



**GOVERNOR'S PROPOSED BUDGET FOR 2016-17
JANUARY 7, 2016**

January 7, 2016

TO: CSAC Board of Directors
County Administrative Officers
CSAC Corporate Partners

FROM: Matt Cate, CSAC Executive Director
DeAnn Baker, CSAC Director of Legislative Affairs

RE: Governor's January Budget Proposal for 2016-17

Earlier today, Governor Brown shared a positive budget proposal for counties despite his sharp awareness of the inevitable economic downturn approaching California. The proposed 2016-17 budget totals \$122 billion in General fund expenditures and is noted for fiscal restraint by limiting new on-going commitments.

Instead, it appropriates funds to help mitigate what the Administration has identified as the two biggest liabilities facing the state: infrastructure and state retiree benefits. In addition, the Governor is supporting programs that will help California more readily bounce back from the next recession through workforce training and education transition assistance. He also proposes contributing \$2 billion more than required to the state's rainy day fund to prepare for a future recession.

CSAC is very pleased that the Governor addressed two of CSAC's top budget priorities: transportation funding and the Managed Care Organization (MCO) tax in his budget proposal. For transportation, the Governor maintained the previous \$3.6 billion funding plan, an amount that would be shared between state and local programs.

The expiration of the MCO tax on June 30 of this year is expected to create a \$1.3 billion dollar hole in the state's General fund, which would result in cuts across multiple programs. However, the Governor has instead offered a series of revisions through a tax reform package that would fully cover, if not exceed, the necessary MCO tax revenue. Details are still limited at this time and we will share more information on county

impacts once confirmed. Governor Brown says he plans to commit greater time and attention to the MCO tax extension and the transportation funding package in the next month to make forward progress on securing the necessary support.

With respect to transportation, CSAC continues work with a broader coalition of stakeholders to push for a larger final transportation package. In addition to the Governor's plan, proposals have been introduced in both houses of the Legislature that would commit a higher level of investment. For our part, CSAC remains committed to finding points of consensus to bring all parties together on a final package that is robust enough to not only stop the decline of our freeway and street and road conditions, but also result in improvements.

Other highlights of the Governor's proposal include:

- \$170 million in Medi-Cal Administration funding.
- \$129.7 million for SB 678 recidivism reduction programs.
- \$250 million for partially funded or new jail construction projects.
- \$3.1 billion plan for Cap and Trade auction revenues, including:
 - \$150 million for CAL Fire to address forest health and tree mortality.
 - \$100 million for Climate Communities program for the state's top 5 percent of disadvantaged communities for energy, transportation, water, waste reduction, and other GHG reducing projects.
- \$644,000 to fund the state's PILT program for a year.
- \$4.5 million additional funds to help Lake and Calaveras Counties with fire recovery efforts.

While the Governor has remained fiscally conservative in past budget cycles, especially in determining revenue projections and funding new programs, state tax revenues continue to grow modestly with the improving economy. State Controller Betty Yee reported last month that the state's three major sources of revenue (sales tax, personal income tax, and the corporation tax) were coming in well ahead of projections. The State Legislative Analyst's Office puts the revenue surplus for this fiscal year at about \$3.6 billion so far. However, much of that surplus has to be directed to schools and to the state's rainy day fund. The Governor spent his press conference urging restraint to avoid drastic cuts in the coming years.

The following pages provide statewide revenue and expenditure summary charts and specific budget proposals by policy area.



