to the Safety Net Reserve Fund, CalWORKs Subaccount. The Department of Finance, in consultation with DSS, DHCS, and the Legislative Analyst's Office, will present a methodology to the Legislature to determine future transfers to and distributions from the fund.

Child Welfare and Foster Care

The state began the Continuum of Care Reform (CCR) in 2015, which emphasizes home-based, family care placements with supportive services rather than group home care placements for children in foster care. The goal of these efforts is to improve child welfare outcomes for children and families through the development of preventive services to help keep children safely in their homes, when appropriate. Changes include: (1) input from the child, parents, and caregivers in case planning and case management, (2) a streamlined resource family approval process, (3) improvement in the retention and recruitment of caregivers, and (4) wraparound services, including mental health services to help support successful placements and reunifications. Initial funding for CCR was included in the 2015 Budget Act, and the Budget includes approximately $248 million General Fund to continue these efforts, including $35.8 million in one-time funding for foster parent retention, recruitment and support; to eliminate the backlog of foster care resource family applications; and provide additional support to implement a tool that assesses a child's level-of-care needs. Over the long term, local agencies should realize net savings from significant reductions in foster care assistance expenditures as group home placements will gradually transition to home-based family care settings.

Community Care Licensing

Beginning with the 2014 Budget, additional resources have been provided for the Community Care Licensing program to improve program quality, strengthen enforcement, and increase the frequency of licensed community facility inspections. The additional funding, which totals approximately $27 million ($21 million General Fund) and 240 positions in the Budget, provides the necessary resources for DSS to perform inspections of child care facilities every three years; children's residential care facilities every two years; and adult and senior care facilities every year. The Budget also includes $26.2 million from the federal Child Care and Development block grant in both 2018-19 and 2019-20 to ultimately achieve annual inspections for child care facilities.

Eliminate SSI Cash-Out

The Budget includes one-time funding of $230 million General Fund to eliminate the SSI cash-out policy no later than August 1, 2019, expanding federal funding for food assistance while holding harmless households potentially affected by the change. Prior to this change, individuals receiving SSI did not receive CalFresh benefits and their income was not counted in the benefit calculations for CalFresh households. These individuals instead were given a $10 monthly supplemental SSI/SSP benefit. Elimination of this policy results in approximately 370,000 households becoming newly eligible for CalFresh benefits, with an additional 45,000 households receiving an increase in CalFresh benefits.

Significant Adjustments:

- CalWORKs Grant Increase—The Budget increases CalWORKs grant levels by 10 percent, beginning April 1, 2019, with General Fund costs of $90.1 million in 2018-19 and

$359.9 million annually thereafter. This increase will bring grant levels to 45 percent of the federal poverty level. Additional increases may be considered beyond 2018-19 until grant levels reach at least 50 percent of the federal poverty level. Any such increases would be subject to an appropriation of funds.

- Home Visiting Initiative—The Budget includes $26.7 million for a voluntary CalWORKs Home Visiting pilot program, which will provide pregnant women and families with a child under the age of two with home visitation services for up to 24 months, with priority given to first-time pregnant women and parents. The goal of the home visiting pilot is to help young families reach self-sufficiency by improving family engagement practices, supporting healthy development of young children living in poverty, and preparing parents for employment. The pilot will leverage existing, evidence-based program models currently being implemented across the state. A total of $131.6 million in one-time federal Temporary Assistance for Needy Families block grant funds is being reserved for the pilot's total costs through calendar year 2021.

- Services to Address Homelessness—The Budget includes over $47 million General Fund to expand and enhance services to families and seniors experiencing or at risk of homelessness, including: (1) an increase of $24.2 million in 2018-19, to help CalWORKs families secure permanent housing, increasing total funding from $47 million to $95 million annually beginning in 2019-20, (2) an increases in the daily payment rate for temporary housing assistance from $65 to $85, effective January 1, 2019, with costs of $8.1 million in 2018-19 and $15.3 million annually thereafter, (3) one-time funding of $15 million General Fund to establish a three-year pilot program, with local matching funds, designed to provide housing-related supports to seniors experiencing or at risk of homelessness.

- IHSS Provider Paid Sick Leave—The Budget includes $29.3 million General Fund to reflect implementation of eight paid sick leave hours for IHSS providers beginning on July 1, 2018. Accrued paid sick leave hours will increase to 16 hours and 24 hours annually when the state minimum hourly wage reaches $13 and $15, respectively. General Fund costs are projected to grow to $131.2 million by 2022-23.

- Immigration Services—The Budget includes a total of $65 million General Fund, including one-time funding of $17 million, for the Immigration Services Program to provide a broad array of legal services and remedies related to immigration status for individuals and families. The one-time funds will be used primarily to assist unaccompanied undocumented minors and other minors in removal proceedings, current and past beneficiaries of federal temporary protected status, and persons on California State University campuses.
The Budget also includes $10 million one-time Proposition 98 General Fund to provide immigration legal services to students on California Community College campuses,

as well as a one-time augmentation of $4 million General Fund to provide legal services for persons on a University of California campus. Together, the Budget provides $79 million General Fund for immigration services in 2018-19, and $48 million ongoing thereafter.

- Foster Care Support—The Budget includes various increases to support foster youth and their caregivers, including: (1) $13.4 million TANF to provide caregivers with up to six months of emergency assistance payments pending their approval as a resource family, (2) $16.8 million General Fund to eliminate the backlog of foster care resource family applications and support the implementation of a tool to assess a child's needed level of care, and (3) $4 million General Fund to expand eligibility for Chafee education and training voucher grant awards to former foster youth up to age 26.

Mental Health Services

In California, mental health services are primarily provided in the community through county-run systems, with significant state and federal funding participation.

State General Fund support for community-based mental health services was first realigned to the counties in 1991. In 2004, the voters passed Proposition 63, which generates revenues from a personal income tax surcharge of 1 percent on taxable income of over $1 million to further support community mental health services. 2011 Realignment completed the transfer of General Fund for community mental health services to the counties, and the remaining responsibility for mental health managed care and Early and Periodic Screening Diagnosis and Treatment-Specialty Mental Health Services. Those community mental health programs previously funded in 1991 Realignment now receive constitutionally protected revenue as part of 2011 Realignment. Further, the state's implementation of the Affordable Care Act expanded both mild-to-moderate mental health services as well as the population covered under Medi-Cal.

Funding for county mental health programs include over $1.8 billion in Proposition 63-Mental Health Services Fund, $1.4 billion from the 2011 Realignment Behavioral Health Subaccount (which also includes funding for substance use disorder and Early and Periodic Screening Diagnosis and Treatment-Specialty Mental Health services), and approximately $4.8 billion in General Fund and matching federal funds through the Medi-Cal program. Additionally, mental health services are provided by the Department of State Hospitals and the California Department of Corrections and Rehabilitation for individuals under their jurisdiction.

Despite recent efforts that have focused on mental health services, many challenges remain. A particularly challenging area is the cross section between the mental health and criminal justice systems. Specifically, the state has seen a drastic increase in incompetent to stand trial referrals to state hospitals. The state has also experienced a growing homeless population, which has a high prevalence of mental illness (and co-occurring substance use disorder issues). The Budget provides more than $450 million in new funding with the goal of enhancing local mental health efforts, decreasing homelessness, and reducing the number of individuals with mental illness involved in the criminal justice system—including the number of individuals incarcerated in county jails and state prisons, as well as those awaiting placement in state hospitals.

Significant Adjustments:

- Incompetent to Stand Trial Diversion—The Budget includes $100 million General Fund over three years for the expansion and development of county diversion programs, with the majority of funding going to the 15 counties with the highest referrals to state hospitals. In addition, targeted funding of approximately $15 million will be provided to Los Angeles County—the county with the highest number of severely mentally ill individuals and the majority of referrals to state hospitals—as well as $5 million Mental Health Services Fund over two years to help counties develop innovative plans to increase access and quality of county mental health services. These augmentations will help mitigate the incompetent to stand trial pending placement list, which is currently over 800 individuals.
- No Place Like Home—The Budget places the No Place Like Home program on the November 2018 ballot to accelerate the issuance of $2 billion in bond funds. The bonds will help provide housing for individuals experiencing mental illness who are homeless or at risk of homelessness and will be repaid from the Mental Health Services Fund. The Department of Housing and Community Development will issue an initial Notice of Funding Availability prior to November and make awards before the end of the calendar year contingent on voter approval of the measure.
- Children's Mental Health Mandate Repayment—The Budget includes repayment of approximately $254 million plus interest for repealed state mandates related to services provided by counties to seriously emotionally disturbed children (AB 3632). The Administration expects counties to use this funding for early intervention and prevention of mental health services for youth, with an emphasis on teens.
- Homeless Mentally Ill Outreach and Treatment—The Budget includes a one-time augmentation of $50 million for the Department of Health Care Services to provide counties with targeted funding for multi-disciplinary teams to provide intensive outreach, treatment

and related services for homeless persons with mental illness. This type of intervention is expected to result in earlier identification of mental health needs, prevention of criminal justice involvement, and better coordination of care for this population at the local level.

- Workforce Education Training—The Budget includes a one-time augmentation of $10 million Mental Health Services Fund for the Office of Statewide Health Planning and Development for targeted investments to support stipends for Psychiatric Nurse Practitioners, Clinical Psychologists, and Social Workers and increase education capacity for Psychiatric Nurse Practitioners.
- Childhood Trauma—The Budget includes $10 million one-time Mental Health Services Fund for the Department of Public Health to support a three-year All Children Thrive pilot program to address childhood trauma. This targeted investment will be used to provide up to 12 cities and counties with grants to implement local public health strategies to prevent childhood trauma.
- Suicide Hotlines—The Budget includes $4.3 million ongoing Mental Health Services Fund for the Department of Health Care Services to contract with a suicide hotline provider for statewide access to suicide prevention services.
- Criminal Justice Involved Mental Health Coordination—The Budget includes $945,000 Mental Health Services Fund for the Council on Criminal Justice and Behavioral Health to help address the prevalence of mental illness within the criminal justice-involved population. Of this amount, $795,000 ongoing will be used for stakeholder advocacy contracts, and associated program administration, to support mental health outreach and services for criminal justice-involved populations. In addition, the Budget includes $150,000, for three years, for the Council to consult with the Department of State Hospitals on the evaluation of counties' plans that are submitted under the Incompetent to Stand Trial Diversion program.
- Veterans Mental Health—To help address the mental health needs of California's veterans, the Budget includes an increase of $1 million ongoing Mental Health Services Fund to the California Department of Veterans Affairs to increase access to mental health services for veterans.
- Immigrant and Refugee Mental Health—The Budget includes $670,000 ongoing Mental Health Services Fund for the Mental Health Services Oversight and Accountability Commission to provide stakeholder advocacy contracts that support mental health outreach and services for immigrant and refugee populations.

Department of Developmental Services

The Department of Developmental Services provides individuals with developmental disabilities a variety of services that allow them to live and work independently or in supported environments. California is the only state that provides developmental services as an individual entitlement.

Following a moratorium on developmental center admissions beginning in 2012, the state has made various investments through dedicated funding in the regional centers' community placement plan, the development of new community facility models and state-operated community crisis homes, and state-operated mobile crisis teams. In addition, many recession-era cuts have been restored, such as a 4.25-percent provider rate reduction from 2009, restoration of the Early Start program, and removal of the respite cap policy. Also, a significant ongoing augmentation to service provider rates was made through Chapter 3, Statutes of 2016 (ABx2 1), which is estimated to cost approximately $295.6 million General Fund in 2018-19.

Despite cost-saving reductions made during the Great Recession, the Department of Developmental Services' General Fund expenditures have grown from $2.6 billion in 2010-11 to $4.2 billion in 2018-19, an increase of 61.5 percent. During the same period, the Department's caseload in the community program has grown by 37 percent, from approximately 243,000 consumers in 2010-11 to an estimated 333,000 consumers in 2018-19. The planned closure of the Department's state-operated developmental centers (except for the secure treatment area at the Porterville Developmental Center and the Canyon Springs community facility) has resulted in caseload decreasing in the developmental centers by 85 percent, from 2,151 residents in 2010-11 to an estimated 323 residents by June 30, 2019, as residents transition to receiving services in the community.

Significant Adjustments:

- Bridge Funding for Service Providers—The Budget includes one-time funding of $25 million General Fund for a targeted rate increase for direct care service staff. The funding provides a limited-term increase in advance of a 2019 rate study. The study will address current methods for setting rates, including a comparison of the fiscal effects of alternative rate setting methods; how vendor rates relate to consumer outcomes; and whether the current method of rate setting leads to an adequate supply of providers.
- Uniform Holiday Schedule Suspension—The Budget includes $29.3 million General Fund on a one-time basis to suspend the 14-day Uniform Holiday Schedule statute.

- Provider Rate Increase—The Budget includes an increase of $17.7 million General Fund to provide a rate increase for Home Health, Intermediate Care Facility-Developmentally Disabled, and Pediatric Day Health Care providers. This adjustment is consistent with increases provided in the Department of Health Care Services' Medi-Cal program.
- Minimum Wage—The Budget includes an increase of $245.4 million ($133.7 million General Fund) to reflect the impact on providers of the state minimum wage. This amount includes the increases of the hourly wage to $12.00, effective January 1, 2019.

Department of Public Health

The Department of Public Health is charged with protecting and promoting the health and well-being of the people of California. Public Health expenditures in 2018-19 are $3.2 billion ($170 million General Fund).

There have also been various ongoing and one-time General Fund augmentations in recent years focused in the following areas: sexually transmitted diseases, hepatitis, opioid overdose, Parkinson’s disease, Amyotrophic Lateral Sclerosis, Alzheimer’s disease, diabetes, valley fever, and human immunodeficiency virus (HIV). Additional ongoing special fund investments are supporting dental disease prevention for children, cannabis regulation, and increased licensing staff for health facilities.

Significant Adjustments:

- Public Health Investments—The Budget includes $11.4 million General Fund for the following ongoing health expenditures: expansion of Black Infant Health Program services in the California Perinatal Equity Initiative ($8 million); Alzheimer’s disease research ($3.1 million); and $300,000 to backfill a loss of federal funds for the Office of Binational Border Health. The Budget also includes $23.5 million General Fund for the following one-time public health expenditures: services for individuals diagnosed with Amyotrophic Lateral Sclerosis ($9 million); human immunodeficiency virus prevention ($5 million); outreach and research for valley fever ($5 million); diabetes prevention and treatment ($2.5 million); and sexually transmitted disease prevention ($2 million).
- Implementation of the Medicinal and Adult Use Cannabis and Regulation Safety Act—The Budget contains $11.1 million and 28.5 positions in 2018-19 for Public Health to continue implementing the requirements of the Act. In total, Public Health has $26.6 million and 112.5 positions related to cannabis regulation in 2018-19.

Public Safety

The Budget includes the following changes related to California's correctional system and local public safety.

California Department of Corrections and Rehabilitation

The California Department of Corrections and Rehabilitation incarcerates the most violent felons, supervises those released to parole, and provides rehabilitation programs to help them reintegrate into the community. The Department provides safe and secure detention facilities and necessary support services to inmates, including food, clothing, academic and vocational training, as well as health care services.

The Budget includes total funding of $12.1 billion ($11.8 billion General Fund and $334 million other funds) for the Department in 2018-19. Including capital outlay, General Fund spending for the Department represents 8.6 percent of total General Fund spending, compared to a peak of 11.4 percent in 2011-12.

The Budget reflects a projected average daily adult inmate population of 126,890, average daily parolee population of 48,535, and average daily juvenile population of 646 in 2018-19. These estimates include the anticipated population changes resulting from the implementation of Proposition 57, the Public Safety and Rehabilitation Act of 2016.

Achieving Durable Population Reductions and Improving Public Safety

In 2011, the U.S. Supreme Court upheld the federal three-judge panel's order requiring the Department to reduce the prison population to 137.5 percent of the prisons' design capacity by June 2013, which was subsequently extended to February 28, 2016. In January 2011, the adult inmate population totaled 162,000—approximately 178 percent of design capacity. As this Administration's first major prison reform, the state passed Chapter 15, Statutes of 2011 (AB 109), to meet the court-ordered population cap. This landmark legislation helped ease prison crowding and reduced state spending on prisons by shifting responsibility for lower-level offenders to counties. Counties are provided approximately $1.5 billion annually to support this offender population.

AB 109 reduced the prison population in a manner that avoids early release and gives offenders the best chance at successful reintegration into their communities. Keeping offenders closer to their communities and linking them to post-release services is pivotal to reducing the offender population and maintaining a durable solution to the prison population cap set by the three-judge panel. In the first six months following passage of AB 109, the California Department of Corrections and Rehabilitation's inmate population dropped by more than 21,000 inmates.

Upon implementation, the Department carefully examined its inmate classification and custody designation system, and modified its processes to reclassify offenders into lower housing levels. This change allowed more inmates the opportunity to access programs and enabled the Department to house inmates in less restrictive environments, resulting in safer and more efficient prisons. Gymnasiums are no longer used to double or triple-bunk offenders and have been returned to activity centers that now serve as recreational and rehabilitative programming space for inmates. The alleviation of prison crowding has allowed rehabilitative programs to become a key focus of the prison system, and the construction of three infill housing projects allows level II inmates to be housed in dorm-style facilities that are more conducive to the Department's rehabilitation efforts. The ongoing construction of new space associated with the Healthcare Facility Improvement Project also allows for significant improvements in the delivery of health care in a custodial setting.

In addition to AB 109, other efforts were undertaken to reduce the prison population, including population reduction measures ordered by the federal three-judge panel on February 10, 2014, voter-approved initiatives aimed at reducing the prison population, such as Proposition 36 in November 2012 and Proposition 47 in November 2014, and the Governor signing into law a youthful offender parole hearing process for offenders who committed their crime before the age of 26. The court's February 10, 2014 order reaffirmed that the Department would remain under the jurisdiction of the court for as long as necessary to continue compliance with the final benchmark of 137.5 percent of design capacity and establish a durable solution. The prison population has been below the court-ordered cap since February 2015.

Despite all the changes above, the fall 2016 adult inmate population projections estimated that the population would continue to increase by approximately 1,000 inmates per year, making it difficult for the state to maintain compliance with the court-ordered cap.

The Governor sponsored Proposition 57, the Public Safety and Rehabilitation Act of 2016, to establish a durable solution to prison crowding, end federal court oversight, and create more incentives for inmates to participate in rehabilitative programs. Proposition 57 also reforms the juvenile and adult criminal justice system in California by creating a parole consideration process for non-violent offenders who have served the full term for their primary criminal offense in state prison, authorizing the Department to award credits earned for good conduct and rehabilitative or educational achievements, and requiring judges to determine whether juveniles charged with certain crimes should be tried in juvenile or adult court.

The Department implemented emergency regulations in April 2017 to exercise its authority to award credits provided by the proposition and final regulations were approved in May 2018. Proposition 57 is now estimated to reduce the average daily adult inmate population by approximately 5,800 in 2018-19, growing to an inmate reduction of approximately 11,200 in 2020-21. These figures remain subject to considerable uncertainty.

The implementation of Proposition 57 and other population reduction measures mentioned above will allow the Department to eliminate the use of out-of-state contract beds. By the end of the 2017-18 fiscal year, all inmates will be removed from one of the two remaining out-of-state facilities. The final out-of-state facility is scheduled to close by the end of January 2019, effectively returning all inmates from out of state.

Public Safety through Inmate Rehabilitation and Reentry

The goal of the Administration's prison reforms has been to not only reduce the overall population and meet the court-ordered population cap, but also to give offenders greater opportunity for rehabilitation, thereby improving offender outcomes and increasing public safety. After years of recession-era cuts to offender rehabilitation programs, building population reductions around increased programming takes increased investments—especially given that much of Proposition 57 is premised around offenders earning their way out of prison through achievement credits. Over the last several years, programs have been reestablished to prior levels.