**2015-16 Governor's Budget
General fund Budget Summary**
(\$ in millions)

	2015-16	2016-17
Prior Year Balance	\$3,699	\$5,172
Revenues and Transfers	\$117,537	\$120,633
Total Resources Available	\$121,236	\$125,805
Non-Proposition 98 Expenditures	\$66,072	\$71,637
Proposition 98 Expenditures	\$49,992	\$50,972
Total Expenditures	\$116,064	\$122,609
Fund Balance	\$5,172	\$3,196
Reserve For Liquidation of Encumbrances	\$966	\$966
Special Fund for Economic Uncertainties	\$4,206	\$2,230
Budget Stabilization Account/Rainy Day Fund	\$4,455	\$8,011

General fund Revenue Sources
(\$ in millions)

	2015-16	2016-17	\$ Change	% Change
Personal Income Tax	\$81,354	\$83,841	\$2,487	3.1%
Sales and Use Tax	25,246	25,942	696	2.8%
Corporation Tax	10,304	10,956	652	6.3%
Insurance Tax	2,493	2,549	56	2.2%
Alcoholic Beverage Taxes and Fees	366	373	7	1.9%
Cigarette Tax	84	81	-3	-3.6%
Motor Vehicle Fees	22	22	0	0.0%
Other	517	425	-92	-17.8%
Subtotal	\$120,386	\$124,189	\$3,803	3.2%
Transfer to the Budget Stabilization / Rainy Day Fund	-2,849	-3,556	-707	24.8%
Total	\$117,537	\$120,633	\$3,096	2.6%

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Long-Term Revenue Forecast – Three Largest Sources

(General fund Revenue - \$ in billions)

	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	Average Yearly Growth
Personal Income Tax	\$76.1	\$81.4	\$83.8	\$86.4	\$84.5	\$86.4	2.6%
Sales and Use Tax	23.7	25.2	25.9	26.4	27.6	28.9	4.1%
Corporation Tax	9.0	10.3	11.0	11.6	12.1	12.7	7.2%
Total	\$108.8	\$116.9	\$120.7	\$124.4	\$124.2	\$128.0	3.3%
Growth	10.7%	7.5%	3.3%	3.0%	-0.1%	3.0%	

General fund Expenditures by Agency

(\$ in millions)

	2015-16	2016-17	\$ Change	% Change
Legislative, Judicial, Executive	\$3,227	\$3,330	\$103	3.2%
Business, Consumer Services & Housing	636	434	-202	-31.8%
Transportation	267	222	-45	-16.9%
Natural Resources	2,730	2,909	179	6.6%
Environmental Protection	325	-31	-356	-109.5%
Health and Human Services	31,666	33,742	2,076	6.6%
Corrections and Rehabilitation	10,276	10,620	344	3.3%
K-12 Education	49,859	51,230	1,371	2.7%
Higher Education	14,312	14,567	255	1.8%
Labor and Workforce Development	212	166	-46	-21.7%
Government Operations	761	2,245	1,484	195.0%
General Government:				
Non-Agency Departments	711	729	18	2.5%
Tax Relief/Local Government	445	483	38	8.5%
Statewide Expenditures	637	1,963	1,326	208.2%
Total	\$116,064	\$122,609	\$6,545	5.6%

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Administration of Justice

2011 Realignment

The Governor's budget updates revenue assumptions for 2011 Realignment programs and details base and growth estimates for 2016-17. For the Community Corrections Subaccount (AB 109) the Governor's budget confirms that the 2015-16 base is \$1.107 billion and estimates that growth attributable to 2015-16 will be \$96.8 million. The growth estimate will be revisited and revised in this spring's May Revision and again in the fall, at the end of the Realignment fiscal year.

Counties will also note that the Enhancing Law Enforcement Activities Subaccount should achieve its guaranteed funding level of \$489.9 million with VLF alone, with healthy growth available in 2015-16 (an estimated \$80.5 million) and 2016-17 (an estimated \$99.3 million). This subaccount funds a variety of local assistance programs including Citizens' Option for Public Safety, the Juvenile Justice Crime Prevention Act, and the rural and small county sheriffs program, amongst others.

The budget continues with another round of planning grants totaling \$7.9 million for Community Corrections Partnerships (CCPs) to support work associated with ongoing AB 109 implementation efforts. The planning grants are disbursed in fixed amounts, depending on the county's size. As in past years, it is expected that receipt of the grants will be conditioned upon reporting to the Board of State and Community Corrections (BSCC) regarding AB 109 implementation plans.

Improve Jail Capacity

The Administration continues its commitment to help counties appropriately serve felony offenders in local custody by investing an additional \$250 million General fund for jail capacity. The funds are determined on a competitive basis for counties that have previously received only a partial award or have never received an award from the state for replacing or renovating county jails. While the state has provided \$2.2 billion in lease revenue authority for local jail construction over the last several years, the \$250 million general fund proposal is intended to address the remaining gaps at the local level.

SB 678 Funding

The budget assumes sustained SB 678 funding, reflecting counties' ongoing success under the 2009 performance-based probation funding program. Based on the revised formula established in 2015-16, the Budget proposes \$129.7 million to continue the Community Corrections Performance Incentive Grant Program. The budget recognizes

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the significance of this funding stream in supporting probation's evidence-based prevention and intervention efforts.

Proposition 47

Voters passed Proposition 47 in November 2014 and it took effect immediately. It requires a misdemeanor charge rather than felony sentencing for specific property and drug crimes. The state savings estimate for Proposition 47 is \$29.3 million when taking into account the reductions of state inmates in 2015-16 compared to 2013-14. The measure requires that 65 percent of the savings be allocated to the BSCC for mental health and substance abuse treatment, housing, and work force development (\$19.039 million). Another 25 percent of the savings go to the State Department of Education to reduce truancy and support students at risk of dropping out (\$7.3 million). The final 10 percent goes to the Victims Compensation and Government Claims Board supporting trauma recovery centers that serve victims (\$2.9 million).

City Law Enforcement Grants

Working to increase positive outcomes between city police and at risk populations, the budget includes a \$20 million (General fund) grant program to be funded through the BSCC. The BSCC began implementing the program in 2015 and has established detailed guidelines and reporting requirements for cities that apply for these funds.

Racial and Identity Profiling Act of 2015

The budget proposes \$10 million General fund for local law enforcement agencies costs related to the implementation of AB 953 (Weber; 2015), which revises the definition of racial profiling. There are increased costs for law enforcement reporting, as well as funding needed for the Attorney General to report on citizen complaints on racial or identity profiling for state law enforcement agencies. The Administration will work with law enforcement to develop an allocation methodology for these funds and for the overall program.

Corrections

The budget document provides an extensive update on the state's efforts to comply with the three-judge panel orders relative to prison overcrowding. In 2014, the federal court granted the state an additional two years to meet the previously imposed population cap. Before February 28, 2016, the state must reach 137.5 percent of design capacity. As of December 9, 2015, the prison population was at 136.0 percent of design capacity.

The California Department of Corrections and Rehabilitation (CDCR) has implemented many solutions to meet the court order including expanding reentry programs throughout the state. The Governor's budget proposes \$32.1 million to continue the



community reentry program. Reentry programs link offenders to a range of community-based, rehabilitative services that assist with substance abuse disorders, mental health care, medical care, employment, education, and housing. The budget includes resources for a total of 680 beds in 2016-17 and proposes to increase eligibility criteria from 120 days prior to release to 180 days.

Siting Incentive Grants

In an effort to address communities that are reluctant to allow program operations for the rehabilitation of offenders in the criminal justice system, the budget proposes \$25 million general fund for incentive payments to cities and counties that approve, between January 1, 2016, and June 30, 2017, new long-term permits for these hard-to-site facilities that improve public safety.

State Hospitals

The budget proposes \$500,000 in 2015-16 and \$1.5 million in 2016-17 for the Department of State Hospitals to contract with Sonoma County to establish a jail based Restoration of Competency program for Incompetent to Stand Trial.

Judicial Branch

The budget proposes \$146.3 million in judicial branch augmentations, largely focused on innovations to benefit court constituents and develop new ways of doing business, including a \$30 million one-time grant program to improve access to justice. The budget focuses on improving the state's court system by reallocating up to five vacant superior court judgeships and the staffing and security that is needed to support and implement the proposal. The goal would be to shift the judgeships where the workload is highest without needing to increase the overall number of judgeships.