In-Prison Rehabilitation

Investments in rehabilitation programs create a safer prison environment and give inmates the educational and social skills they need to transition back into the community. Rehabilitation improvements include the following:

- Substance use disorder treatment programs have been expanded to all state prisons.
- Other cognitive behavioral treatment programs, including criminal thinking, family relationships, and anger management, have been expanded to all state prisons.
- Academic education classes are offered at all state prisons.
- Career technical education is available in all state prisons and recent budgets have included resources to expand programming slots to serve more offenders. Internet access has also been added in career technical education classrooms to maintain industry standards and certifications.
- There have been increased investments in Arts-in-Corrections with programs in all state prisons.
- Local community colleges now offer in-person college courses at all state prisons, with the exception of the California Health Care Facility.
- The Department has implemented an innovative, television-based education program to reach offenders not traditionally eligible or capable of attending in-person programs.
- Innovative programming grants have been used to encourage non-profit providers to expand their programs and services to traditionally hard-to-reach and underserved institutions.
- Programs have been expanded that are specifically tailored to long-term offenders, including substance use disorder mentor certification training and cognitive behavioral treatment specifically for offenders subject to review and release by the Board of Parole Hearings.

Reentry and Post-Release Rehabilitation

While the above in-prison programs and others are largely focused on the rehabilitative aspects of preparing for release, additional investments have been made to provide offenders with basic necessities prior to release and to link them with community services upon release.

- The Cal-ID program has expanded to all state prisons. Cal-ID establishes a process for inmates who are being released to obtain a California State Identification Card, which is critical for inmates transitioning into the community. For example, a state-issued identification card is needed to enroll in Medi-Cal and obtain services. The Budget includes legislation to further expand the Cal-ID program to the state's juvenile facilities.
- The state is also pre-enrolling state inmates into Medi-Cal prior to release, which makes them immediately eligible for these services upon release. The Department is estimated to have approximately 48,500 offenders on active parole in 2018-19 and approximately 85 percent will be eligible for Medi-Cal.
- Transitional preparation courses focused on job-readiness and financial literacy have been expanded to all state prisons.
- A voluntary community reentry program was established to allow eligible participants to serve the last year of their sentence in community-based reentry centers while being directly linked to a range of rehabilitative services, including substance use disorder treatment, employment, education, housing, family reunification, and social support in their community of release in lieu of confinement in state prisons.
- A new transitional housing program was established for long-term offenders to provide housing, meals, support services, resources and peer-driven programming during the first 6 to 12 months after release.

Continuing to Advance Rehabilitation

The Budget includes $462.6 million General Fund specifically for the Division of Rehabilitative Programs, compared to approximately $300 million in 2012-13. As a per-offender investment, this exceeds pre-recession levels that were the peak of rehabilitation funding. The Division prepares offenders for release by offering various programs and services that promote positive in-prison behavior and support their rehabilitative efforts to provide a better opportunity for them to reintegrate into society. While offenders are prioritized if they are within four years of release and have a moderate-to-high risk to reoffend and a moderate-to-high need for services, the expansion of rehabilitative programs and reentry services to all prisons has allowed more inmates to participate in programs to help them prepare for community reintegration. The changes made under the authority provided by Proposition 57 encourage additional participation in programs and services, making for a safer prison environment and better success for inmates upon release.

To build upon prior investments made, the Budget includes the following augmentations:

- Correctional Counselor I Ratios—$13.5 million General Fund to reduce the current offender to Correctional Counselor I ratio of 150:1 to 135:1 to provide enhanced rehabilitation and program enrollment assistance to the offender population. This results in the addition of 89 Correctional Counselors to focus on core needs including reentry into the community.
- Career Technical Education—$6.7 million General Fund to expand Career Technical Education programming to 13 additional sites and offer 338 additional programming slots and $1.5 million General Fund for related equipment replacement. Career Technical Education programming provides participants with education aligned with state boards or national organization certifications. The Career Technical Education program can currently serve approximately 9,100 offenders annually with a moderate-to-high employment need and focuses on offenders who are within four years of their expected release. Additional resources are provided for equipment replacement to maintain alignment with industry standards and equalize equipment across all institutions.
- Self-Help Groups—$2.5 million General Fund to provide support for inmate activity groups now eligible for rehabilitative achievement credits under Proposition 57. Participation and waitlists have grown significantly since the implementation of Proposition 57. This funding expands inmate activity group programs from 1,100 programs in 2016-17 to over 3,000 programs by 2018-19. These programs are designed to enhance public safety by engaging offenders in self-improvement programs and personal preparation for reentry. Providing incentives to inmates to participate in rehabilitative programming also reduces inmate misconduct and violence in the prisons, yielding safer conditions for inmates and staff.
- Rehabilitative Programming Grants—$4 million Inmate Welfare Fund to provide rehabilitative programming grants to non-profits that provide programs that have demonstrated success and focus on offender responsibility and restorative justice principles. The grant resources will improve access to rehabilitative programming, treatment, and services and increase the percentage of offenders served.

Statewide Prison to Employment Initiative

The Budget includes $16 million General Fund for the Statewide Prison to Employment Initiative, a partnership of the California Workforce Development Board, the California Department of Corrections and Rehabilitation, and the California Prison Industry Authority, that will provide services for regional and local planning and implementation to integrate reentry and workforce services and direct services to the formerly incarcerated. This initiative is designed to accelerate the alignment of correctional education, training, and increased workforce system collaboration.

Firefighter Training and Certification Program

The Budget includes $26.6 million General Fund to establish a Firefighter Training and Certification Program for ex-offenders to provide the necessary education and training to become a firefighter. The program creates a training center at the Ventura Conservation Camp for 80 ex-offenders annually with job skills to succeed post-incarceration. The California Conservation Corps will be the employer of record and provide the base wages and benefits consistent with other Corps members. The California Department of Forestry and Fire Protection (CAL FIRE) will be responsible for the administration of the facility, fire training, and certification.

The California Department of Corrections and Rehabilitation and CAL FIRE will jointly select participants for the program, and CAL FIRE will recommend individuals that are housed at fire camps while incarcerated. The 18-month program will consist of three phases: phase one is a three-month orientation training that includes completion of life skills training, any required treatment programs, and basic forestry and firefighting courses; phase two will include three months of firefighter training to complete advanced, comprehensive industry firefighter courses and certification; and phase three is a Type I Fire Crew assignment for 12 months, during which participants will gain the necessary hands-on work experience component of the program.

Upon completion of the program, participants will be qualified through experience and certifications to apply for entry-level firefighting jobs with local, state, and federal firefighting agencies. In addition, the program will allow up to 20 California Conservation Corps members to participate in training courses at the facility.

Drug and Contraband Interdiction

The prison drug trade strengthens prison gangs and leads to disputes among inmates that can escalate into violence. Such violence often leads to security lock-downs which interfere with rehabilitation by restricting inmate access to programming. In recent years, the Department has made a sustained effort to eliminate drug use in prison, such as by expanding substance use disorder treatment to all state prisons in order to reduce the demand for drugs. However, to successfully reduce the presence of drugs in prison the Department must focus not just on reducing demand, but also on reducing the supply.

Most other states and the Federal Bureau of Prisons search all packages and persons entering prison grounds. To measure the efficacy of such efforts in California prisons—one of the largest state prison systems in the nation—this approach will be tested to determine the effect it has on the introduction of drugs and contraband, as well as overdoses associated with the presence of illegal drugs in prisons.

The Budget includes $9.1 million General Fund to pilot a comprehensive drug interdiction program and a Medication Assisted Treatment (MAT) program at the Substance Abuse Treatment Facility. The interdiction program will include baggage/parcel and full body scanners at both entrances to deter contraband from entering the prison. It will be operational 24 hours per day, seven days per week, and all staff, volunteers, and visitors will be searched prior to entering the prison. Canine teams, using dogs trained to detect drugs and contraband, will be present as an additional deterrent. The MAT program will complement these efforts and will include access to medications and cognitive behavioral counseling to treat alcohol and opiate use disorders. This comprehensive strategy for reducing both the supply of and demand for drugs is intended to reduce the influence of prison gangs, prevent inmate violence, increase safety for staff and inmates, and promote a drug-free rehabilitative environment.

Employee Training

As discussed, many of this Administration's efforts have focused on rehabilitating offenders. However, to create meaningful change on the overall prison environment, there is a need to also focus on the wellness and training of the prison workforce.

The Budget includes $12.9 million General Fund for additional training initiatives to bolster the Department’s investment in workforce development. This funding will support additional training for peace officers on topics such as ethics, sexual harassment, procedural justice, and implicit bias. In addition, the funding will support specialized training for Special Agents and

Investigative Unit staff in criminal investigations, training designed to assist with the transition of officers to supervisory roles, and training to strengthen skills of existing supervisors and managers. The Department will implement these initiatives through the following operational changes:

- Expanding the Correctional Officer Academy by 1 week for a total of 13 weeks.
- Expanding the annual institution staff off-post training by 8 hours for a total of 48 hours.
- Creating a Command College for Captains, Associate Wardens, Chief Deputy Wardens and Superintendents.
- Utilizing Peace Officer Standards and Training certified courses to train Special Agents and Investigative Services Unit staff.
- Increasing Advanced Supervision training by 1 week to 3 weeks.

Support for Aging Infrastructure

A prison system that is safe for inmates and staff requires investments in infrastructure to provide the necessary space and tools to operate effectively. While the state has made significant investments in rehabilitation and health care, some of the Department's core infrastructure has deteriorated and improvements must be made. Accordingly, the Budget includes $120.1 million for specific infrastructure investments, and $9 million in deferred maintenance as discussed in the Statewide Issues and Various Departments Chapter.

Roofs and Mold Remediation

California experienced record levels of rainfall in 2017, and severe storms caused significant damage to prison roofs. Failing prison roofs have resulted in damage to electrical systems and housing units, and interruptions in rehabilitation programs, education programs, and mental health treatment. In continuation of the roof replacement funding provided in the 2017 Budget, the Budget includes $60.7 million General Fund to replace roofs at the California Substance Abuse Treatment Facility, Salinas Valley State Prison, and Ventura Youth Correctional Facility and $9 million General Fund for mold remediation efforts at various facilities in 2018-19. This continues a multi-year strategy to address failing roofs, with Calipatria State Prison, California Correctional Women's Facility, and California State Prison, Corcoran being the next priorities. The Budget includes total funding of $153 million General Fund for roof replacements and mold remediation over the next two fiscal years.

Public Safety Communication System

The Department's public safety communication radio system has been in operation for over 28 years and is no longer supported by the manufacturer. These systems have experienced failures, resulting in the inability to effectively communicate within the Department and externally with partner organizations. Over the past several years, the Department has prioritized the replacement of handheld radio devices to the extent possible. The Budget includes $32.9 million General Fund to replace the public safety radio communication system at the remaining nine adult institutions that have not been upgraded, two juvenile facilities, and various fire camps, and provide interoperability to the statewide transportation unit.

Health Care Vehicles

The Department’s fleet consists of approximately 7,700 vehicles, including vans, buses and medical transport vehicles, many of which have exceeded mileage standards set by the Department of General Services. In 2012, the Receiver delegated health care access responsibilities to the Department, which includes providing timely transportation of inmates to health care appointments outside the prisons. Many of the vehicles used to provide transportation are in need of replacement, and the Department lacks a permanent and dedicated vehicle replacement budget. Since 2013-14, the Department has been able to redirect resources to replace some health care vehicles, but more needs to be done. The Budget includes $17.5 million General Fund to replace and purchase additional high-priority health care vehicles.

While this will allow for the purchase and replacement of some health care vehicles, it is a small fraction of the Department’s overall fleet needs. The Department will work with the Department of General Services on a more comprehensive and long-term fleet acquisition plan for consideration.

Juvenile Justice Reform

The Budget includes the following juvenile justice reforms aimed at diverting young offenders from adult prison to the Division of Juvenile Justice to avoid the adult prison environment, especially gang activity.

Age of Jurisdiction

The *Farrell v. Brown* lawsuit began in the early 2000s, and resulted in a complete reform of the state juvenile system, including several legislative changes that were implemented to dramatically reduce the Division of Juvenile Justice population from around 3,000 in 2005 to approximately 1,100 in 2011. To continue population reductions and generate savings, the 2012 Budget changed the age of jurisdiction from 25 to 23 for youths sent to the Division of Juvenile Justice.

New research on brain development and juvenile case law around diminished culpability of juvenile offenders has prompted the Administration to reevaluate this decision. Currently, juvenile court commitments are eligible to be housed at a juvenile facility until the age of 23, and superior court commitments are transferred to an adult prison at the age of 18 if they are not able to finish their sentence by the age of 21. To allow offenders to benefit from rehabilitative programming designed for young offenders and be more successful upon release, the Budget makes two key changes. First, it raises the age of jurisdiction for juvenile court commitments to 25 for youth facing a term of seven years or more. Second, it raises the age of confinement for superior court commitments so that youth who are able to complete their sentence by age 25 can serve their entire term at a juvenile facility, rather than being transferred to adult prison.

Transition-Age Youth Pilot Program

As noted above, the landscape of juvenile sentencing and rehabilitation policy is progressively changing. In addition to juvenile brain development research, other research indicates that emerging adult offenders released from adult prison recidivate at a higher rate than similarly aged offenders released from a juvenile facility. There appears to be widespread interest in treating young adult offenders similar to juvenile offenders. In recognition of the changing philosophy related to the young adult population, the Legislature enacted Chapter 865, Statutes of 2016 (SB 1004), which authorized a five-county pilot program to house young adults aged 18 to 21 in juvenile halls rather than county jails.

These recent changes, including changes made to juvenile sentencing under Proposition 57, have led the Administration to establish a similar pilot program at the state level. The Budget includes $3.8 million General Fund to establish two housing units to support a Transition-Age Youth Pilot Program that would divert a limited number of young adults who have committed specified crimes from adult prison to a juvenile facility. This will allow program participants to benefit from specialized rehabilitative programming designed for young adults with the goal of reducing recidivism. The Department will develop criteria for placement in this program, initially targeting offenders committed to adult prisons between the ages of 18 and 21.

Inmate Medical Care and Mental Health Services

The Budget continues the state's significant financial commitment to improve the Department's delivery of health care services to inmates. The Budget dedicates $3.2 billion General Fund to health care services programs, resulting in inmates having continued access to mental health, medical and dental care that is consistent with the standards and scope of services appropriate within a custodial environment.

Federal Receivership Overseeing Prison Medical Care

In 2005, a federal court established a receivership to oversee prison medical care. To date, the Receiver has transitioned oversight of 17 institutions back to the state. The Budget includes $2.3 billion General Fund for prison medical care. This amount reflects an augmentation of $118.6 million General Fund, including the following:

- Expansion of Hepatitis C Virus Treatment—$105.8 million annually for three years, beginning in 2018-19, to treat all of the approximately 22,000 inmates who are currently infected with Hepatitis C. This augmentation is a result of a new protocol implemented by the Receiver in December 2017 that provides treatment to all inmates in any stage of the Hepatitis C Virus.
- Electronic Health Records System—$8.3 million to complete the integration of an electronic health records system throughout the state's prison system.
- Automated Drug Cabinets—$4.5 million to lease automated drug cabinets for controlled substances and establish a correctional clinic model allowing non-patient-specific medications to be maintained at the clinics where they are distributed to patients.

Increases in Inpatient Mental Health Treatment Bed Capacity

The Budget includes $27.1 million General Fund to address mental health treatment bed capacity issues as well as resources needed to monitor health care data reporting and patient referrals. The Budget addresses mental health treatment bed capacity issues by adding capacity for females and leveraging and relocating existing male bed capacity to maximize flexibility. Specifically, the Budget includes:

- $8.7 million to convert two existing housing units that only provide one level of care to housing units that can transition between different levels of care to accommodate unexpected spikes in the inpatient mental health treatment populations.

- $6.8 million to add 15 Mental Health Crisis Beds and 5 Psychiatric Inpatient beds at the California Institute for Women to address the need for increased capacity.
- $2.4 million to improve patient movement in and out of inpatient treatment beds, and resources for the Department to assume responsibility for the mental health population projections from a court-required consultant.
- $1.2 million to perform utilization management reviews to maximize the use of the Department's inpatient mental health treatment bed capacity.
- $1 million to transfer 20 Mental Health Crisis Beds from Northern California to Southern California to help address the greater need for mental health treatment beds in Southern California.
- $7 million to complete design of 100 new licensed mental health crisis beds at two prisons in Southern California (50 beds at the California Institution for Men in Chino and 50 beds at Richard J. Donovan in San Diego).

In addition, the Budget includes $18.1 million General Fund for contract psychiatry services needed to meet a federal court order to fill at least 90 percent of the state prison system's psychiatry positions. This is one of many staffing efforts the Department has undertaken to increase its ability to fill psychiatry positions. Other efforts implemented in recent years include increasing use of tele-psychiatry, establishing an onboarding program and exit interviews, beginning the use of Medical Assistants to support psychiatry positions with non-clinical tasks, and expanding the use of a fellowship program.

Local Public Safety

The Budget addresses the following local public safety issues.

Law Enforcement Training

The Budget includes $25 million General Fund on a one-time basis for the Commission on Peace Officer Standards and Training for law enforcement training. This amount includes $15 million for use of force and de-escalation training, $5 million for crisis mental health training, and $5 million for grants to support innovative training programs. The funding supports curriculum development and local assistance in the form of subsidies for law enforcement agencies to attend trainings.

The Budget also maintains critical law enforcement training programs, historically funded by the State Penalty Fund, at their 2017-18 funding levels. Specifically, the Commission on Peace Officer Standards and Training remains at $47.2 million, funded by the State Penalty Fund. Because State Penalty Fund revenues continue to decline, the Budget shifts the Standards and Training for Local Corrections program ($17.3 million), administered by the Board of State and Community Corrections, to the General Fund. While protecting law enforcement training, this expenditure shift also provides relief to the State Penalty Fund and avoids the need to further reduce victims programs that have also experienced significant State Penalty Fund expenditure reductions in recent years.

Community Corrections Performance Incentive Grant

The Community Corrections Performance Incentive Grant, Chapter 608, Statutes of 2009 (SB 678), was created to provide incentives for counties to reduce the number of felony probationers sent to state prison. The Budget includes $109.3 million to continue this successful program.

Post-Release Community Supervision

The Budget includes $28.2 million General Fund for county probation departments to supervise the temporary increase in the average daily population of offenders on Post-Release Community Supervision as a result of the implementation of Proposition 57.

Proposition 47 Savings

Voters passed Proposition 47 in November 2014, which requires misdemeanor rather than felony sentencing for certain property and drug crimes and permits inmates previously sentenced for these reclassified crimes to petition for resentencing. The Department of Finance currently estimates net savings of $64.6 million for Proposition 47 when comparing 2017-18 to 2013-14, an increase of $19 million over the estimated savings in 2016-17. These funds will be allocated according to the formula outlined in the initiative.

Judicial Branch

The Judicial Branch consists of the Supreme Court, courts of appeal, trial courts, and the Judicial Council. The trial courts are funded with a combination of funding from the General Fund, county maintenance-of-effort requirements, fines, fees, and other charges. Other levels of the Judicial Branch receive most of their funding from the General Fund. The Budget includes total funding of $5.2 billion ($1.9 billion General Fund and $3.3 billion other funds) in 2018-19 for the Judicial Branch, of which $2.2 billion is provided to support trial court operations. The Judicial Council is responsible for managing the resources of the Judicial Branch.

Two important historical events led to the current trial court system. First, in 1998, California voters passed a constitutional amendment that provided for voluntary unification of the superior and municipal courts in each county into a single, countywide trial court system. By 2001, all 58 counties had voted to unify their municipal and superior court operations. Second, the Trial Court Funding Act of 1997 consolidated the costs of operating California's trial courts at the state level. The Act was based on the premise that state funding of court operations was necessary to provide more uniform standards and procedures, economies of scale, structural efficiency and access for the public.

Trial Court Funding

During the recession, General Fund support for the Judicial Branch was reduced like every area of state government. The state mitigated the impact of the reductions on the Judicial Branch through increased user fees, the redirection of various special funds, and through the expenditure of trial court reserves. During the fiscal crisis, some trial courts were forced to reduce service hours, furlough and lay off employees, and close courtrooms, while other courts were able to fully maintain operations and even provide salary increases.

The disparity in how trial courts handled the reductions highlighted the need for a comprehensive evaluation of the state's progress in achieving the goals outlined in the Trial Court Funding Act of 1997. A working group composed of Administration and Judicial Branch appointees made recommendations to better allocate existing resources. The Chief Justice and the Judicial Council, through a modification of the Workload Allocation Funding Model, have taken significant steps to promote equal access to justice by allocating funding more equitably to the trial courts.