Agriculture, Environment and Natural Resources

The Governor's budget includes a number of proposals to fund environmental protection and natural resources programs. Most notable is the Governor's \$3.1 billion cap and trade spending plan, which includes funds for a new local climate program for disadvantaged communities, increased spending for investments in waste management, and increases to the forestry sector. In addition, this budget includes a one-year allocation for Payment In Lieu of Taxes (PILT), continued funding to support drought relief efforts, increased investments in resource management and wildfire protection,

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and funding for the implementation of the state’s new medical marijuana regulatory program.

Cap and Trade Funding

The Governor's 2016-17 budget proposes to appropriate \$3.1 billion in cap and trade revenues. This includes approximately \$700 million in unallocated auction revenues from the 2015-16 budget and a total of \$2.4 billion in 2016-17 revenues.

Investment Category	Department	Program	Amount
Continuous Appropriation	High Speed Rail Authority	High Speed Rail Project	\$500
	Transportation Agency	Transit and Intercity Rail Capital Program	\$200
	State Transit Assistance	Low Carbon Transit Operations Program	\$100
	Strategic Growth Council	Affordable Housing & Sustainable Communities	\$400
50 percent in reduction in Petroleum Use	Air Resources Board	Low Carbon Transportation & Fuels	\$500
	CalTrans	Low Carbon Road Program	\$100
	Transportation Agency	Transit and Intercity Rail Capital Program	\$400
	Energy Commission	Biofuel Facility Investments	\$25
	Strategic Growth Council	Transformational Climate Communities Program	\$100
Short-Lived Climate Pollutants	Air Resources Board	Black Carbon Woodsmoke	\$40
	Air Resources Board	Refrigerants	
	Cal Recycle	Waste Diversion	\$100
	Dept. of Food & Agriculture	Climate Smart Agriculture-Healthy Soils & Dairy Digesters	\$55
Safeguarding California/Water Action Plan	Dept. of Food & Ag & Water Resources	Water and Energy Efficiency	\$30

	Energy Commission	Drought Executive Order- Water and Energy Technology Program & Appliance Rebates	\$60
	Dept. of Fish & Wildlife	Wetlands and Watershed Restoration/CalEcoRestore	\$60
Safeguarding California/Carbon Sequestration	CAL Fire	Healthy Forests	\$150
		Urban Forestry	\$30
	Natural Resources Agency	Urban Greening	\$20
Energy Efficiency & Clean Energy	Department of General Services	Energy Efficiency for Public Buildings	\$30
	I Bank	California Lending for Energy and Environmental Needs Center	\$20
	Conservation Corps	Energy Corps	\$15
	Department of Community Services and Development	Energy Efficiency Upgrades/Weatherization	\$75
	University of California/California State University	Renewable Energy & Energy Efficiency Projects	\$60
TOTAL			\$3,090 B

Transformational Climate Communities Program

The Governor's cap and trade spending plan dedicates \$100 million to a new cross-cutting Climate Communities Program that will make investments in the state's top five percent of disadvantaged communities for energy, transportation, water, waste reduction, and other greenhouse gas (GHG) reducing projects. This is a new program to be administered through the Strategic Growth Council and largely reflects our advocacy work over the past several years to create a dedicated, cross-sector local climate funding program. Both CalEPA and the Natural Resources Agency have stated they are aware of the need for technical assistance and capacity building support in these communities and resources will be available to help these jurisdictions develop grant applications. In addition, the Cal Environ Screen Tool, which is the state's method for

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determining the disadvantaged communities within the context of cap and trade funding, will be updated this year.

Short-Lived Climate Pollutants/Waste Reduction

The cap and trade funding plan includes a new category for the reduction of short-lived climate pollutants, which include black carbon, methane, and fluorinated gases. The plan increases funding to the waste diversion sector, which would, in return, result in an overall reduction in methane emissions from our landfills. The plan dedicates \$100 million to Cal Recycle to provide financial incentives for capital investments that expand waste management infrastructure by investing in new or the expansion of clean composting, anaerobic digestion, fiber, plastic, and glass facilities.