Trial Court Trust Fund Backfill

Civil assessment revenues received by the trial courts have decreased, resulting in a decrease in funding for operations. To help address this decrease in revenue, the Administration has provided a General Fund backfill since 2014-15 based on the shortfall of fee revenue to the Trial Court Trust Fund anticipated in each fiscal year. Backfills have ranged from $31 million to $75 million annually since then. The Budget includes $64 million to backfill a continued reduction of fines and penalty revenue, which is an increase of $9 million compared to 2017-18.

Trial Court Employee Health Benefits and Retirement

The state began consistently funding the increased benefit costs at the trial courts in 2014-15. When the trial courts made progress in implementing the Public Employees' Pension Reform Act of 2013 (PEPRA), the Administration committed to funding future increases related to existing health and retirement costs for trial court employees and retirees. The Budget includes an additional $25 million for trial court employee benefits, which brings the total funding provided by the state to approximately $128 million for these increased costs.

As shown in Figure JUD-01, after making various budget adjustments, 2018-19 trial court funding has increased approximately 19 percent above 2007-08.

Figure JUD-01
Judicial Branch Expenditures
Since 2007-08
(Dollars in Thousands)

Judicial Branch Expenditures by Program	2007-08 Actual	2011-12 Actual	2012-13 Actual	2013-14 Actual	2014-15 Actual	2015-16 Actual	2016-17 Actual	2017-18 Estimated	2018-19 Budget Act
Supreme Court	$44,397	$40,706	$42,678	$43,442	$43,363	$46,324	$44,741	$50,339	$50,708
Courts of Appeal	200,706	199,112	202,020	204,544	211,101	219,274	223,257	242,787	243,872
Judicial Council	130,396	120,601	134,775	132,965	134,104	137,335	126,816	145,487	152,015
Habeas Corpus Resource Center	12,553	12,425	12,617	12,586	12,819	14,525	14,748	16,569	16,641
Facility Program	(49,965)	(173,796)	(195,105)	(236,106)	(320,469)	(374,125)	(385,542)	(478,580)	(462,772)
Staff and OE&E [1/]	*22,634*	*26,534*	*25,951*	*31,202*	*20,926*	*31,544*	*40,921*	65,448	22,650
Trial Court Facility Expenses	*27,331*	*147,262*	*169,154*	*235,569*	*299,543*	*342,581*	*344,621*	413,132	440,122
Trial Courts	3,288,873	2,680,140	2,237,495	2,437,488	2,537,897	2,674,738	2,727,333	2,741,786	2,964,417
Total	**$3,726,890**	**$3,226,780**	**$2,824,690**	**$3,097,796**	**$3,259,753**	**$3,466,321**	**$3,522,437**	**$3,675,548**	**$3,890,425**
Adjustments to Trial Courts	**$3,288,873**	**$2,680,140**	**$2,237,495**	**$2,437,488**	**$2,537,897**	**$2,674,738**	**$2,727,333**	**$2,741,786**	**$2,964,417**
Trial Court Facility Expenses	*$27,331*	*$147,262*	*$169,154*	*$235,569*	*$299,543*	*$342,581*	*$344,621*	$413,132	$440,122
Sub-total, Trial Courts	**$3,316,204**	**$2,827,402**	**$2,808,649**	**$2,873,057**	**$2,837,440**	**$3,017,319**	**$3,071,954**	**$3,154,918**	**$3,404,539**
Trial Court Security Costs [2/]	*(444,901)*	*(496,400)*	*(496,400)*	*(496,400)*	*(496,400)*	*(496,400)*	*(496,400)*	*(496,400)*	*(496,400)*
Adjusted Total, Trial Courts	**$2,871,303**	**$2,827,402**	**$2,808,649**	**$2,873,057**	**$2,837,440**	**$3,017,319**	**$3,071,954**	**$3,154,918**	**$3,404,539**

[1/] The 2018-19 decrease in Facility Program Staff and OE&E is due to a one-time deferred maintenance carryover in 2017-18.

[2/] For comparison purposes, court security costs for 2007-08 are removed from trial court expenditure totals due to the realignment of court security costs in 2011-12 and ongoing.

Investments in California's Court System

A strong court system is a basic function and service of government. Investments in the trial courts complement efforts made by the Judicial Council to improve and modernize court operations, and increase access. In an effort to improve access to justice in California, the Administration has worked with the Judicial Council to improve and modernize services provided by the court system. Such services include expanding language access, self-help services, and case and document management systems to support digital technology in all courts.

The Budget includes the following significant General Fund augmentations:

- Trial Court Operations—In an effort to promote funding equity among the trial courts, the Budget includes $47.8 million to be allocated to trial courts that are below the statewide average percentage of funding compared to their overall need according to the Workload-Based Allocation and Funding Methodology. This augmentation is intended to equalize funding among courts by bringing all trial courts up to the statewide average funding level according to updated case weights.
- Discretionary Funding for Trial Courts—The Budget includes $75 million for allocation to trial courts statewide based on priorities set by the Judicial Council.
- Self-Help Services—The Budget includes $19.1 million to expand self-help services in trial courts to better prepare the increasing number of self-represented litigants, thereby reducing trial court workload by decreasing the amount of clerk time and continuances in these cases. Based on existing investments, this brings the total budget for self-help services to $30.3 million.
- Language Access—Language access is a broad service area for courts that includes many components, such as bilingual staff assistance at clerks' counters and self-help centers, court interpreters in the court room, court websites and forms, and signage throughout the courthouse. The Budget includes an additional $4 million to continue to expand the availability of interpreter services in all courts. The Budget also includes $4 million to advance the implementation of the Strategic Plan for Language Access in California Courts by providing funding for language access training for court interpreters, and for signage and materials in appropriate languages throughout the courts to enhance effective communication for those navigating courthouses.
- Court-Appointed Special Advocate Program—This Program provides grants to train and supervise volunteers assigned by a juvenile court judge to children or youth in foster care. The Budget includes $500,000 for this Program, which will leverage outside investments to directly serve approximately 2,200 additional foster youth.
- California Courts Protective Order Registry—The Registry serves as a central repository of restraining and protective orders which safeguards victims of violence and law enforcement officers in the field. The Budget includes $200,000 to expand the Registry to the remaining seven trial courts.
- Deferred Maintenance—The Budget includes $50 million for deferred maintenance projects at trial courts, as discussed in the Statewide Issues and Various Departments Chapter.

Judgeships

The 2017-18 Budget included the reallocation of four vacant superior court judgeships. Specifically, the Budget reallocated two vacant judgeships from Alameda County and two vacant judgeships from Santa Clara County to Riverside and San Bernardino Counties, respectively. This reallocation shifted judgeships to the areas of the state where workload is highest, but did not increase the overall number of judges.

In a continued effort to address judicial workload needs, the Budget authorizes two additional judgeships in Riverside County ($3.2 million General Fund) and one Justice in the Fourth Appellate District of the Court of Appeal in the San Bernardino/Riverside area ($1.2 million General Fund).

Modernizing California's Court System

Many courts have demonstrated the capacity to adapt and innovate, resulting in programs and practices that save money and better serve the public. The Administration has worked collaboratively with the Judicial Branch to improve access and modernize court operations through innovative approaches.

Court Innovations Grant Program

The 2016 Budget included $25 million General Fund for the Judicial Council to develop and administer a competitive grant program to encourage courts to develop new ways of doing business. The competitive grant program focused on innovations, modernization, and efficiencies in the courts. Grants were awarded to 28 trial courts and one appellate court for a total of 51 projects. Some of the projects include a homeless court program, reentry court, self-help kiosks, a cooperative parenting program, e-filing, and a one family/one judge pilot project. While the grant period is still ongoing, the Administration expects these innovative projects to improve court services and increase court efficiencies.

Online Adjudication of Traffic Infractions

One of the recommendations from the Chief Justice’s Commission on the Future of California’s Court System is to move toward the implementation of a civil model for adjudication of minor traffic infractions by simplifying some of the criminal procedures currently in traffic courts. The Budget includes $3.4 million General Fund for the Judicial Council to implement an eight-court pilot program to begin moving towards this model.

Self-Represented Litigants e-Services Web Portal

The Chief Justice's Commission also recommends increasing and improving assistance for self-represented litigants. The Budget includes $3.2 million General Fund to design, build, and maintain a web portal to enable those without legal representation to research, e-file, and track non-criminal cases online. The Budget also includes resources for the Judicial Council to support and maintain the statewide e-services web portal. This investment will enhance self-help services discussed earlier in this chapter.

Trial Court Case Management Systems

Initiatives to fully automate minute orders in all courtrooms and to better monitor workloads and productivity are challenging to advance due to the outdated case management systems at the courts. In recent years, a total of $16.5 million General Fund has been provided to the Judicial Branch to replace case management systems in various trial courts across the state. This funding enables these trial courts to establish a digital court foundation by implementing a modern and supportable case management system needed to efficiently deliver services to the public.

Fines and Penalties

The court system and numerous other programs rely on funding generated by fines and penalties assessed on court filings and citations. These revenues have fallen dramatically in recent years. In the past, when state funds have faced shortfalls, the solution has often been to further increase fines and penalties. While this approach increases revenues generated by those who pay the amount owed, it places an undue burden on those who cannot afford to pay. This approach has led to an increasing amount of fines and penalties going uncollected. For example, uncollected debt was $5.5 billion in 2008-09 and grew to $10 billion in 2016-17, an 81-percent increase.

Amnesty Program

The 2015 Budget included an 18-month amnesty program that authorized individuals with past due court-ordered debt owed prior to January 1, 2013, related to traffic infractions, to pay outstanding delinquent debt at a 50-percent reduction if the individual met specified eligibility criteria. The amnesty program allowed individuals whose drivers licenses had been suspended due to their failure to pay fines and penalties on traffic offenses to have their license reinstated so they can legally get to work and make their agreed upon payments to the court. According to the Judicial Council, the amnesty program resulted in the resolution of 255,306 amnesty cases, and the collection of $45 million in gross revenue.

Repeal Driver's License Suspensions

While the amnesty program was able to help some, more was needed to help those who cannot afford to pay fines and penalties. One of the collection methods the court can use to collect outstanding debt is to suspend driver's licenses for failure to pay. Often, the primary consequence of a driver's license suspension is the inability to legally drive to work or take one's children to school. Therefore, the 2017 Budget eliminated the statutory provisions related to suspending driver's licenses for failure to pay fines and penalties.

Ability to Pay Fines and Penalties

As referenced above, the Budget includes resources to pilot a program for online adjudication of minor traffic violations. The pilot also expands upon efforts to reduce the ongoing effects of fines and penalties on the lives of those who cannot afford to pay. Specifically, the pilot includes a tool which will recommend a reduction of 50 percent or more of the total amount due and monthly payments of no more than $25 for all defendants who have established their inability to pay through various mechanisms.

Trial Court Construction

The Trial Court Facilities Act of 2002 (SB 1732) transferred responsibility and ownership of court facilities from counties to the state in addition to providing a mechanism and fee increases for funding the construction, maintenance, and repairs of these facilities. In addition, Chapter 311, Statutes of 2008 (SB 1407), was enacted to increase various fees, penalties, and assessments to support the construction, renovation, and operation of court facilities. However, the revenues that were anticipated as a result of SB 1732 and SB 1407 have not materialized in the amounts needed to renew and restore the state's court facilities. Consequently, in 2012, the Judicial Council was forced to halt 17 court construction projects.

Consistent with the transfer of responsibility for court facilities to the state, the Budget includes $32.2 million from the Immediate and Critical Needs Account to complete the design of three courthouse projects in Riverside/Mid-County, Sonoma and Stanislaus, and $1.3 billion in lease revenue bond funding to complete the construction of ten courthouse projects in Imperial, Riverside/Indio, Shasta, Siskiyou, Tuolumne, Glenn, Riverside/Mid-County, Sacramento, Sonoma, and Stanislaus Counties.

This page intentionally blank to facilitate double-sided printing.

Local Government

Redevelopment Agencies

California's redevelopment agencies were created in 1945 so cities and counties could rehabilitate blighted areas and update their infrastructure to accommodate a surging growth in the state's population. Redevelopment agencies received the incremental growth in property tax revenue that otherwise would have gone to cities, counties, special districts, and K-14 schools within the boundaries of redevelopment project areas. Redevelopment agencies often used this revenue to finance bonds which paid for redevelopment activities.

When voters approved Proposition 13, which limited property tax rates to one percent of assessed value and capped the annual growth in assessed values at two percent, local agency revenues were dramatically reduced. To assist locals, the state provided additional property tax revenue to cities, counties, and special districts, redirected from K-14 schools. The state then backfilled the schools' property tax revenue with state General Fund. The state's financial responsibility for K-14 schools grew further as a result of Proposition 98, which established a minimum school funding guarantee met with a combination of property taxes and state General Fund. Any property tax shortfalls are backfilled with state General Fund.

The tax increment financing model that redevelopment agencies used for decades became increasingly unsustainable and by 2010, the redirection of property tax revenue from schools to redevelopment agencies was costing the state $1.8 billion per year. When the Governor assumed office in 2011, the state faced a budget deficit of over $26 billion. Closing the deficit required bold and sweeping decisions, including ending the state's indirect subsidies for redevelopment agencies. Pursuant to Chapter 5, Statutes of 2011 (ABx1 26), and a California Supreme Court decision, the state's approximately 400 redevelopment agencies were dissolved in February 2012, and each was replaced with a locally organized successor agency tasked with retiring the former redevelopment agency's outstanding debts and other legal obligations.

The winding down of the state's former redevelopment agencies continues to be a priority. From 2011-12 through 2016-17, approximately $2.1 billion was returned to cities, $2.6 billion to counties, and $782 million to special districts. The Budget anticipates that cities will receive an additional $944 million in general purpose revenues in 2017-18 and 2018-19 combined, with counties receiving $868 million and special districts $328 million. This is a significant amount of unrestricted funding that can be used by local governments to fund police, fire, housing, and other public services. The Budget anticipates that cities, counties, and special districts will collectively receive more than $1.3 billion per year through 2021-22 in general purpose property tax revenue to continue funding local priorities.

Additionally, approximately $7.4 billion was returned to K-14 schools between 2011-12 and 2016-17, creating corresponding Proposition 98 General Fund savings. The Budget anticipates savings to be $1.5 billion in 2017-18 and $1.6 billion in 2018-19. Added together, the total savings to the state from the dissolution of redevelopment agencies is estimated to be $10.5 billion by the end of 2018-19.

State Mandates

The Budget includes $254 million, plus interest, to repay local agencies for costs owed for three repealed mandates associated with mental health services for severely emotionally disturbed children (AB 3632). These costs were incurred by counties between 2004 and 2011. Local agencies are expected to use the repayment toward early intervention and prevention mental health services for youth, with an emphasis on teens.

These funds are part of a concerted effort to reduce the debt owed to local agencies for mandate-related costs. Previously, the 2014 Budget appropriated $863 million to pay mandate claims and interest that were owed to local agencies for mandated activities performed prior to 2004.

Transportation

California has a vast state transportation infrastructure, that includes 50,000 lane miles of state and federal highways, 304,000 miles of locally owned roads, operation of three of the top five Amtrak intercity rail services in the nation (nearly 900 miles of track), and numerous transit systems operated by 180 local transit agencies. Efficient operation of this vast network is vital to the state's continued economic growth and also serves much of the country, with nearly 20 percent of the goods imported to the United States moving through California ports, highways, and railways. Bottlenecks in the state's trade corridors constrain economic growth and reduce quality of life when Californians spend hundreds of hours in traffic.

When the Governor took office in 2011, slowing transportation revenues, lack of federal funding, and eroding buying power led to several decades of underfunding repairs, leaving little funding available to strategically address the state's future transportation needs or explore transformative solutions that could meet the needs of all Californians. This resulted in roads so degraded that Californians were estimated to be spending an average of $762 annually on additional vehicle repair costs attributable to poor road conditions. The Administration began exploring how to achieve a robust and sustainable transportation infrastructure by advancing high-speed rail and creating new funding programs for transit, bicycling, and walking. However, the state faced ongoing funding challenges in the tens of billions of dollars for the maintenance and repair of core infrastructure—state highways, roads, and bridges. Of the nearly $11.5 billion in ongoing transportation revenues available at the time, about 70 percent was devoted to local streets and roads, transit, capacity expansions, and debt service. While Proposition 1B, The Highway Safety, Traffic Reduction, Air Quality, and Port Security Bond Act of 2006, provided $20 billion in one-time funding, it largely focused on capacity, local streets and roads, and transit.

Repair and maintenance of the state highway system continued to be largely overlooked. As a result, not only did the state's highway system continue to deteriorate, but the one-time bond funding of capacity projects increased ongoing maintenance funding needs.

As the Administration evaluated the need, it began taking several steps:

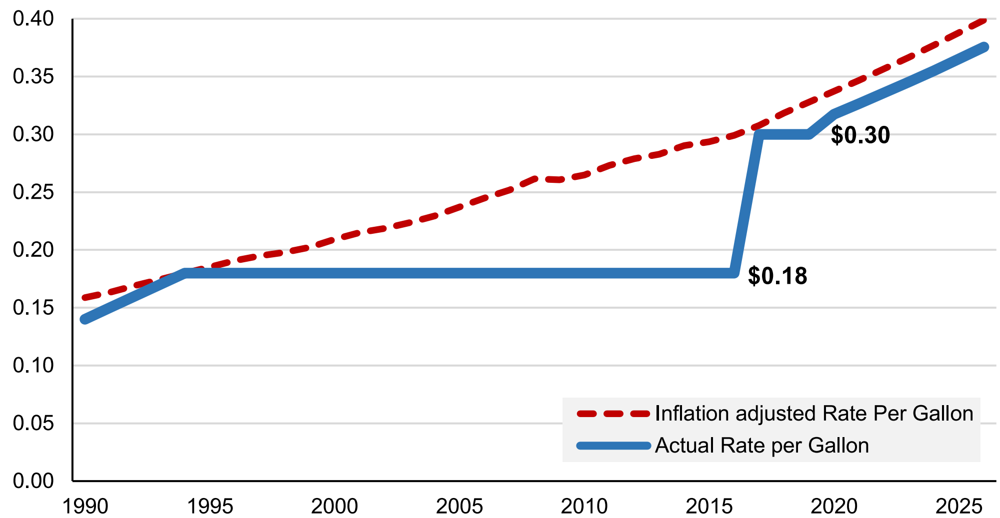
- The 2012 Budget provided the first major appropriations of $5.8 billion in Proposition 1A bond funds and federal funds to begin construction of the backbone of the state's high-speed passenger rail service through the Central Valley, while also appropriating another $1.1 billion to fund improvements to both "bookends" of the shared system.
- In 2013-14, the Administration formed a stakeholder workgroup to reconsider how transportation expenditures are prioritized and to explore long-term pay-as-you-go revenue options.
- In 2014-15, the adopted Cap and Trade Expenditure Plan continuously appropriated 60 percent of annual revenues to address the state's transportation needs, with 25 percent for the state's high-speed rail project, 10 percent towards complementary state and local transit projects through the Transportation Agency's new Transit and Intercity Rail Capital Program, and 5 percent going to fund expanded local transit service, in addition to the 20 percent for the Strategic Growth Council's Sustainable Communities Program to facilitate transit compatible housing and development.
- In 2015-16, the Administration proposed a new transportation funding plan to provide increased, ongoing revenues to address the state's funding shortfall and better target its future commuter and freight needs. Subsequent partnership with the Legislature ultimately resulted in enactment of Chapter 5, Statues of 2017 (SB 1), the Road Repair and Accountability Act of 2017.

Implementing the Road Repair and Accountability Act of 2017

The federal government has not raised the gas tax rate in nearly 25 years, leaving the federal Highway Trust Fund nearly insolvent and aging roads, bridges, and transit systems across the nation in poor condition.

In response to the growing need, the Administration and the Legislature enacted the Road Repair and Accountability Act of 2017 (SB 1), which provides stable, long-term funding for both state and local transportation infrastructure priorities. In doing this, California joined 25 other states that passed fuel taxes, vehicle fees, or other transportation-related fees since 2013 to fix roads and bridges. Like these other states, California faced inflation that had significantly eroded its purchasing power since the state gas tax was last raised in 1994 (see Figure TRN-01). In addition to increased construction and repair costs, gas tax revenues had stagnated as vehicles became more fuel efficient. These factors and declining federal funding left states with a significant shortfall in the resources needed to maintain and improve state and local transportation systems.

Figure TRN-01
SB 1 Restored Lost Purchasing Power for the Gas Tax



SB 1 provides an average of $5.4 billion per year for a strategic mix of state and local transportation projects from a combination of new revenues and accelerated loan repayments. It also includes reforms and accountability measures, and constitutional protections. The new revenues are split evenly between state and local transportation priorities, with an emphasis on a "fix-it first" strategy to repair and maintain the existing transportation infrastructure while also investing significantly in public transit. Voters overwhelmingly passed Proposition 69 in June, which constitutionally protects SB 1 revenues for transportation. SB 1 also includes strong accountability and efficiency requirements so that funds provide the intended results, including the creation of a new independent transportation Inspector General.

This sustained investment over the course of the next decade and beyond will support hundreds of thousands of jobs in California. Over the next decade, the $54 billion transportation package will provide $15 billion for state highway repairs and maintenance, $4 billion in state bridge repairs, $3.3 billion for state trade corridors, and $2.5 billion for the state's most congested commute corridors. Local roads will receive more than $15 billion in new funding for maintenance and repairs and $2 billion in matching funds for local partnership projects. Transit and intercity rail will receive $7.7 billion in additional funding, and local governments will have access to $1 billion for active transportation projects.

The 2017 Budget provided $2.8 billion in new funding from SB 1 for transportation projects, and the Budget includes $4.6 billion in new SB 1 funding. These revenues will be distributed evenly between state and local transportation priorities. Locals will receive $2.3 billion in local project funding in 2018-19, growing to $3.5 billion by 2026-27 (see Figure TRN-02).

Figure TRN-02
Road Maintenance and Accountability Act Funding
(Dollars in Millions)

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

*Revenue derived from fuel purchased for off-road vehicles.

Improvements funded from these new resources are being implemented immediately. To jump start delivery, the California Department of Transportation's (Caltrans) pavement maintenance funding has been increased by approximately $575 million per year. Caltrans has accelerated and programmed 210 highway repair and bicycle and pedestrian access projects to date. Caltrans is also working with the California Transportation Commission to program larger repair and rehabilitation projects. Similarly, cities and counties have submitted over 4,000 proposed projects for which the $1.2 billion in SB 1 funds available in 2018-19, as well as SB 1 funds available in future years, can be used. The California Transportation Commission approved an initial allocation of these funds to cities and counties at its December 2017 meeting.

Over the next five years, SB 1 will increase the resources available for new state highway repair projects from $9 billion to $17 billion. The State Highway Operations and Protection Program (SHOPP), the state's long term highway repair plan, has been increased by $1.6 billion in project funding capacity through 2018-19, with another $7 billion in projects planned from 2019-20 through 2022-23.

Progress Implementing the Road Repair and Accountability Act

Efficiencies

SB 1 requires Caltrans to implement efficiency measures with the goal of generating at least $100 million annually in savings, and report annually to present efficiency savings from the prior fiscal year to the California Transportation Commission no later than September 30 of each year. In January 2018, Caltrans presented an interim report outlining the efficiencies Caltrans identified for fiscal year 2017-18. Caltrans estimates that total savings from the efficiencies identified in its interim report will be between $146 million and $238 million. Caltrans will continue analyzing, evaluating, and monitoring the identified efficiencies throughout the year to determine the extent of monetary savings or cost avoidance. These efficiencies include:

- Expanding the use of the Construction Manager/General Contractor project delivery method.
- Utilizing the value analysis method on federal aid projects with a value of $50 million.
- Using new technology, such as high reflective materials for striping, mobile field devices in construction to streamline the resolution of claims, and replacing high-pressure sodium fixtures with LED lighting on highways statewide.

Reforms and Accountability

SB 1 provides for increased reporting and oversight of transportation revenues:

- The California Transportation Commission reports on both Caltrans and the cities/counties receiving road repair and maintenance funding.

- Caltrans must include condition targets for certain assets (e.g., pavement, culverts, bridges) in its Transportation Asset Management Plan, and requires the California Transportation Commission to hold Caltrans accountable to achieving those targets through regular reporting.
- The Advance Mitigation program was created to accelerate project delivery while meeting applicable environmental requirements; the program is funded with an annual set aside of $30 million for the next four years.
- Office of the Inspector General—SB 1 established an Office of the Inspector General to provide verification and assurance that funds are being used optimally and as the Act intends. The Office also oversees the Department's compliance with the new contracting diversity goals in SB 1. The Governor has appointed the new Inspector General, and the 2017 Budget provided audit staff and funding to support the office's efforts.

Progress on SB 1 Allocations

Local Streets and Roads

The 2017 Budget provided $461 million to all 479 cities and 58 counties for projects that begin addressing their highest repair needs on local streets and roads. Cities and counties began receiving their proportional share of the new revenues together with their base road maintenance funding in early February 2018. The Budget provides $1.2 billion in new SB 1 revenues to cities and counties to continue addressing the backlog of local road repairs (See Figure TRN-03). Cities and counties have identified more than 4,000 local priority projects to fund with these new revenues.

A complete list of city and county Local Streets and Roads program projects can be found at:

http://www.catc.ca.gov/programs/sb1/lsrp/docs/sb1-lsrp-proposed-city-projects-013118.pdf

http://www.catc.ca.gov/programs/sb1/lsrp/docs/sb1-lsrp-proposed-county-projects-013118.pdf

Figure TRN-03

Local Streets and Roads Program - SB 1 Funding

(Dollars in Millions)

County[1]	2018-19	10-Year	County[1]	2018-19	10-Year
ALAMEDA	$46	$578	ORANGE	$94	$1,190
ALPINE	$0	$4	PLACER	$13	$164
AMADOR	$2	$25	PLUMAS	$2	$26
BUTTE	$9	$110	RIVERSIDE	$68	$859
CALAVERAS	$3	$34	SACRAMENTO	$40	$502
COLUSA	$2	$29	SAN BENITO	$3	$33
CONTRA COSTA	$33	$418	SAN BERNARDINO	$64	$806
DEL NORTE	$1	$15	SAN DIEGO	$94	$1,191
EL DORADO	$6	$77	SAN FRANCISCO	$25	$311
FRESNO	$34	$426	SAN JOAQUIN	$23	$296
GLENN	$3	$35	SAN LUIS OBISPO	$10	$127
HUMBOLDT	$6	$76	SAN MATEO	$23	$296
IMPERIAL	$11	$141	SANTA BARBARA	$13	$161
INYO	$3	$39	SANTA CLARA	$57	$721
KERN	$28	$356	SANTA CRUZ	$7	$93
KINGS	$6	$75	SHASTA	$8	$96
LAKE	$3	$37	SIERRA	$1	$13
LASSEN	$3	$36	SISKIYOU	$4	$55
LOS ANGELES	$280	$3,533	SOLANO	$14	$182
MADERA	$7	$87	SONOMA	$17	$209
MARIN	$8	$98	STANISLAUS	$18	$226
MARIPOSA	$2	$21	SUTTER	$5	$56
MENDOCINO	$4	$56	TEHAMA	$4	$49
MERCED	$10	$131	TRINITY	$2	$24
MODOC	$3	$32	TULARE	$18	$228
MONO	$2	$25	TUOLUMNE	$3	$32
MONTEREY	$14	$178	VENTURA	$26	$323
NAPA	$5	$64	YOLO	$8	$98
NEVADA	$4	$46	YUBA	$3	$35
			Total	**$1,202**	**$15,181**

[1] Amount is split 50/50 between the county and the cities within the county

Transit and Intercity Rail Capital Program

The upcoming five-year program from new SB 1 revenues and existing Cap and Trade auction proceeds will provide $2.4 billion in new transit project funding. The program was created to fund transformative projects such as the BART Silicon Valley extension and expanded Los Angeles Union Station capacity, growing ridership and reducing greenhouse gas emissions. The Agency adopted guidelines for the program in October 2017, with project applications received in January 2018, and awards made in April 2018. The Budget provides $330 million in SB 1 funds for these projects.

State Transit Assistance

For 2017-18, in addition to the transit capital project funding, SB 1 provided $286 million for operations for local transit agencies along with the $457 million in other base annual funding. Funds began flowing to local transit agencies in early February 2018, permitting local agencies to improve service for transit riders. The Budget provides an additional $405 million from SB 1 for local transit operations, bringing the 2018-19 total to $834 million.

Local Partnership Program

SB 1 allocates $200 million per year to reward local entities that are making extra investments in transportation. These matching funds support the efforts of cities and counties with voter-approved or imposed fees or taxes dedicated solely to transportation. The California Transportation Commission previously approved the formula portion of the program, which provides $180.6 million for 63 projects. Subsequently, the California Transportation Commission programmed three years of projects (fiscal years 2017-18 through 2019-20) for the competitive program, providing an additional $309 million for 27 projects with a total value of more than $1.7 billion.

> A complete list of projects can be found at:
>
> http://catc.ca.gov/programs/sb1/lpp/docs/032118_LPP_Amended_Formulaic_Program.pdf
>
> http://catc.ca.gov/programs/sb1/lpp/docs/2018_Adopted_CompetitiveLPP.pdf

Active Transportation Program

SB 1 provides $100 million per year in addition to $123 million in base funding for bicycle and pedestrian projects. Following passage of SB 1, the California Transportation Commission augmented the 2017 Program by $192 million to advance existing projects and program new projects. Some of these projects were already programmed in anticipation of when 2019-20 and 2020-21 funds would become available, and SB 1 allowed these projects to advance into 2017-18 and 2018-19. After advancing previously programmed projects, the California Transportation Commission programmed new projects with the additional SB 1 funds, making it possible for 121 new active transportation projects valued at over $437 million to receive funding.

Complete list of projects:

Final Adopted 2017 ATP Augmentation (Metropolitan Planning Organization Component): http://www.catc.ca.gov/programs/atp/2017/final-adopted-program/2017_ATP_MPO_Component-Adopted.pdf

Final Adopted 2017 ATP Augmentation (Statewide Component): http://www.catc.ca.gov/programs/atp/2017/docs/101817_Final-adopted-2017-ATP-Augmentation_Statewide-component.pdf

Final Adopted 2017 ATP Augmentation (Small Urban/Rural Component): http://www.catc.ca.gov/programs/atp/2017/docs/101817_Final-adopted-2017-ATP-Augmentation_Small-urban-rural-component.pdf

Repair and Maintenance of the State Highway System

With the $461 million provided in the 2017 Budget, Caltrans was able to accelerate 117 projects with a value totaling $993 million. Maintenance efforts are projected to fix 67,000 potholes, 5,400 lane miles of cracking and 7,000 spalls along with 765,000 feet of guardrail and 32,000 miles of striping. These funds have been allocated to high priority highway repair projects such as 42 lane miles of rubberized pavement in Santa Barbara County, and 36 lane miles of pavement in Kings County. More highway repair projects are being added and accelerated as part of the 2018 State Highway Operation Protection Program, which was adopted in March 2018. The Budget provides $1.2 billion SB 1 funds to continue addressing the state's highest repair and maintenance needs.

- The California Transportation Commission has awarded, begun construction, or completed an additional 122 projects in the year since SB 1 passed, and has begun design and environmental clearance work on 156 more projects. Caltrans has improved two bridges on U.S. Highway 101 in Santa Barbara County, widened striping for increased visibility on 144 lane miles on State Route 99 in Stanislaus County, and repaired more than 350 lane miles of highway across the state.

- The California Transportation Commission approved Caltrans' new 2018-19 State Highway Operation and Protection Program (SHOPP) plan, the state's main program for highway rehabilitation, in March 2018. As a result of additional SB 1 funding, the $18 billion 4-year SHOPP plan includes 128 additional projects valued at $5.3 billion. Additionally, Caltrans has added 400 field positions to its Maintenance program. By the end of 2018-19, Caltrans is anticipated to have completed almost 100 fix-it-first projects on the state highway system, repairing more than 7,500 lane miles and 132 bridges.

Bridge and Culvert Repairs

SB 1 provides $400 million per year to fund repairs and maintenance on the state's bridge and culvert infrastructure, including such projects as the seismic retrofit of two bridges at the Santa Ana River in San Bernardino County, the Seismic Retrofit of the Salinas River Bridge in Monterey County, the Tower Bridge pier protection replacement in Yolo County, and the replacement of the Cache Creek Bridge in Kern County. It also allowed Caltrans to move forward quickly with projects like the culvert repair around Soda Springs and the sinkhole repair on Interstate 15 in San Diego. More bridge projects will be added and accelerated as part of the proposed 2018 State Highway Operation Protection Program adopted in March 2018.

Commuter Corridors

SB 1 provides $250 million per year for projects to improve capacity and reduce congestion in the state's most congested commuter corridors in a manner that also improves air quality and provides more transportation choices. The California Transportation Commission completed guidelines for this revised program in December 2017, received proposals in February 2018, and selected projects in May. The California Transportation Commission programmed a total of $1 billion over four years (2017-18 through 2020-21) for nine projects with a total value of approximately $3.5 billion.

A complete list of projects can be found at:

http://www.catc.ca.gov/programs/sb1/sccp/docs/2018_Adopted_SCCP.pdf

Trade Corridor Enhancements

The 2017 Budget provided $208 million, with another $308 million in the Budget, for projects that address bottlenecks and improve throughput on the state's most economically important trade corridors. Of this amount, $50 million was appropriated to the Air Resources Board for its competitive Zero/Near-Zero Emission Warehouse Program, which will fund projects that reduce emissions from freight-related sources. For the remainder of these funds, the California

Transportation Commission completed guidelines for this revised program in October 2017, received project proposals in January 2018, and completed project selection in May. The California Transportation Commission programmed approximately $1.4 billion over three years (2017-18 through 2019-20) for 28 projects with a total value of more than $4 billion.

A complete list of projects can be found at:

http://www.catc.ca.gov/programs/sb1/tcep/docs/2018_Adopted_TCEP.pdf

Freeway Service Patrols

SB 1 provides $25 million per year on top of the existing $25 million in base funding for local transportation agencies to fund freeway service patrols that help clear incidents that cause temporary congestion, such as flat tires or vehicles that have run out of fuel. Studies have shown that disabled vehicles cause up to a third of the state's traffic delays.

California Transportation Agency

The Transportation Agency is responsible for developing and coordinating the policies and programs of the state's transportation entities to improve the mobility, safety, and environmental sustainability of California's transportation system.

Significant Adjustment:

- Intercity and Commuter Rail Program—$43 million Public Transportation Account from increased SB 1 diesel sales tax revenues to be allocated by the Agency for operations and capital improvements of intercity and commuter rail services.

High-Speed Rail Authority

High-speed rail service is an essential element of the state's strategy to reduce greenhouse gas emissions while maintaining economic growth through improved mobility options for Californians. When fully operational, the high-speed rail system will avoid the releasing of harmful emissions into the environment, including a reduction in greenhouse gas emissions that is the equivalent of taking some 322,000 vehicles off the road every year.

When the Governor took office, the High Speed Rail Authority had a commitment of $9 billion in state bond funds and $2 billion in federal funds to develop and construct California's first high-speed passenger train service, an estimated $68 billion project. Today, with the commitment of Cap and Trade, bond funds and $3.5 billion in federal funds, the project has broken ground on construction in the Central Valley, where 119 miles of construction is now underway, employing over 2,000 people on more than a dozen construction sites. These early investments in construction have helped the Central Valley economy rebound:

- The $3 billion invested to date in the Valley construction has resulted in $6 billion in economic output;
- 437 small businesses are now working on the project, most of which are California companies;
- In 2016 and 2017, Fresno County alone reported the creation of 9,400 jobs. High-speed rail investment supported 30 percent of the job creation in the county during that time, with 3,100 total jobs created (construction and non-construction).
- From 2006 through 2017, the project has resulted in approximately 28,500 job-years of employment statewide.

Even before project completion, the Authority is working to create the greenest infrastructure project in the nation, both in its construction and its operations. The construction equipment used to build the project is Tier 4 equipment—the cleanest equipment available for heavy construction work. To offset emissions during construction, the authority has committed to purchase clean local school buses and is planting trees in the region of the construction activity. Once complete, the system will be powered by 100-percent renewable energy.

In May 2018, the Authority approved its fourth bi-annual Business Plan, which projected costs to complete Phase 1 at $77.3 billion. The 2018 Business Plan also reflects a strategy to:

- Meet the state's commitments to federal partners by constructing the 119-mile Central Valley Segment and completing the environmental review for all project segments statewide (Merced/San Francisco-Los Angeles/Anaheim) by 2022.
- Invest funds in the Valley-to-Valley segments between Bakersfield and Madera and between Gilroy and San Francisco.
- Complete project development work to refine the design, scope and cost for the Pacheco Pass tunnels to allow operation of the Valley-to-Valley service between San Francisco and Bakersfield by 2029.
- Invest remaining Proposition 1A bookend funds in the Rosecrans/Marquardt Grade Separation Project and the Link Union Station project.
- Leverage state funding to pursue additional federal funding or financing and potential private financing to invest in the development of the high-speed rail system statewide.

The Budget anticipates expenditures of $1.1 billion, including $382.5 million from Proposition 1A (2008), and $749.5 million Greenhouse Gas Reduction Fund, and $750,000 High-Speed Rail Property Fund. Of this amount, $45.4 million is included in the Budget with the remainder provided by previous appropriations or the continuously appropriated Cap and Trade funds.

Department of Motor Vehicles

The Department of Motor Vehicles (DMV) promotes driver safety by licensing drivers, and protects consumers and ownership security by issuing vehicle titles and regulating vehicle sales. Since 2011, the DMV has successfully transitioned operations to comply with major policy changes including implementation of the federal 2005 REAL ID Act, provision of drivers licenses to undocumented Californians under Chapter 524, Statutes of 2013 (AB 60), and the California New Motor Voter Program under Chapter 729, Statutes of 2015 (AB 1461).

- REAL ID—The DMV began offering a REAL ID driver license or identification card as an option to customers on January 22, 2018. The Federal Government set minimum standards for identity verification practices and security features that states must utilize prior to October 1, 2020 if their driver licenses and identification cards are to be accepted "for official purposes" such as accessing secure federal facilities and boarding federally regulated commercial aircraft. DMV has issued over 650,000 REAL ID compliant cards and has processed over a million REAL ID transactions. Over the next five years it is estimated that approximately 23 million Californians will request a REAL ID.
- AB 60—Since 2015, the DMV has been accepting driver license applications from undocumented persons who do not have a Social Security Number, but can instead provide other valid identification documents and proof of California residency as required under AB 60. In March 2018, the DMV issued its one millionth AB 60 Driver License and is currently issuing approximately 10,000 AB 60 licenses a month.
- Motor Voter—On April 23, 2018, the DMV implemented the California New Motor Voter Program which shifted the voter registration process at the DMV from a system where customers would opt-in to register to vote to a system where all eligible voters completing a driver license, identification card, or change of address transaction are automatically registered to vote unless they opt-out. DMV then electronically transmits to the Secretary of State specified information related to voter registration, including the applicant's name, date of birth, address, language preference, and other voter registration related information. In the first few months of implementation, DMV has provided over 450,000 new and

updated voter registration entries to the Secretary of State. As part of the implementation of AB 1461, DMV also incorporated a new electronic driver license and identification card application process to replace the paper application form.

Significant Adjustments:

- IT Software Replacement—$15 million Motor Vehicle Account for the first-year costs of the Front End Sustainability Project, the DMV's five-year $89 million effort to replace its software for registering vehicles and managing service fees and payments. Over the five-year project, the estimated costs include $38 million for the software system contract, $43 million for Department of Technology staff, data center usage, and associated equipment and facilities upgrades, and $8 million for 10 additional DMV staff
- IT Hardware Refresh—$3.1 million Motor Vehicle Account to replace high-priority equipment and hardware that has reached the end of its useful life. This equipment includes servers, as well as network and storage equipment that supports the ability of the DMV to provide reliable services to its customers.
- Clean Vehicle Decal Program—$1.4 million Motor Vehicle Account, including funding for three ongoing positions, for a new clean air vehicle decal program pursuant to Chapter 630, Statutes of 2017 (AB 544).

Natural Resources and Climate Change

Californians are now experiencing first-hand the damaging effects of climate change, with extreme weather events affecting every part of the state. In the past year, the most severe drought in California's recorded history was halted by one of the wettest seasons on record, causing significant flood-related damage. The summer months saw the highest average temperatures in California's recorded history. Between October and December, the combination of increased fuel-loading vegetation from the winter storms, millions of dead trees and extreme winds triggered the most destructive wildfires in the state's history.

These events devastated communities in Northern and Southern California, presenting new challenges and strengthening the state's resolve to combat climate change and design resilient communities.

Combating Climate Change

Over the past several years, the Administration and the Legislature have worked together to enact landmark legislation that establishes California as a global leader in the fight against climate change.

- Chapter 830, Statutes of 2012 (SB 535)—Established a requirement that at least 25 percent of Cap and Trade proceeds be invested in disadvantaged communities disproportionately impacted from environmental pollution.

- Chapter 547, Statutes of 2015 (SB 350)—Doubled the rate of energy efficiency savings in California buildings and requires 50 percent of the state's electricity be generated from renewable sources by 2030.
- Chapter 395, Statutes of 2016 (SB 1383)—Established statewide reduction targets for short-lived climate pollutants.
- Chapter 249, Statutes of 2016 (SB 32)—Established a statewide greenhouse gas (GHG) emission reduction target of 40 percent below 1990 levels by 2030.
- Chapter 545, Statutes of 2016 (SB 1386)—Established a statewide policy for the protection and management of natural and working lands as an important strategy in meeting the state's GHG reduction goals.
- Chapter 250, Statutes of 2016 (AB 197)—Prioritized direct emission reductions from large stationary and mobile sources.
- Chapter 135, Statutes of 2017 (AB 398)—Extended and improves the Cap and Trade Program, which will enable the state to meet its 2030 emission reduction goals in the most cost-effective manner.
- Chapter 136, Statutes of 2017 (AB 617)—Established a new program to reduce emissions from mobile and stationary sources at the neighborhood level in the communities most impacted by air pollutants.

The state's climate programs span all sectors—industrial, electricity, transportation, and natural and working lands. The Renewables Portfolio Standard, Low Carbon Fuel Standard, Cap and Trade Program, Advanced Clean Cars program, Short Lived Climate Pollutant Reduction Strategy, Sustainable Freight Action Plan, and the developing Natural and Working Lands Implementation Plan all serve as models for partners throughout the United States and the world. Throughout the implementation of these programs, the state's population and economy have continued to grow, yet GHG emissions have decreased and per capita electricity consumption remains flat.

California is on track to meet the 2020 goal of reducing GHG emissions to 1990 levels early, giving the state a head start on the 2030 goal. However, California represents only a small fraction of global GHG emissions. To catalyze action throughout the world, the state has partnered with numerous jurisdictions to establish joint agreements to take steps to reduce GHGs and other air pollutants. Over 200 jurisdictions have signed on to the Under 2 MOU, agreeing to take steps to limit temperature increases to less than two degrees Celsius by 2050, the warming threshold at which scientists predict that dangerous climate disruptions will occur. California is also a founding member of the Zero Emission Vehicle (ZEV) Alliance, a group of

14 jurisdictions seeking to collaborate with other governments to expand the global zero-emission vehicle market and enhance government cooperation on ZEV policies. These efforts will combat air pollution, limit global climate change, and reduce oil dependence by increasing ZEV deployment. Closer to home, California is leading the U.S. Climate Alliance's initiative to slash emissions of methane, hydrofluorocarbons, and black carbon. The Climate Alliance recently issued the Short-Lived Climate Pollutant Challenge, inviting all national and subnational jurisdictions, businesses, and other actors to take substantial and immediate action to reduce emissions of these super pollutants.

The Administration is building on these partnerships, hosting the Global Climate Action Summit in San Francisco this fall. The Summit's theme is "Take Ambition to the Next Level", and will bring together leaders from around the globe to launch deeper worldwide commitments and accelerated national action, supported by all sectors of society, to prevent dangerous climate change and achieve the goals of the historic Paris Agreement.

Cap and Trade Expenditure Plan

Since 2013, the state has appropriated $6.9 billion in auction proceeds to support transit and high-speed rail, affordable housing near jobs and services, forest and watershed improvements, healthy soils, recycling infrastructure and home energy efficiency upgrades. Further, the state has prioritized the expenditure of these funds in disadvantaged communities.

The Budget includes a $1.4 billion Cap and Trade Expenditure Plan that invests in programs that further reduce GHG emissions, support climate resiliency efforts, and benefit disadvantaged communities. (See Figure RES-01). This funding is consistent with the following expenditure priorities specified in AB 398:

- Air toxic and criteria air pollutants from stationary and mobile sources.
- Low and zero-carbon transportation alternatives.
- Sustainable agricultural practices.
- Healthy forests and urban greening.
- Short-lived climate pollutants.
- Climate adaptation and resiliency.
- Climate and clean energy research.

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

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

The Cap and Trade Expenditure Plan also supports the Administration's Forest Carbon Plan and Zero-Emission Vehicle Investment Initiative.

Forest Carbon Plan

California's 33 million acres of forestland and its urban forest canopy capture and clean the state's water supply, provide habitat for countless wildlife, cool cities, support local economies, and serve as cultural centers for indigenous and local communities across the state. Forested lands are also the largest land-based carbon sink with trees and underbrush drawing carbon from the atmosphere and storing it in their biomass and in forest soils. Growing evidence, however, suggests these lands will become a source of overall net GHG emissions if actions are not taken to enhance their health and resilience and reduce the threats they face from wildfire, insects, disease, and a changing climate.

Decades of fire suppression, coupled with drought and the effects of climate warming, have dramatically increased the size and intensity of wildfires, and exposed millions of urban and rural residents to unhealthy smoke-laden air. These conditions threaten progress toward meeting the state's long-term climate goals.

Recent wildfires have been the deadliest, most destructive, costliest, and largest in state history, and more than 129 million trees, primarily in the Sierra Nevada, have died from drought and insects since 2010. It is estimated that as many as 15 million acres of California forests need some form of restoration.

The Administration recently released the California Forest Carbon Plan, which serves as a scientific foundation and policy vision for improving the health and resiliency of California's forests against the worsening threats of fire and disease driven by climate change.
The Governor issued an executive order calling for an expansion of forest restoration and management activities in alignment with the Forest Carbon Plan. A Forest Management Task Force has been convened to coordinate these efforts.

The Budget provides $99.2 million to implement key recommendations of the Forest Carbon Plan.

Significant Adjustments:

- Prescribed Fire and Fuel Reduction—$30 million of Cap and Trade funding and 79 positions for CAL FIRE to complete additional fuel reduction projects through the operation of six year-round prescribed fire crews and implementation of a forest health research and monitoring program. This funding supports the Forest Carbon Plan's recommendation to increase the rate of prescribed fire and fuel reduction, allowing CAL FIRE to treat 60,000 acres per year.

- Sierra Regional Forest Health Projects—$30 million Proposition 68 for the Sierra Nevada Conservancy to expand the Watershed Improvement Program and fund Forest Carbon Plan recommended activities. This Program, guided by a Memorandum of Understanding between the Natural Resources Agency and the U.S. Forest Service, supports regional, landscape-level forest restoration projects in collaboration with federal and local agencies.
- Northern, Coastal and Southern California Regional Forest Health Projects—$20 million of Cap and Trade funding for the Natural Resources Agency to provide block grants to support regional implementation of landscape-level forest restoration projects that leverage non-state funding. This proposal will duplicate the Sierra Nevada Conservancy's Watershed Improvement Program by expanding the program model to the Northern, Coastal and Southern California regions.
- Legacy Forests at State Parks—$15 million Proposition 68 for the Department of Parks and Recreation to protect forests in state parks. This funding will support restoration efforts in state parks throughout the state, including coastal redwoods, central Sierra sequoias, coastal pines, and oak woodlands.
- Watershed Coordinator Grants—$1.9 million Environmental License Plate Fund for the Department of Conservation to provide grants to local entities to develop and implement watershed improvement plans.
- Markets for Wood Products—$2.3 million Timber Regulation and Forest Restoration Fund for multiple programs that will encourage markets for wood products, including (1) establishment of a Joint Institute for Wood Products Innovation, (2) financial support for mass timber and wood product manufacturing, and (3) grants for local jurisdictions to showcase the architectural design of mass timber buildings.

Zero-Emission Vehicle Investment Initiative

The transportation sector is responsible for 50 percent of the state's GHG emissions and 80 percent of smog-forming oxides of nitrogen that contribute to the state's air quality challenges. To meet climate goals and clean air standards, California must dramatically reduce transportation sector pollution.

In January, the Governor issued Executive Order B-48-18, setting a new ZEV target of 5 million ZEVs in California by 2030. In addition, the Executive Order calls for the construction and installation of 200 hydrogen fueling stations and 250,000 zero-emission vehicle chargers, including 10,000 direct current fast chargers, by 2025.

The Budget includes $334.5 million for the Energy Commission and the Air Resources Board to begin the implementation of an eight-year initiative to accelerate sales of zero-emission vehicles through vehicle rebates and infrastructure investments. This new ZEV initiative envisions a total of $2.4 billion over eight years and, when combined with private investment, will meet and exceed the goal of 1.5 million ZEVs on California's roadways by 2025, and provide a solid foundation to achieve the 5 million ZEV goal by 2030.

Significant adjustments:

- Clean Vehicle Rebates—$200 million of Cap and Trade funding for the Air Board to provide rebates to California residents for the purchase or lease of new light-duty zero-emission vehicles and plug-in hybrids, including $25 million for incentives for low-income consumers. This annual funding of $200 million will continue through 2025, reflecting the state's commitment to achieve its ZEV target.
- Alternative Fuel Infrastructure—$134.5 million Alternative and Renewable Fuel and Vehicle Technology Fund for the Energy Commission to accelerate investments in the statewide network of ZEV infrastructure. This funding represents over a 300 percent increase in state infrastructure investments for the budget year, with a goal of providing a multi-year investment of $800 million for ZEV infrastructure through 2025.

Climate Resiliency and Adaptation

California has historically been susceptible to wildfires and hydrologic variability. However, climate change intensifies extreme weather events such as coastal storm surges, drought, wildfires, floods and heat waves. As GHG emissions continue to accumulate and climate disruption grows, such destructive events will become more frequent. The extreme natural events of 2017 and the cascading impacts to people, utility infrastructure and the natural environment underscore the necessity to prepare for and mitigate the effects of climate change. These issues are challenging and require state and local governments and private industry to come together to address land use and infrastructure improvements.

So far in 2018, several groundbreaking climate resiliency documents have been released to help better plan for and understand climate change. Together, they reflect the Administration's comprehensive cross-agency response to make California's communities, natural systems, and built environment resilient to climate change:

- California's Climate Adaptation Strategy—The 2018 Update to Safeguarding California catalogs thousands of actions 38 state agencies are taking to prepare for climate change and strategies that will increase resiliency for people, infrastructure and natural resources.
- Sea Level Rise—The Ocean Protection Council's State of California Sea-Level Rise Guidance: 2018 Update provides a methodology for state and local governments to analyze, assess, and plan for risks associated with sea level rise, underpinned by the latest sea-level rise projections.
- Protecting the State's Forests—The California Forest Carbon Plan serves as a scientific foundation and policy vision for increasing the health and resiliency of California's forests against the worsening threats of fire and disease driven by climate change.
- Basing Actions in Science—The State's 4th Climate Change Assessment consolidates the best available scientific understanding of how climate change is impacting the state. This body of science will serve as the foundation for how state agencies, local governments, and the public respond to forecasted climate change impacts.

The Budget provides significant additional funding to support implementation of these plans and scientific findings through a wide range of climate adaptation and resilience projects to enable local communities, state infrastructure and natural ecosystems to better withstand the impacts of climate change.

Proposition 68—California Drought, Water, Parks, Climate, Coastal Protection, and Outdoor Access for All

Approved by the voters in June, Proposition 68 authorizes $4 billion in general obligation bonds for California's parks, water and flood control infrastructure, ocean and coastal protection, safe drinking water, groundwater management and climate preparedness and resiliency.

The Budget provides $1.24 billion for the first year of implementation (see Figure RES-02). Of this amount, $210 million is dedicated to climate adaptation and resiliency programs, including coastal protection. Projects funded by the bond measure in 2018-19 are primarily prioritized to support existing programs, "shovel-ready" projects, and a phase-in approach for newly established programs.

Figure RES-02

California Drought, Water, Parks, Climate, Coastal Protection and Outdoor Access For All (Proposition 68)

(Dollars in Millions)

Investment Category	Department	Program	2018-19 Amount
State and Local Park Improvements	Department of Parks and Recreation & Natural Resources Agency	Local and Regional Grant Programs for Neighborhood Parks, Greenway Trails, and Enhancement of Natural and Cultural Resources	$503
	Department of Parks and Recreation	State Park System Enhancements	$4
	Department of Food and Agriculture	Deferred Maintenance for Fairs	$4
Ecosystem Restoration & Climate Resilency	Multiple Departments & Conservancies	River Recreation, Creek, and Waterway Improvements	$78
	Natural Resources Agency	Salton Sea Restoration	$30
	Multiple Departments & Conservancies	Climate Adaptation & Resiliency	$157
	State Coastal Conservancy & Ocean Protection Council	Coastal Protection	$53
	Sierra Nevada Conservancy & Department of Parks and Recreation	Forest Carbon Plan Implementation	$45
	California Conservation Corps	CCC Restoration and Rehabilitation Projects & Grants to Local Community Conservation Corps	$10
Water Action Plan	State Water Board	Safe Drinking Water Projects	$93
	Department of Water Resources & Natural Resources Agency	Flood Management	$99
	Department of Water Resources & State Water Board	Sustainable Groundwater Management Act	$146
	Department of Food and Agriculture	State Water Efficiency and Enhancement Program	$18
	Total		**$1,239**

For additional information on Proposition 68 proposals for water and parks-related programs, see the California Water Action Plan and Department of Parks and Recreation sections of this chapter.

California Water Action Plan

Released in January 2014, the Water Action Plan provides a blueprint for California to build more reliable and resilient water systems and restore important ecosystems. The Budget builds upon investments from previous years and continues prioritizing the ten actions of the Water Action Plan, including improving groundwater management, enhancing flood protection, providing safe drinking water, restoring important ecosystems and promoting water conservation.

Groundwater Sustainability

Climate change will affect the state's water supply reliability as a result of more frequent droughts and reduced Sierra snowpack. California’s five-year drought from 2012 through 2016 included a record-setting period of the four consecutive driest years of statewide precipitation. Consequently, effective management of groundwater resources is an essential component of the state's future water management strategy.

In 2014, the Governor signed a package of groundwater management bills that directed cities, counties, and water districts to work together to prevent long-term over-pumping of groundwater basins. The underlying principle of the Sustainable Groundwater Management Act of 2014 (SGMA) is that groundwater is best managed locally. SGMA places significant responsibilities upon local agencies to organize, plan, and ultimately manage their groundwater resources to a sustainable level within a 20-year time horizon, along with fee authority to help cover costs. However, the state will intervene temporarily to protect groundwater basins when local agencies are unwilling or unable to adequately do so.

Local agencies have formed groundwater sustainability agencies covering over 99 percent of the state's high and medium priority groundwater basins. However, the major challenge for local agencies and the Department of Water Resources (DWR) remains the development and implementation of groundwater sustainability plans that serve as the foundation to achieving statewide goals and requirements under SGMA.

The Budget includes $146 million to continue SGMA implementation and groundwater treatment activities.

Significant Adjustments:

- SGMA Implementation—$61.8 million Proposition 68 for the DWR to support groundwater sustainability agencies through three key efforts: (1) providing technical assistance to aid in the development and evaluation of their plans, (2) supplementing existing planning grants to support a groundwater sustainability agency's responsibility to define a path to achieve sustainable groundwater management, and (3) providing grants directly supporting implementation of groundwater projects.
- Groundwater Treatment—$84 million Proposition 68 for the State Water Board to support regional groundwater treatment and remediation activities that prevent or reduce contamination of groundwater, including $10 million for technical assistance for drought and groundwater investments.

Flood Control Infrastructure

The 2017 update to the Central Valley Flood Protection Plan identified $17 billion to $21 billion in flood system investment needs over the next 30 years, including urban and non-urban projects, systemwide projects, operations and maintenance, and deferred maintenance. Of the total need, the Plan identifies approximately $88 million annually for operations and maintenance.

Over the past decade, voters have approved several General Obligation bonds that have provided approximately $5 billion in flood control improvements. In addition, the recently approved Proposition 68 includes $550 million for flood control programs.

In recognition of the impacts of climate change and the likelihood of more severe storms and extreme weather events in the coming decades, the Budget includes an additional $393 million, including $295 million General Fund, to enhance the state's resilience to catastrophic flooding. These funds provide strategic investments for flood control infrastructure to protect lives and property that also leverage local and federal funding and reduce potential state liability.

Significant Adjustments:

- Urban Flood Control Projects—$170 million General Fund on a one-time basis to support the state cost-share of U.S. Army Corps of Engineers' urban flood control projects that will contribute to a 200-year level of flood protection in urban areas of the Central Valley. This funding will strengthen the state's ability to leverage approximately $690 million in federal funding.

- Deferred Maintenance—$100 million General Fund on a one-time basis to address deferred maintenance projects on levees. These funds will be prioritized to address critical and serious sites, including repair and rehabilitation of damaged levees and infrastructure identified as a result of the 2017 storms.
- Multi-Benefit Flood Control Projects—$98.5 million Proposition 68 for flood control projects that achieve public safety and fish and wildlife improvements, as well as funding for a new Floodplain Management, Protection and Risk Awareness Program to protect California's alluvial fan, coastal, and riverine floodplains. This funding, along with previously appropriated Proposition 1 and 1E funds, supports an integrated systemwide approach to flood management and implementation of the Central Valley Flood Protection Plan.
- Operations and Maintenance—$25 million General Fund to support ongoing levee maintenance. These funds will provide incentives for cost-sharing with local maintaining agencies by (1) encouraging a regional governance model that will better allow local entities to assess local beneficiaries of the levee system and (2) updating assurance agreements with the state to clarify levee maintenance responsibilities. Funds will also be available for priority projects that reduce potential state liability.

Safe and Affordable Drinking Water

The Administration has worked with the Legislature to implement a number of reforms to improve access to safe drinking water, including (1) transferring the Drinking Water Program from the California Department of Public Health to the State Water Board to better align the state's drinking water and water quality programs, (2) establishing the Office of Sustainable Water Solutions within the State Water Board to provide technical and financial assistance for small, disadvantaged communities to promote permanent and sustainable solutions, (3) providing funding through Proposition 1 and the Drinking Water State Revolving Fund to assist public water systems with providing safe drinking water, (4) requiring testing of lead found in drinking water at public schools, and (5) authorizing the State Water Board to require the consolidation of local water systems or the use of a third-party administrator for public water systems that consistently fail to deliver safe drinking water.

Since 2010, the state has provided approximately $3 billion in assistance to help address safe and affordable drinking needs. This funding supported projects that:

- Addressed drinking water emergencies in 275 communities with a total population of over 400,000, most of which were disadvantaged. The projects included providing bottled water, hauled water, establishing emergency interconnections, and repairing/rehabilitating wells.

- Delivered technical assistance to over 550 communities with a total population of over 450,000. The assistance included community needs assessments, preparation of funding applications, and supporting improvements in the technical, managerial, and financial capacity of water systems in small communities.
- Supported repair, replacement, and improvement of old infrastructure and new treatment systems for over 600 projects to comply with the Safe Drinking Water Act.

Despite these efforts, many local water systems in the state, particularly those serving small disadvantaged communities, consistently fail to provide safe drinking water to their customers. The most significant remaining challenge is the lack of a stable funding source for long-term operation and maintenance of drinking water systems. This limits the ability to address the additional capital costs for hundreds of small systems and domestic wells that cannot be consolidated, cannot afford to maintain their own system, and are currently serving drinking water that does not meet public health standards.

The Administration remains committed to continuing discussions with the Legislature on a comprehensive package to address safe and affordable drinking water needs this summer. To this end, the Budget sets aside an additional $23.5 million General Fund to address safe drinking water needs as part of these continuing discussions.

Significant Adjustment:

- Safe Drinking Water Project—$93 million Proposition 68 for the State Water Board to provide grants to public water systems in disadvantaged communities for infrastructure improvements to meet safe and affordable drinking water standards, including both drinking water and wastewater treatment projects. Of this amount, $27 million is available to improve regional water supply within the San Joaquin River watershed and $30 million is available for the Pure Water San Diego program.

- Lead Testing for Child Care Centers—$5 million General Fund for the State Water Board to provide grants for lead testing in drinking water at licensed child care centers, remediation of lead in plumbing and drinking water fixtures, and technical assistance for licensed childcare providers, with a priority to centers that serve children up to five years of age.

Making Water Conservation a Way of Life

A key principle in the California Water Action Plan is to make water conservation a way of life. Improving water conservation is essential for a more reliable water supply and to make the state more resilient to future droughts, particularly given population increases and climate change.

After declaring an end to the drought emergency in 2017, the Governor directed the State Water Board to maintain urban water use reporting requirements and prohibitions on wasteful practices, such as hosing off sidewalks. At the same time, the DWR, Energy Commission, Public Utilities Commission, Department of Food and Agriculture, and the State Water Board issued a final report with recommendations to (1) use water more wisely, (2) eliminate water waste, (3) establish permanent water use and conservation reporting requirements, (4) strengthen local drought resilience, and (5) improve agricultural water use efficiency and drought planning.

Additionally, the Administration worked with the Legislature in enacting Chapter 14, Statutes of 2018 (SB 606), and Chapter 15, Statutes of 2018 (AB 1668), to permanently conserve water resources in the state. This legislation directs the DWR and the State Water Board to develop and adopt water use efficiency objectives for large urban water suppliers based on new standards for indoor use, outdoor use, and water system leaks; revises Agricultural Water Management Plans to include annual water budgets; and requires urban water suppliers to annually calculate water use objectives in an effort to better manage and conserve California's water resources. This will result in more detailed and comprehensive water planning at the local level, while also providing the State Water Board and the DWR better information to assist the state in managing limited water supplies. This level of detailed planning will become increasingly important as California continues to experience the effects of climate change.

The Budget builds on these efforts to encourage Californians to conserve water.

Significant Adjustments:

- State Water Efficiency and Enhancement Program—$18 million Proposition 68 for the Department of Food and Agriculture to provide financial incentives to farmers for the installation of water irrigation systems that reduce both water and energy use in agricultural operations.

- Save Our Water Campaign—$300,000 Environmental License Plate Fund for the DWR to support ongoing outreach and advertising to sustain the Save Our Water campaign as an effective tool to promote water conservation as a part of Californians' everyday lives.

Restoring Important Ecosystems—Salton Sea

The Salton Sea is California's largest lake. Thirty-five miles long and fifteen miles wide, the desert lake extends from the Coachella Valley into the Imperial Valley. Though saltier than the ocean, the lake supports an abundance of fish, which serve as a food source for millions of migratory birds on the Pacific Flyway. Managing the sea's natural, agricultural, and municipal water inflows to maximize bird and fish habitat and minimize fine-particle air pollution will allow California to protect regional health, ecological wealth, and a stable water supply.

Led by the Natural Resources Agency, the Salton Sea Management Program guides immediate and long-term investment in habitat and air quality projects to manage increasing lakebed exposure resulting from declining water inflows. The Phase I plan identifies project areas and acreage milestones the state will construct to meet a combined goal of 29,800 acres of habitat and air quality projects by 2028. The State Water Board finalized a water rights order that adopted the policy goals and project milestones of the Phase I ten-year plan and will provide continued oversight of the program's achievement of those goals.

Significant Adjustment:

- Salton Sea Restoration—$30 million Proposition 68 for the Natural Resources Agency to construct water management infrastructure and habitat conservation and dust mitigation projects, consistent with the Phase I ten-year plan. This funding builds on existing appropriations from Propositions 1, 84, and 50 that will be used to meet the goals of the plan.

Department of Forestry and Fire Protection

CAL FIRE provides resource management and wildland fire protection services covering over 31 million acres. It operates 234 fire stations, and also staffs local fire departments when funded by local governments. CAL FIRE contracts with county agencies in six counties to provide wildland fire protection services. The Budget includes $2.5 billion ($1.5 billion General Fund) and 7,182.5 positions for CAL FIRE.

Climate change is ushering in extreme weather and a fire season that has become essentially year-round, with larger and more intense fires. Eleven of California's most destructive wildfires have occurred in the last ten years. Historically, CAL FIRE responds to over 5,600 wildfires annually. In recent years, wildfires have increased, reaching approximately 2,000 more than average in 2017.

In recognition of these conditions, the 2017 Budget included: (1) additional ongoing funding of $42.4 million to expand the state's firefighting capabilities and extend the fire season, and (2) $200 million of Cap and Trade funds to support healthy and fire resilient forests.

The Budget makes additional investments to enhance CAL FIRE's capacity to protect California residents.

Significant Adjustments:

- Helicopter Procurement—$101.2 million General Fund to support replacement of the CAL FIRE's fleet of Vietnam War-era helicopters. This funding will begin a multi-year effort to fully replace the Department's aging fleet with new modern helicopters. These new helicopters will have enhanced firefighting capabilities, including the ability to fly at night, which will improve CAL FIRE's ability to respond to the increasing number and severity of wildfires resulting from climate change.
- Climate Change Fire Severity—$10.9 million General Fund to provide heavy equipment mechanics, vehicle maintenance funding, and associated administrative support staff to address the nearly year-round fire season. These resources build on the funding provided for additional year-round fire engines and extended fire season staffing in the 2017 Budget and reflect continued efforts to meet the demands of longer, more severe fire seasons driven by climate change.
- McClellan Reload Base—$4 million General Fund for six permanent positions and 6.1 seasonal positions to staff and operate the McClellan Reload Base for the rapid deployment of large air tankers and the California National Guard Modular Airborne Fire Fighting Systems.
- Fire Training Center—$26.6 million General Fund for CAL FIRE, the California Department of Corrections and Rehabilitation, and the California Conservation Corps to operate the Firefighter Training and Certification Program for ex-offenders, as described in the Public Safety Chapter. The 18-month program will enable 80 ex-offenders, as well as 20 corpsmembers, to gain the training and experience needed to qualify for entry-level firefighting positions with local, state, and federal firefighting agencies.

Department of Fish and Wildlife

The Department of Fish and Wildlife manages California's diverse fish, wildlife, and plant resources, and the habitats upon which they depend for their ecological value and for their use and enjoyment by the public. While other state agencies' missions cover conservation, the Department is the state's trustee agency specifically charged with protecting and conserving fish and wildlife habitat. The Budget includes $604.4 million ($121.4 million General Fund) and 2,103.8 positions for the Department.

Since the California Fish and Wildlife Strategic Vision report was submitted to the Legislature in 2012, the Department has engaged closely with stakeholders on the establishment of a framework for sustainable funding to provide ongoing protection of fish and wildlife in California. These efforts produced a 2017 update to the Strategic Vision report, which identified numerous accomplishments in meeting the original goals identified in the 2012 report, as well as Supporting Healthy Fish and Wildlife Populations in California and Getting People Outdoors: An Expenditure Concept to Invest in Our Natural Heritage for All Californians, issued in November 2017.

Significant adjustment:

- Sustainable Funding for Fish and Wildlife—$31.6 million ($26.6 million General Fund and $5 million California Tire Recycling Management Fund) to (1) continue the current level of service for core fish and wildlife programs, (2) augment high-priority programs that are consistent with the priorities identified in the most recent update to the Strategic Vision report, and (3) initiate an independent service-based budget review and develop a tracking system to support an analysis of the Department's existing revenue structure and program activities. The service-based budget review, which will be completed by 2021, is based on a similar service-based budget review performed for the Department of Parks and Recreation and will provide an objective foundation for future budget decision-making.

Biodiversity Preservation

California has some of the world's most unique geographical areas that support plant and wildlife biodiversity. It is home to more species of plants and animals than any other state in the United States, which creates a complex and distinctive ecosystem.

Significant adjustment:

- California Biodiversity Initiative—$2.5 million General Fund on a one-time basis for the Department to improve understanding of the state's biological richness and preserve, manage and restore ecosystems, protecting the state's biodiversity from climate change. The Initiative will include partnerships with Tribes, educators and researchers, philanthropic organizations, the private sector, and landowners to preserve California's biodiversity.

Department of Parks and Recreation

The Department of Parks and Recreation protects and preserves the state's valued natural, cultural, and historical resources while providing recreational opportunities including hiking, camping, mountain biking, horseback riding, boating, and off-highway vehicle activities.

The Department achieves its mission through grant programs and a network of 280 parks, which include beaches, trails, wildlife areas, open spaces, off-highway vehicle areas, and historic sites. The Budget includes $1.5 billion ($285 million General Fund) and 2,306.2 positions for the Department.

Fix State Parks

In recent years, there has been a concerted effort to improve Department management, responsiveness, and accountability. In February 2015, the Parks Forward Commission, a multidisciplinary advisory council created to independently assess the state parks system and make recommendations for potential improvements, provided recommendations to address financial, cultural, and operational challenges. By that time, the Administration had established the Transformation Team to develop specific initiatives. In May 2017, the Transformation Team completed its two-year term and released a final progress report. Although the work of the Transformation Team has ended, the Department has implemented these important reforms, as well as those suggested by the Legislature, and developed further innovations. These reforms include a new organizational structure, establishment of a new non-profit outside support organization as specified by Chapter 540, Statutes of 2016 (SB 1111), enhanced fiscal management tools developed from the Department’s service-based-budgeting efforts, and modernized fee collection and technology.

Building upon these initiatives, the Budget includes ongoing funding of $80 million State Parks and Recreation Fund to enhance the State Park System.

Significant Adjustments:

- Fixing State Parks and Improving Access for All Californians—$42 million State Parks and Recreation Fund and 364 positions to increase services that emphasize those that directly benefit park visitors by improving access, and fixing and maintaining the aging infrastructure of the state parks system. The largest area of investment is facilities and maintenance, which will contribute to maintaining clean water supplies, clean restrooms, dynamic trail systems, stable historic structures, and safe roads. These additional resources will also help address more than $1 billion in deferred maintenance projects throughout the state parks system. The natural and cultural management funding will allow the Department to better understand, protect, and preserve California's biologically and culturally diverse places under its care. The interpretation and education augmentations will build upon the Department's recent focus on developing stronger relationships with the public. The public safety positions will focus on providing a safe visitor experience in complex park environments and protecting cultural and natural resources.
- Solving the Structural Imbalance and Establishing a Reserve—$26.6 million in permanent funding from the State Parks and Recreation Fund to address the structural imbalance. Since 2012, the Department has relied on one-time appropriations to maintain services across the park system. The Budget ends that pattern and provides sustainable ongoing funding, including $8.5 million to establish a prudent reserve balance in the Fund.
- Making Recruitment and Training Program Permanent—$1 million State Parks and Recreation Fund for the newly established recruitment and training program for hard-to-fill classifications, including an emphasis on diversity. The 2017 Budget included funding to initially establish the program.
- Supporting Off-Highway Vehicle Recreation—$1 million State Parks and Recreation Fund for increased law enforcement, environmental monitoring, and maintenance grants supporting federal off-highway vehicle recreation. While the Department manages nine State Vehicular Recreation Areas for off-highway vehicle recreation, nearly 80 percent of the state's off-highway vehicle recreation occurs on federal lands, supported through the grants program.
- Reducing Boating Hazards—$1 million State Parks and Recreation Fund for the Abandoned Watercraft Abatement grant program to remove abandoned watercraft from California's waterways. Submerged water vessels pose a hazard to boating recreation throughout the state.

Improving and Increasing Access to Local Neighborhood Parks

Proposition 68 includes over $1 billion for multiple programs that improve and rehabilitate local park facilities as well as expand access to neighborhood parks. The Budget includes $464 million to begin implementation of these local park programs:

- Safe Neighborhood Parks—$277 million Proposition 68 to provide grants for the creation of new parks and recreation facilities, as well as the rehabilitation of existing local parks, in critically underserved communities throughout California, consistent with the Statewide Park Development and Community Revitalization Program.
- Per Capita Grants—$186 million Proposition 68 to provide for the acquisition and development of neighborhood, community, and regional parks and recreation lands and facilities in urban and rural areas.

Protecting and Preserving California Indian Heritage

The Administration has strengthened the state's relationship with California's tribal communities by improving overall communication and enhancing transparency and government-to-government engagement with California Tribes. Executive Order B-10-11 established the Office of the Tribal Advisor to provide a direct link between Tribes and state agencies, allowing Tribes to actively participate in developing policies and priorities for tribal communities in partnership with the highest levels of state government. Under newly negotiated gaming compacts, Tribes are able to invest more gaming revenue into infrastructure and programs benefiting the tribal communities and promoting self-sufficiency.

The Budget builds on these efforts with additional state investments that will protect and preserve the rich history of the native peoples of California and memorialize the important contributions they have made to the state through the following investments:

- California Indian Heritage Center—$100 million General Fund for the Department to construct a new museum to protect and preserve the history of California's native peoples. The total cost of the project is estimated at $200 million. The Administration will work with stakeholders to raise the additional $100 million necessary to complete the project. This new museum would replace the current State Indian Museum, which was built in 1940 on the grounds of Sutter's Fort State Historic Park. The Department would operate the museum and work with tribal representatives in developing appropriate content for the interpretive program to engage visitors in celebrating the living cultures of California Tribes.

- Fort Ross State Historic Park: Cultural Trail—$852,000 Proposition 12 bond funds to design a new trail focusing on increasing the interpretive program at Fort Ross State Historic Park. The trail would complete a segment of the California Coastal Trail and a multimedia interpretive program encouraging park visitors to explore the complex history of the site. The interpretive program will be developed through a partnership with stakeholders including the native people of the area and UC Berkeley. Total project costs are estimated to be $3.4 million.

Museum of Tolerance

Located in Los Angeles, the Museum of Tolerance is the educational branch of the Simon Wiesenthal Center. The Museum is dedicated to educating visitors about the Holocaust in both historic and contemporary contexts and providing a voice for social justice and human rights in the world today. The Museum has welcomed over 7 million visitors since it opened in 1993, and more than 160,000 law enforcement professionals have participated in a diversity training program to enhance their skills in delivering more effective services to the communities they serve. In addition, 130,000 middle and high school students visit the Museum each year as part of their schools' curriculum. The Museum provides a unique immersive learning environment to advance anti-bias education and promote the creation of inclusive and equitable schools.

Significant Adjustment:

- Museum of Tolerance Renovation Project—$10 million General Fund on a one-time basis for the Department of Parks and Recreation to provide a grant for the Museum's renovation project. This funding will provide half of the estimated $20 million cost of the renovation to fund critical capital improvements.

California Conservation Corps

Established in 1976 during Governor Brown's first term, the California Conservation Corps is modeled after the original Civilian Conservation Corps of the 1930s. More than 120,000 young adults have served in the Corps over its 40-year history.

The Corps provides young women and men the opportunity to gain critical work experience and contribute to the ecological well-being of the state by responding to fires, floods and other disasters; restoring threatened environments; and installing clean energy and energy conservation measures at public facilities. The Budget includes $154.9 million ($89.8 million General Fund) and 326.5 positions for the Corps.

Since 2011, the Corps has expanded by 15 percent to 1,591 corpsmembers today; when four future residential centers are completed, there will be capacity for a total of nearly 2,000 corpsmembers.

The Budget provides funding to enhance services and training opportunities for current corpsmembers.

Significant Adjustments:

- Expansion of Residential Facilities—$13 million General Fund to initiate four new residential facilities in Auberry, Los Pinos, Greenwood and Yountville and to rehabilitate two existing facilities in Ukiah and Fortuna. These projects are expected to add capacity for approximately 350 additional corpsmembers. Residential centers have higher rates of attendance and academic achievement, which are critical to corpsmember completion of the programs and improved outcomes.
- Fire Training Center—$3.5 million General Fund to facilitate corpsmember participation in the Firefighter Training and Certification Program for ex-offenders. For additional information on this proposal, see the Public Safety Chapter.
- CAL FIRE/Corps Fire Crews—$2.3 million General Fund to support five CAL FIRE/Corps fire crews for wildland fire suppression, emergency incident mitigation, and fire prevention and resource management work.
- Corpsmember Counseling, Case Management and Transition to College, Career, or Training—$1.1 million ($600,000 General Fund) to strengthen the career pathway of corpsmembers to college, career or advanced training by providing case management services.

Statewide Issues and Various Departments

This Chapter describes items in the Budget that are statewide issues or related to various departments.

Housing and Homelessness

For decades, California has faced a shortage of housing due to historical underproduction of adequate supply when compared to demand. Although the state has identified 180,000 units of housing needed annually to address the growing population, less than 100,000 units have been produced each year over the last eight years. In addition, only about 3 percent of homes and 11 percent of rental units in the state are affordable through legal restrictions for individuals of low to moderate income. This shortage of affordable housing units is one of the major contributing factors to the increasing homeless population in the state, which has risen to nearly 135,000 individuals, up 13.7 percent since 2016 according to data from the U.S. Department of Housing and Urban Development. Of this number, more than 91,000 are considered unsheltered—meaning their primary nighttime location was a public or private space not ordinarily used for sleeping, such as a park, vehicle, or on the street. California represents 25 percent of the nation's homeless population.

Housing and homelessness issues are fundamentally a local government responsibility. Although housing construction in one jurisdiction may affect housing costs regionally and statewide, housing entitlements and permits are determined locality by locality. Cities are responsible for the zoning and siting of housing and counties are responsible for linking the homeless population to health and social services. Although many cities and counties have taken steps to address affordable housing and homelessness issues, efforts are often met with resistance, including community opposition, policies that increase development costs, delays in permit approvals, and challenges to financing housing for this population.

In recognition of California's pronounced housing shortage, in 2016, the Governor signed into law the No Place Like Home Program, which funds the construction of permanent supportive housing targeted to the chronically homeless and those at risk of chronic homelessness with mental health services needs. The program is funded with up to $2 billion in bonds secured by Mental Health Services Act (Proposition 63) revenues. The Budget places the program before the voters in the November 2018 election to accelerate the issuance of program funds.

In 2017, the Administration and Legislature developed a legislative package of 15 bills that collectively shorten the housing development approval process, provide incentives to streamline development, promote local accountability to adequately plan for needed housing, and invest in affordable housing production through dedicated real estate transaction fee revenues (estimated at $258 million annually) and an anticipated $4 billion voter-approved housing bond that will appear on the November 2018 ballot.

In recognition of the longer time frame that these recent investments and policies require to take effect, and the immediate homelessness challenges facing local jurisdictions, the Budget includes $609 million one-time General Fund and $64 million ongoing General Fund (see Figure SWE-01) to focus state homelessness funding on planning, prevention, and emergency aid.

Figure SWE-01
Homelessness Response in the 2018-19 Budget
(Dollars in Millions)

Department	Program	2018-19	Ongoing
Homeless Coordinating and Financing Council[1/]	Emergency Homeless Aid Block Grants	$500.0	-
	Council Administration	$0.5	$0.5
Department of Social Services	CalWORKs Housing Support Program	$24.2	$48.3
	CalWORKs Homeless Assistance Program	$8.1	$15.3
	Senior Home Safe Program	$15.0	-
Office of Emergency Services	Domestic Violence Shelters and Services	$10.0	-
	Homeless Youth and Exploitation Program	$1.0	-
Department of Health Care Services	Homeless and Mental Illness Program	$50.0	-
Total		**$608.8**	**$64.1**

[1/] Housed within the Business, Consumer Services, and Housing Agency.

Planning

Given the many state resources that will be available in the coming years, the Budget includes $500,000 ongoing to expand the Homeless Coordinating and Financing Council and move it to the Business, Consumer Services, and Housing Agency. The Council will provide statewide guidance on homelessness issues and develop a statewide plan to support the coordination of the various state homelessness investments.

Emergency Aid

To assist local governments in addressing immediate homeless needs until additional resources become available, the Budget provides:

- $500 million for a Homeless Emergency Aid program for bridge funding to assist local governments in addressing immediate homeless needs. This program provides flexible block grant funds to jurisdictions that declare a shelter crisis and commit to local coordination. Of these funds, $350 million will be distributed through Continuums of Care and $150 million will be distributed directly to cities with populations greater than 330,000.
- $50 million allocated by the Department of Health Care Services to counties to provide intensive outreach, treatment, and related services for homeless persons with mental health service needs.
- $11 million for the California Office of Emergency Services to fund programs focusing on homeless youth and victims of domestic violence.

Prevention

As explained in the Health and Human Services Chapter, the Budget includes $47 million in 2018-19 and $64 million ongoing to support the safety net programs operated by the Department of Social Services to prevent homelessness, including the CalWORKs housing support program, the CalWORKs Homelessness Assistance program, and $15 million one-time for a senior homelessness prevention program.

In addition to these efforts, the state continues to invest significant resources in housing and homelessness-related programs. The state addresses housing and homelessness challenges through a variety of targeted programs across multiple state departments, including the Department of Housing and Community Development. These programs provide grants and loans to construct affordable housing, assist moderate-income households through homebuyer and other assistance programs, and offer various supports for individuals and families experiencing homelessness.

The Budget includes $5.1 billion in state and federal funds to address housing and homelessness (see Figure SWE-02).

Figure SWE-02
2018-19 Affordable Housing and Homelessness Funding
(Dollars in Millions)

Department	Program	Amount
Department of Housing and Community Development	Veterans and Affordable Housing Bond Act Programs (SB 3)	$277
	No Place Like Home Program	$262
	Building Homes and Jobs Fund Programs (SB 2)	$255
	Federal Funds	$122
	Housing for Veterans Funds	$75
	Infill Infrastructure Grant Program Reappropriation	$51
	Multifamily Housing Program - Supportive Housing	$39
	Office of Migrant Services	$6
	Housing Related Parks Program Reappropriation	$2
	Various	$15
California Housing Finance Agency[1/]	Single Family 1st Mortgage Lending	$1,500
	Multifamily Conduit Lending	$300
	Multifamily Lending	$200
	Single Family Down Payment Assistance	$108
	Special Needs Housing Program	$30 [2/]
Homeless Coordinating and Financing Council	Emergency Homeless Aid Block Grants	$500
Strategic Growth Council[3/]	Affordable Housing and Sustainable Communities	$455
Tax Credit Allocation Committee	Low Income Housing Tax Credits (Federal)	$259 [4/]
	Low Income Housing Tax Credits (State)	$97
	Farmworker Housing Assistance Tax Credits	$3
Department of Veterans Affairs	CalVet Farm and Home Loan Program	$264
Department of Social Services	CalWORKS Housing Support Program	$71
	CalWORKS Homeless Assistance Program	$43
	Senior Home Safe Program	$15
	CalWORKS Family Stabilization, Housing Component	$3 [5/]
Department of Health Care Services	Homeless and Mental Illness Program	$50
	Whole-Person Care Pilot Program, Health Homes Program, Mental Health Services Act Community Services and Supports, California Community Transitions Program	N/A [6/]
Office of Emergency Services	Domestic Violence Housing First Program	$13
	Transitional Housing Program	$10
	Domestic Violence Shelters and Services	$10
	Specialized Emergency Housing	$5
	Homeless Youth and Exploitation Program	$2
Department of Public Health	Housing Opportunities for Persons with AIDS (HOPWA)	$3
	Housing Plus Program	$2
California Department of Corrections and Rehabilitation	Integrated Services for Mentally-Ill Parolees	$3
	Specialized Treatment of Optimized Programming, Parole Service Center, Day Reporting Center, Female Offender Treatment and Employment Program	N/A [6/]
Total		**$5,050**

[1/] Amounts are based on lending activities from 2017-18 trends.

[2/] This amount represents a voluntary allocation of Proposition 63 funds from 16 participating counties.

[3/] The Affordable Housing and Sustainable Communities program amount reflects 20 percent of projected Cap and Trade auction proceeds.

[4/] This amount represents the 9 percent tax credits allocated in 2018-19 and an estimated figure for 4 percent credit awards based on 2015-2017 averages. This figure does not include the approximately $4 billion of tax-exempt bond debt allocation that is available for award from the California Debt Limit Allocation Committee.

[5/] This amount represents an estimate of the portion of the program associated with housing and homelessness activities.

[6/] The state provides a number of wrap-around supportive services through these programs, including housing support and application assistance, which cannot be separated from the Department of Health Care Services' and Department of Corrections and Rehabilitation's general budgets.

Paying Down the State's Long-Term Retirement Costs

In the last ten years, the state's costs for state employee pension and health benefits have continuously grown. State health care benefits in particular remain one of the fastest growing areas of state government and have increased five-fold since the early 2000s. This far outpaces population and inflation growth during the same period. As a result of lower-than-expected investment returns and the adoption of more realistic assumptions related to future investment earnings and demographics, the state's retiree long-term costs, debts, and liabilities have risen to $287 billion. Prior to 2012, there was no comprehensive plan to address the state's long-term retirement liabilities. The Administration has implemented major strategies to help ensure the state's continuing ability to provide retirement benefits over the long term.

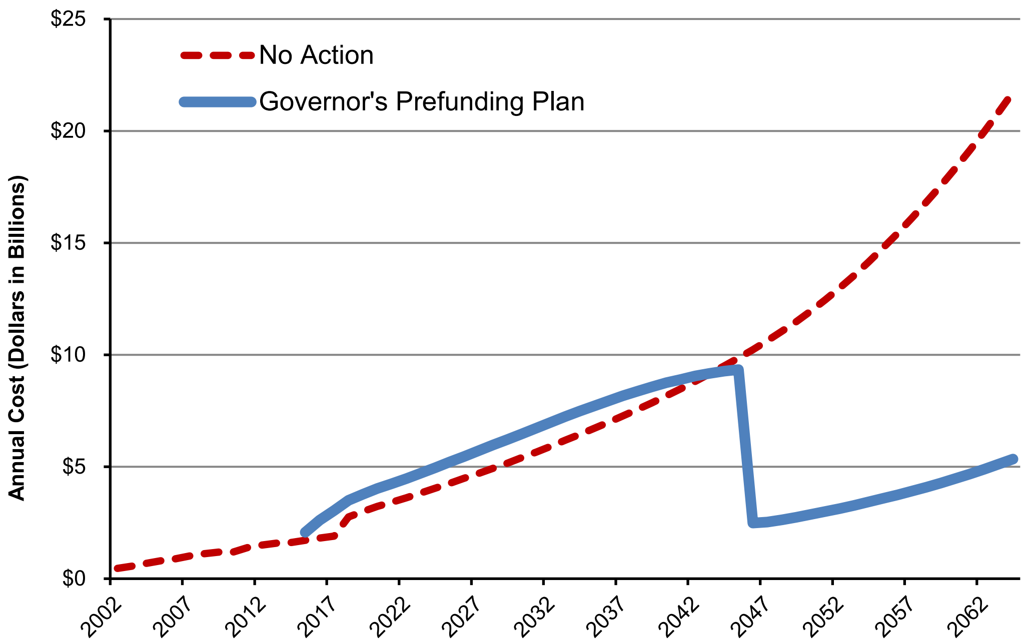
Significant actions taken over the past several years to lessen growth in state retirement costs include the following:

- Pursuant to Chapter 296, Statutes of 2012 (AB 340), the California Public Employees' Pension Reform Act (PEPRA) was enacted to save billions of taxpayer dollars by restructuring pension benefits government employers can more responsibly provide. Changes made include capping benefits, increasing the retirement age, and requiring employees to pay at least half of their normal costs (or the amount of money that must be set aside today to pay for the future pension benefits that accrued that year). The California Public Employees' Retirement System (CalPERS) has projected that the implementation of PEPRA will save government employers, including the state, an estimated $29 billion to $38 billion over the next 30 years.
- In 2014, the CalPERS Board of Administration adopted new actuarial assumptions to reflect longer life expectancy, earlier retirement ages, and higher-than-expected wage growth. The Administration requested that CalPERS recognize these demographic assumption changes in 2014-15, rather than in 2016-17 as recommended by CalPERS, saving the state approximately $3.7 billion ($1.8 billion General Fund) over a 20-year period.
- Chapter 47, Statutes of 2014 (AB 1469), created a funding strategy to address the unfunded liability of the California State Teachers' Retirement System (CalSTRS). The funding strategy, which includes predictable increased payments from school districts, teachers, and the state over a seven-year period, increases the sustainability of the system and is expected to fully fund the system's defined benefits by 2046. CalSTRS continues to report that the funding strategy is projected to achieve this goal. The Budget includes additional funding for the Local Control Funding Formula to support core programs and services and provides substantial resources to accommodate increasing costs, including rising employee benefit costs. Based on the Legislative Analyst's estimates, since the enactment of the CalSTRS

funding plan in 2014, CalSTRS and CalPERS contribution requirements for K-12 local educational agencies have increased by $4.1 billion. During the same period, funding for the Local Control Funding Formula has increased by $21 billion.

- The Administration initiated a comprehensive strategy in which the state and its employees began to share equally in the prefunding of retiree health benefits to eliminate a $72 billion unfunded liability over three decades. The strategy called for collective bargaining to reduce the state retiree contribution to equal the contribution level of most active employees and lengthening the number of years employees must work, or "vest," to receive retiree health benefits. Assets are accumulated in a trust fund until they are sufficient to fully fund employee benefits (see Figure SWE-03). As a result, more than $880 million is currently set aside in a prefunding trust fund to pay for future retiree health benefits. By the end of 2018-19, the trust fund balance will approach $1.6 billion in assets.

Figure SWE-03
Eliminating Unfunded Liability for Retiree Health Care



- The CalPERS and CalSTRS Boards of Administration voted to reduce the assumed rate of investment return to 7 percent in December 2016 and February 2017, respectively. The Administration encouraged these actions to reflect a more realistic return on its investments. The CalPERS Board reduced the assumed rate of return on its investments from 7.5 to 7 percent, to be phased in over three fiscal years (2017-18 through 2019-20), and the CalSTRS Board approved a reduction in its assumed rate of return on investments from 7.5 to 7 percent, to be phased in over two fiscal years (2017-18 and 2018-19). While decreasing the assumed investment return has decreased the funded status and increased contributions for both systems in the short-term, this change will help sustain both systems in the long run.

- In 2017-18, the state made a one-time $6 billion supplemental pension payment to CalPERS, funded by a loan from the Surplus Money Investment Fund, to continue efforts to eliminate pension liabilities. This additional payment will reduce the state's unfunded liability by an estimated $4.8 billion and help lower and stabilize the required annual contributions through 2037-38.

While retirement liabilities have grown by $68.3 billion since 2011, a higher level of growth would have been experienced absent these collective efforts to strategically fund the state's long-term liabilities.

Figure SWE-04 provides a historical overview of contributions to CalPERS, CalSTRS, the Judges' Retirement System (JRS), the Judges' Retirement System II (JRS II), and the Legislators' Retirement System (LRS) for pension and health care benefits.

Figure SWE-04

State Retirement and Health Care Contributions [1/]

(Dollars in Millions)

	CalPERS[2/]	CSU CalPERS	CalSTRS	JRS	JRS II	LRS	Active Health & Dental[3/]	Retiree Health & Dental	CSU Retiree Health	Employer OPEB Prefunding[4/]
2008-09	$3,063		$1,133	$189	$40		$2,146	$1,183		
2009-10	2,861		1,191	184	32		2,120	1,182		$3
2010-11	3,230		1,200	166	54		2,277	1,387		2
2011-12	3,174		1,259	195	58		2,439	1,505		0
2012-13	2,948 [5/]	$449 [5/]	1,303	160	51		2,567	1,365 [5/]	$222 [5/]	0
2013-14	3,269	474	1,360	188	52	$1	2,697	1,383	225	22
2014-15	4,042	543	1,486	179	63	1	2,797	1,462	256	38
2015-16	4,338	585	1,935	190	67	1	2,968	1,556	263	63
2016-17	4,754	621	2,473	202	68	1	3,104	1,623	272	342 [7/]
2017-18	5,188	661	2,790	197	76	1	3,252	1,771	291	189
2018-19[6/]	5,506	683	3,082	195	74	1	3,435	1,891	311	373

[1/] The chart does not include contributions for University of California pension or retiree health care costs, and does not reflect the $6 billion supplemental pension payment in 2017-18 authorized by Chapter 50, Statutes of 2017 (SB 84).

[2/] In addition to the Executive Branch, this includes Judicial and Legislative Branch employees. Contributions for judges and elected officials are included in JRS, JRS II, and LRS.

[3/] These amounts include health, dental, and vision contributions for employees within state civil service, the Judicial and Legislative Branches, and California State University (CSU).

[4/] Amount reflects the employer contribution to pay down the Other Post-Employment Benefits (OPEB) unfunded liability.

[5/] Beginning in 2012-13, CSU pension and health care costs are displayed separately.

[6/] Estimated as of the 2018 Budget Act. 2018-19 General Fund costs are estimated to be $2,890 million for CalPERS, $683 million for CSU CalPERS, $1,613 million for Active Health and Dental, $2,198 million for Retiree Health & Dental (including CSU), and $194 million for OPEB Prefunding. The remaining totals are all General Fund.

[7/] Amount includes a one-time prefunding contribution of $240 million pursuant to Chapter 2, Statutes of 2016 (AB 133).

Significant Adjustments:

- Proposition 2 Debt Payments—The Budget includes $623.5 million within the Proposition 2 debt payment requirement to pay down the General Fund's portion of the supplemental pension payment loan from the Surplus Money Investment Fund described above. The Budget also includes $195 million within the Proposition 2 debt payment requirement to pay down the General Fund's portion of the state's prefunding contribution for retiree health benefits.
- State Employees' Retirement Contributions—The Budget includes $6.2 billion ($3.6 billion General Fund) for state contributions to CalPERS for state pension costs. This includes $683.3 million General Fund for California State University retirement costs.
- Teachers' Retirement Contributions—The Budget includes $3.1 billion General Fund for state contributions to CalSTRS. This roughly $300 million year-over-year increase is due in part to an unanticipated increase in payroll growth and the lower assumed investment rate of return adopted by the CalSTRS Board in 2017. The budgeted amount also reflects the CalSTRS Board's decision to exercise its authority to increase state contributions by 0.5 percent of teacher payroll, consistent with the funding strategy signed into law in 2014.
- Sustaining State Health Care Benefits—In total, the state is projected to spend approximately $5.6 billion on health care benefits in 2018-19 for more than 850,000 state employees, retirees, and their family members. The Budget includes nearly $2.2 billion for retiree health care benefits for 2018-19. These payments are five times what the state paid in 2001 ($458 million) and now represent approximately 1.7 percent of the General Fund. Fifteen years ago, retiree health care benefits made up less than one half of one percent of the General Fund.

The state's retiree health care liability has now grown to $91 billion as a result of changes in reporting requirements. While this is a staggering amount, the funding plan put in place by the Administration mentioned above places the state on a sustainable path forward to pay down this long-term liability.

Employee Compensation and Collective Bargaining

The Budget includes $1.3 billion ($719 million General Fund) for increased employee compensation, health care costs for active state employees, and retiree health care prefunding for active employees. Included in these costs are collectively bargained salaries and benefit increases as a result of contract negotiations, including the recently negotiated contract with the California Correctional Peace Officers Association, and pay increases related to minimum wage changes in Chapter 4, Statutes of 2016 (SB 3). Funding is also included for 2019 calendar year increases in health care premiums and enrollment.

The Administration will continue collective bargaining negotiations with three bargaining units whose contracts with the state expired in late June or will expire in early July 2018.

Additionally, the Budget sets aside $15 million General Fund for penalties the state may face under the federal Patient Protection and Affordable Care Act (ACA) associated with the Employer Shared Responsibility and Employer Reporting provisions of the ACA.

Preventing Discrimination and Harassment in the Workplace

The Budget includes $4.4 million ($3.7 million General Fund) to expand the state's efforts to prevent discrimination and harassment in the workplace both within state government through the Department of Human Resources and outside of state government through the Department of Fair Employment and Housing, as follows:

- $1.4 million ($720,000 General Fund) for the Department of Human Resources to establish a tracking system to collect data regarding complaints, judgments, and settlements related to workplace discrimination and harassment across all state entities. A unit will be established within the Office of Civil Rights to identify and monitor trends and patterns of problematic behavior, prepare executive and legislative reports related to the data being tracked, and expand policies, procedures, and training related to preventing discrimination and harassment.
- $3 million General Fund for the Department of Fair Employment and Housing to expand education and outreach activities and more quickly process claims related to sexual harassment and other civil rights. The augmentation will fund a contract to develop outreach materials to educate private employers and employees of their rights. In addition, the funding will allow the department to hire additional staff to conduct outreach and address a backlog of claims to more quickly process complaints, including those involving sexual harassment.

Public Employment Relations Board

The Public Employment Relations Board administers California's eight public sector collective bargaining statutes and provides a timely and cost-effective method through which employers, employee organizations, and employees can resolve labor relations disputes. To address the department's existing backlogs as well as to adjudicate and render more timely decisions, the Budget includes $1.5 million General Fund and seven permanent positions. Additionally, the Budget includes up to $900,000 General Fund to provide additional resources upon completion of the Department of Finance's Mission-Based Review.

Wildfire Response and Recovery

California was faced with unprecedented and historic disasters in 2017—floods, wildfires and mudslides—leading to the loss of lives and homes. After estimating total Federal assistance, the Budget assumes a net General Fund cost of $384.8 million for various emergency response and recovery activities. The Budget includes additional investments for ongoing improvements to create a stronger emergency response system in California.

Office of Emergency Services

Public Safety Communications—$26.5 million State Emergency Telephone Number Account Fund (SETNA), including $11.5 million to implement a statewide Next Generation 9-1-1 system and $15 million to begin a five-year plan to upgrade the California Public Safety Microwave Network from an analog system to a digital system to enhance emergency response communications. Next Generation 9-1-1 provides various benefits compared to the legacy system, including faster call delivery, increased routing accuracy and functionality, call overflow and backup functionality, updated geographic information capability and wireless location data, and incoming text capability. The Network provides connectivity for public safety radio systems that link responders and dispatchers, provides redundancy and resiliency, and enhances disaster recovery and the ability to support the Next Generation 9-1-1 system. Combined, these proposals will improve public safety and significantly advance California's emergency response capabilities.

Recovery Program Workload—$2.8 million General Fund and $8.4 million Federal Trust Fund for three years to address increased workload related to disaster recovery activities, including working with impacted communities to implement and administer the California Disaster Assistance Act (CDAA) and federal disaster programs.

Disaster Service Worker Volunteer Program—$675,000 General Fund to provide sufficient and timely workers' compensation benefits to injured volunteers and eligible survivors, and to issue medical provider payments without incurring penalty and interest fees.

Emergency Response Operations—$1.6 million General Fund to increase staffing within the Office of Emergency Services' Homeland Security Branch and Regional Response and Readiness Branch. These branches support liaison efforts between federal, state, and local partners, and assist with responding to disasters and emergency management coordination.

Situational Awareness and Collaboration Tool—$353,000 General Fund and $325,000 reimbursements for the Office of Emergency Services to manage and train local agencies on the effective use of this tactical tool, which is deployed in the field to coordinate various disaster response efforts, including, but not limited to, evacuations, warnings, and shelters.

Hazard Mitigation Program—$3.2 million Federal Trust Fund to enhance hazard mitigation activities throughout the state. Mitigation programs provide funding for eligible activities that reduce disaster losses and protect life and property from future disaster damages.

Regional Hazardous Materials Response Program—$3.4 million General Fund on a three-year limited term basis for the Office of Emergency Services to provide regional and on-site support for planning, response, and mitigation capabilities in the event of a release of hazardous materials.

One-Time Mutual Aid System Enhancements—$25 million General Fund for the Office of Emergency Services to procure equipment and technology to improve the state's mutual aid system and response coordination.

California Earthquake Early Warning System—$15.8 million General Fund to complete the buildout of the California Earthquake Early Warning System and provide support to the California Earthquake Early Warning Program and Advisory Board.

California Disaster Assistance Act

The Budget includes a one-time augmentation of $88.1 million General Fund to increase the amount of funding available through CDAA, which is used to repair, restore, or replace public real property damaged or destroyed by a disaster, and to reimburse local governments for costs associated with certain activities undertaken in response to a state of emergency. This augmentation increases total CDAA funding to $127.2 million in 2018-19.

California Department of Resources Recycling and Recovery (CalRecycle)

CalRecycle Debris Removal Assistance Program—$1.3 million Integrated Waste Management Fund for CalRecycle to lead a disaster response and recovery team that would become the subject matter experts for disaster recovery and debris removal. The team will respond to disaster events, train internal staff, support local agency requests for technical assistance, and assist with disaster response and debris removal plans.

Disaster Response Emergency Operations Account

To address immediate response and recovery efforts for communities affected by wildfires and subsequent mudslides, the Director of Finance accessed over $300 million in 2017-18 from the Special Fund for Economic Uncertainties for various departments related to unexpected equipment, personnel, and other disaster assistance costs incurred under the Governor's State of Emergency Proclamations. The majority of these costs were associated with the removal of hazardous waste and debris that threatened public health and the environment if not immediately addressed. Resources were also made available to the Department of Social Services for the purchase and distribution of food to individuals affected by the Northern California fires, as well as rental/mortgage vouchers and utility assistance for those who would otherwise be ineligible to receive federal assistance.

The Budget includes statutory amendments to CDAA to remove the Disaster Response Emergency Operations Account's sunset date of January 1, 2019, and clarify that funds for the Account may be used for activities that commence within 120 days after a proclamation of emergency by the Governor, upon notification to the Legislature.

Local Property Tax Backfill and Debris Removal Cost Share Waiver

The Budget includes $32.8 million General Fund to backfill the property tax revenue losses that cities, counties, and special districts will incur in 2017-18 and 2018-19 due to the 2017 wildfires and resulting mudslides in Southern California. Of this amount, $21.8 million is for Northern California jurisdictions and $11 million is for Southern California jurisdictions. This funding level is based on information provided by the county assessors.

The wildfire-related property tax revenue losses incurred by K-14 schools are generally backfilled within Proposition 98 school funding. Without the backfill, the Budget estimates K-14 schools would have incurred $22.6 million in cumulative property tax revenue losses in 2017-18 and 2018-19 due to the Northern California wildfires and $14.5 million due to the Southern California disasters.

Additionally, the Budget includes $34.6 million General Fund to waive the local match for Northern California and Southern California counties' costs of debris removal, $29.1 million and $5.5 million, respectively.

Federal Supplemental Appropriations Bill for 2017 Disasters

The Governor declared emergencies in all of the disasters discussed above and secured a Presidential Major Disaster Declaration for the Northern and Southern California wildfires, and subsequent Southern California mudslides, providing direct federal aid for residents of those counties who suffered related losses. Workers in these counties who have lost jobs or had work hours substantially reduced as a result of the fires are also now eligible for federal Disaster Unemployment Assistance benefits.

In addition to investments made by California, Congress passed a supplemental disaster-related appropriations bill totaling $4.4 billion to support the state's recovery efforts associated with these disasters. The Administration, through the Office of Emergency Services, is working closely with local officials to provide technical assistance and guidance to enable local governments to access these funds to support local recovery efforts that will boost the economy as well as reinstate essential services.

In April, California was awarded $14.4 million Federal Trust Fund from the federal Immediate Aid to Restart School Operations Program. This funding is to be used to provide assistance or services to local educational agencies, including charter schools and private schools, to help defray expenses related to the restart of operations, reopening, and reenrolling students in elementary and secondary schools that serve an area affected by a covered disaster or emergency.

Medicinal and Adult-Use Cannabis

The Medical Marijuana Regulation and Safety Act enacted in 2015 created a regulatory framework for medical cannabis in California, and distributed the responsibility for state licensing between three state entities—the Department of Food and Agriculture, the Department of Public Health, and the Bureau of Cannabis Control. In November 2016, voters approved Proposition 64, the Adult Use of Marijuana Act, which legalized the recreational sale and use of cannabis to people over the age of 21 and levied new excise taxes on the cultivation and retail sale of all state-regulated cannabis. Chapter 27, Statutes of 2017 (SB 94), integrated medical and adult use regulations to create the Medicinal and Adult-Use Cannabis Regulation and Safety Act, establishing a single regulatory system to govern the cannabis industry in California.

In 2015, the state began providing General Fund loans to support the cannabis regulatory system—the total loans now equal $120 million.

The cannabis excise tax is forecast to generate $630 million in 2018-19. While the forecast assumes revenue will be phased in over time, preliminary data indicates revenue receipts are slower than expected. Cannabis revenue projections are subject to great uncertainty.

Proposition 64 specified the allocation of resources in the Cannabis Tax Fund, which are not subject to appropriation by the Legislature. Pursuant to Proposition 64, expenditures are prioritized as follows:

- Regulatory and administrative costs necessary to implement, administer, and enforce the Cannabis Act. The Administration will use the initial revenues into the tax fund to repay the General Fund loans totaling $120 million used to support these activities while cannabis tax proceeds were unavailable.
- Research and activities related to the legalization of cannabis, and the past effects of its criminalization.
- Programs to support substance use disorder treatment, environmental impacts of cannabis cultivation, and public safety.

The Budget includes approximately $130 million to fund cannabis-related activities, which are largely authorized for a two-year limited-term basis and include the following:

- Licensing and Enforcement—Continues implementation of licensing and enforcement programs for the cultivation, manufacturing, testing, distribution, and retail sale of recreational and medicinal cannabis, including support for the Cannabis Track and Trace system to report the movement of cannabis through the distribution chain, the establishment of regional offices for licensing and cash collection, and a public awareness campaign of the benefits of the legalized market. Specifically, funding is authorized for the following entities: California Department of Food and Agriculture ($28.3 million), California Department of Public Health ($10.6 million), Department of Consumer Affairs ($33.9 million), and the Department of Finance ($440,000). Also, the Budget includes a General Fund loan of up to $59 million to the Cannabis Control Fund to provide sufficient cash for 2018-19.
- Tax Collection and Business Filings—Supports ongoing tax collection activities, including collection of cash payments and establishment of a California Department of Tax and Fee Administration (CDTFA) cash collection office in Orange County, information technology system enhancements, and security upgrades at state offices, as well as the Secretary of

State's ability to process cannabis-related business and trademark filings. Specifically, funding is authorized for the following entities: Employment Development Department ($3.7 million), CDTFA ($2.4 million), and Secretary of State ($440,000 Business Fees Fund).

- Hearings and Appeals—Provides funding for the Cannabis Control Appeals Panel ($1.4 million) and the Department of General Services ($13 million Service Revolving Fund) to conduct administrative hearings and appeals that result from denying, transferring, conditioning, suspending, or revoking issued licenses.
- Local Equity Programs—Provides $10 million General Fund on a one-time basis, subject to the enactment of specified legislation, for the Bureau of Cannabis Control to provide grants to local equity programs and $483,000 Cannabis Control Fund to provide technical assistance regarding the state licensing process to local equity applicants and licensees.

The Budget also includes funding for the following programs, as specified in Proposition 64:

- Community Engagement—$10 million for the Governor's Office of Business and Economic Development to support the Community Reinvestment Grants Program that will be awarded on a competitive basis to local health departments and qualified community-based non-profit organizations to support substance use disorder treatment, job placement, legal services, and other cannabis use-related programs.
- Research—$2 million for the University of California San Diego's Center for Medicinal Cannabis Research to further the objectives of the Center, including the enhanced understanding of the efficacy and adverse effects of cannabis as a pharmacological agent; and $10 million to a public university or universities chosen by the Bureau of Cannabis Control to research and evaluate the implementation and effect of Proposition 64, and make recommendations to the Legislature and Governor regarding possible amendments to the Act.
- Drug Recognition—$3 million for the California Highway Patrol to establish and adopt protocols to determine whether a driver is operating a vehicle while impaired, including best practices to assist law enforcement agencies.

Based on estimated tax revenues and pursuant to Proposition 64, the remaining programs will not receive funding until 2019-20 and will be based on collections received in 2018-19. Once funding is available beginning in 2019-20, Proposition 64 allocates resources for the following activities: (1) education, prevention, and treatment of substance use disorders; (2) clean-up, remediation and enforcement of environmental impacts created by cannabis cultivation; and (3) various public safety programs.

Financial Information System for California

The Financial Information System for California (FI$Cal) is one of the largest IT projects successfully developed in the nation. The implementation of FI$Cal brings together four partner agencies, the Department of Finance (Finance), the State Controller's Office (SCO), the State Treasurer's Office (STO), and the Department of General Services (DGS), to build a single integrated system encompassing budget, accounting, cash management, and procurement responsibilities. Rather than replace the isolated systems used by each, these agencies envisioned one system capable of expanding to meet future financial needs.

Prior to FI$Cal, the state used a combination of 2,500 legacy systems—ranging from custom applications to commonly used desktop spreadsheet applications—which were generally not interoperable or transparent. From 2006 to 2012, Finance, DGS, SCO, and STO worked with FI$Cal project staff to plan for the future system and in 2012, a vendor was brought on board to begin developing it.

In 2014, FI$Cal produced the state's first budget and became the state's budget system of record. Since then, FI$Cal has produced all subsequent budgets and any changes to budgets have been tracked and processed in FI$Cal. In 2015, FI$Cal implemented its procurement functionality (Cal eProcure) and became the state's procurement system of record. Cal eProcure now manages the acquisition of services from a vendor community that includes 58,000 active suppliers and 15,000 registered bidders. The Cal eProcure website also reports the state's procurement spending and allows the public to view individual procurement details.

Accounting functionality in FI$Cal began in 2014 with 9 state entities, and has now been implemented at 88 state entities as part of a phased release plan. The final release in July 2018 will bring FI$Cal's accounting functionality to 150 entities and will support approximately 20,000 users. Once accounting functionality is implemented statewide, approximately 40 million individual transactions will be processed in the system each year.

Currently, FI$Cal staff are developing and implementing the cash management functionality that constitutes the project's last major release. Once fully implemented in July 2019, all of the state's expenditures will be documented and viewable in FI$Cal, and the state's treasury and cash management functionality will be fully integrated within the system. This functionality will replace the SCO's and STO's legacy systems.

Notably, the Department of FI$Cal was established in 2016 to maintain the system and address the needs of its user departments. After full system implementation, FI$Cal staff will maintain the system while adding both department and statewide functionality as required. The Budget includes $88.8 million ($52.2 million General Fund) for the continued implementation of FI$Cal and ongoing support of the Department of FI$Cal.

California Department of Food and Agriculture

The California Department of Food and Agriculture protects and promotes California's agricultural industry by ensuring a safe and healthy food supply for consumers and enhancing local and global agricultural trade. Over the past several years, the Administration has added over $10 million in ongoing funding to strengthen the state's pest prevention system. These additional resources provide $3.1 million for border protection stations, $4.5 million to fortify the state's pest prevention system infrastructure, and $5 million for the Citrus Pest and Disease Prevention Program. Further, a number of one-time augmentations have, in the aggregate, resulted in more than $30 million General Fund being provided for the support of various pest prevention activities since 2013-14.

Governor's Office of Business and Economic Development

The Governor's Office of Business and Economic Development (GO-Biz) serves as the lead state entity for economic strategy and marketing efforts designed to improve California's business development, private sector investment, and economic growth. As part of the Administration's ongoing efforts to achieve those goals, the Budget includes $20 million General Fund in each of the next five years to provide statewide services to small businesses. This plan provides:

- $17 million annually to establish a Small Business Development Technical Assistance Expansion Program to augment existing small business services such as free or low-cost one-on-one consulting and low-cost training. This funding will be provided through a competitive grant process to federal small business technical assistance centers with a focus on services to underserved business groups, including women, minority, and veteran-owned businesses, and businesses in low-wealth, rural, and disaster-impacted communities.

- $3 million annually will go to federal Small Business Development Centers to help draw down federal funds that assist small businesses through consulting and training services.

In addition, the Budget extends the California Competes program for another five years through the 2022-23 fiscal year at $180 million in credit allocations per year. The California Competes Credit program was created as part of the Governor's 2013 Economic Development Initiative which eliminated Enterprise Zones. The program has been successful at attracting new and expanded economic activity to California. Through the end of the 2017-18 fiscal year, the California Competes Credit program has awarded over three-quarters of a billion dollars of credits to businesses committing to create over 90,000 jobs and invest over $17 billion in California. In addition, the Budget makes several important improvements to the program including eliminating the small business carve-out from the program and instead investing $20 million in small business as described above, and giving GO-Biz greater flexibility to consider important business attributes when recommending credit awards.

Earned Income Tax Credit

In 2015, the state enacted its first-ever Earned Income Tax Credit to help the poorest working families in California, which has been further expanded to include (1) self-employment income, (2) income ranges equivalent to full-time employment at the minimum wage, and (3) working individuals who are ages 18 to 24 or over age 65. The Earned Income Tax credit is expected to provide $420 million in tax credits to over 2 million households in 2018-19.

Secretary of State

The vast majority of voting technology used in California is from the late 1990s or early 2000s. Much of the equipment has reached the end of its useful life. The age and lack of replacement parts decreases the reliability and security of the equipment.

The Budget includes a one-time augmentation of $134.3 million General Fund that will be distributed amongst all 58 counties to support the research and development, purchase, or lease of necessary hardware, software, and initial licensing for the replacement of voting systems and technology. This funding will provide reimbursement to counties by matching county funds spent on voting system replacement activities on a dollar-for-dollar basis, up to the maximum amount of funds allocated for this purpose.

2020 Census

California has the largest number of hard-to-count residents—putting its population at risk of being underreported. The Legislative Analyst's Office estimated that California's population was undercounted by 2.7 percent in the 1990 decennial census. The Budget includes $90.3 million for statewide outreach and other efforts related to increasing the participation rate of Californians in the decennial census. Outreach will be conducted at the local level by networks of community organizations that are trusted by these hard-to-count populations. This effort will span multiple years, be conducted in multiple languages, and implement specific strategies to obtain a complete and accurate count of all California residents. California's Complete Count Census will keep the Legislature informed of statewide Census efforts and expenditures for the duration of the enumeration process through one-time and quarterly reporting to the Joint Legislative Budget Committee, the Assembly Select Committee on the Census, and the Senate Select Committee on the 2020 United States Census. The data collected by the decennial census determines the number of seats California has in the U.S. House of Representatives and is also used to determine federal funding levels for local communities.

Infrastructure

The Budget continues the revitalization and expansion of state-owned office space in Sacramento. The Budget provides a $630 million General Fund transfer to the State Project Infrastructure Fund, bringing the balance of the fund to approximately $725 million. These funds will be used for the design and construction of a new State Capitol Annex and related projects, as well as design of a new office building that will initially serve as a temporary home for the Legislature as the new Annex is constructed. The Budget also provides $422.6 million lease revenue bond authority for the construction of the new office building and, in the event there is insufficient cash for the Annex projects, up to $755.6 million lease-revenue bonds for the annex projects. The Budget also includes $30.4 million General Fund for design activities related to the renovation of the Gregory Bateson and Jesse Unruh buildings, demolition of the existing State Printing Plant, and development of a new office complex at the State Printing Plant site.

Building on significant investments of approximately $960 million in the 2015 and 2016 Budgets, the Budget provides one-time resources of $333.5 million ($305 million General Fund and $28.5 million Proposition 98 General Fund) to address critical deferred maintenance needs, as follows:

- Department of Water Resources: $100 million
- Judicial Branch: $50 million
- California State University: $35 million
- University of California: $35 million
- California Community Colleges: $28.5 million (Proposition 98 General Fund)
- California Exposition and Fair: $15 million
- Department of State Hospitals: $10 million
- Department of Developmental Services, Porterville: $10 million
- Department of General Services: $10 million
- Department of Corrections and Rehabilitation: $9 million
- Exposition Park: California African American Museum: $7 million
- California Military Department: $4 million
- Department of Veterans Affairs: $4 million
- State Special Schools: $4 million
- Office of Emergency Services: $4 million
- Network of California Fairs: $3 million
- Department of Forestry and Fire Protection: $2 million
- Department of Food and Agriculture: $1 million
- Employment Development Department: $1 million
- California Conservation Corps: $500,000
- Hastings College of the Law: $500,000

Budget challenges in the early 2000s resulted in a greater reliance on debt financing, rather than pay-as-you-go spending. From 1974 to 1999, California voters authorized $38.4 billion of general obligation bonds. From 2000 to 2010, voters expanded the types of programs funded by bonds and authorized approximately $111.9 billion of general obligation bonds.
The Administration has greatly tempered the use of debt, supporting $24.1 billion of new general obligation bonds from 2011 to 2018—including $4 billion on the ballot for housing in November—and strengthening oversight of bond spending for educational facility bonds

enacted through initiative. Of all previously issued infrastructure bonds, debt obligations of $74.2 billion in general obligation bonds and $9.2 billion in lease revenue bonds remain outstanding. Additionally there are $37.1 billion of general obligation bonds and lease revenue bonds ($33 billion and $4.1 billion, respectively) that are authorized but not yet issued. The bonds will be issued when projects are approved and ready for construction.

When the state borrows to pay for infrastructure, roughly one out of every two dollars spent on infrastructure investments pays interest costs, rather than construction costs. The amount of funds required to service the debt had increased steadily over past years, but that growth has slowed during this Administration. Annual expenditures on debt service grew from $2.9 billion in 2000-01 to $6.4 billion in 2010-11—an average annual growth of 9.2 percent. Since that time, debt service grew more slowly to $7.3 billion in 2017-18—an average annual growth rate of only 1.7 percent. Additionally, the Administration has focused on not selling bonds until cash is actually needed for projects—bringing the balance of bond cash on-hand to $3 billion in May 2018 (including $1.2 billion recently sold bonds for anticipated cash flows this calendar year) from a high of $9.7 billion in December 2011.

The Budget also includes a framework for how infrastructure spending required by Proposition 2—estimated to be approximately $1 billion—will be allocated for the 2019-20, 2020-21, and 2021-22 fiscal years. The first $415 million will offset planned General Fund spending on state infrastructure, while any amounts over that will be evenly distributed between affordable housing projects and high-priority rail investments.

Staff Assignments

Executive Office

Michael Cohen
Director of Finance
(916) 445-4141

Amy Costa
Chief Deputy Director, Budget
(916) 445-9862

Jacqueline Wong-Hernandez
Chief Deputy Director, Policy
(916) 445-8582

Todd Jerue
Chief Operating Officer
(916) 445-4923

Kari Krogseng
Chief Counsel
(916) 322-0971

H.D. Palmer
Deputy Director, External Affairs
(916) 323-0648

Jolie Onodera
Legislative Director
(916) 445-8610

Diane Cummins
Special Advisor to the Governor,
State and Local Realignment
(916) 445-4141

Budget Program Areas

Audits and Evaluations, Departmental Administration, Employee Compensation, Housing, Information Services, IT Fiscal Oversight, Labor, Local Government, State Pension Systems, and Tax Administration	**Erika Li,** *PBM**	(916) 445-3274
Budget Planning and Preparation, Cash Management, Statewide Budget Issues, and Statewide Accounting Policies and Training	**Veronica Chung-Ng,** *PBM*	(916) 445-5332
Corrections and Rehabilitation, Judicial Branch, Emergency Services, Department of Justice, General Government, and Business and Consumer Services	**Amy Jarvis,** *PBM*	(916) 445-8913
Education	**Jeff Bell,** *PBM*	(916) 445-0328
Health and Human Services	**Kristin Shelton,** *PBM*	(916) 445-6423
Natural Resources, Energy, Environment, Capital Outlay, and Transportation	**Karen Finn,** *PBM*	(916) 324-0043
Demographics, Economics, and Revenues	**Irena Asmundson,** *Chief Economist and PBM*	(916) 322-2263

*Program Budget Manager