Forestry and Wildfire Management

The Governor's budget makes a significant investment in resource management and wildfire protection services, including dedicated funding to address the Governor's Executive Order on tree mortality. Part of this investment comes from cap and trade auction revenues, totaling \$150 million for projects that reduce wildfire risk, improve carbon sequestration potential of California's forests through fuels reduction and reforestation projects and the removal of diseased and dead trees. CAL Fire has indicated that these funds will potentially be available to help mitigate the risk of wildfire on private lands as well as public lands. In addition to cap and trade funds, the California Conservation Corps has funding to partner with CAL Fire to work on forest health improvement projects, targeting the highest fire risk areas of the state. CAL Fire's budget also includes increased funding for fire protection and operational enhancements, the Professional Standards Program, Fire Safety, and Helicopter Replacement.

Payment in Lieu of Taxes (PILT)

The Governor's proposed budget includes \$644,000 in Payment in Lieu of Taxes funding to local governments. The Department of Fish and Wildlife (DFW) operates wildlife management areas throughout the state. Existing law (Fish and Game Code §1504) requires DFW to compensate counties for loss property taxes and assessments as a result of the establishment of a wildlife management area. These "payments in-lieu of taxes" (PILT) are equal to the county taxes levied upon the property at the time the state acquired the property plus any assessments levied upon the property by any irrigation, drainage, or reclamation district. Counties received a one-year allocation of PILT funds in the 2015-16 budget and this allocation is consistent with that appropriation.



Emergency Drought Response

Given the likelihood of the state entering into a fifth year of drought, the Governor’s budget includes \$323.1 million (\$212.1 million General fund) on a one-time basis to continue the critical drought response efforts. Highlights include: proposals to allocate \$5 million for provide emergency drinking water support for small communities, including those that rely on private wells; an increase in funding by \$5.4 million for enforcement of drought-related water rights and curtailment actions; and increased General fund support by \$26.7 million to the Office of Emergency Services for drought-related technical guidance and disaster recovery support they provide to local communities.

The proposed allocation is as follows:

<i>Investment Category</i>	<i>Department</i>	<i>Program</i>	<i>Amount</i>
Protecting Water Supplies	Department of Water Resources	Emergency Salinity Barriers in the Delta	\$42.0
	Department of Water Resources	Local Assistance for Small Communities	\$5.0
	Water Board	Water Curtailment	\$5.4
	Water Board	Emergency Drinking Water Projects	\$16.0
Water Conservation	Department of Water Resources	Urban Water Conservation & Save Our Water Campaign	\$15.0
	Energy Commission	Rebates for Appliances	\$30.0
	Energy Commission	Water and Energy Technology Program	\$30.0
	Department of Food and Agriculture	Agricultural Water Conservation	\$20.0
Emergency Response	Department of Forestry and Fire Protection	Enhanced Fire Protection	\$77.4
	Department of Water Resources	Drought Management and Response	\$12.0
	Department of Fish & Wildlife	Protection of Fish & Wildlife	\$17.7
	Department of Social Services	Drought Food Assistance	\$18.4
	Office of Emergency	California Disaster	\$22.7



	Services	Assistance Act	
	Office of Emergency Services	State Operations Center	\$4.0
	Department of Community Services & Development	Farmworker Assistance	\$7.5
TOTAL			\$323.1

California Water Action Plan

The California Water Action Plan, which was released by the Governor in January 2014, identifies a broad suite of actions to secure reliable water supplies, restore important species and habitat, and construct a more resilient water system. The Governor’s Budget proposes various General fund and Proposition 1 (2014 Water Bond) allocations to implement the Action Plan that address issues ranging from the repairing levees in the Central Valley to Salton Sea and wetland restoration projects and water delivery operational improvements.

Medical Marijuana Regulation

The Medical Marijuana Regulation and Safety Act of 2015 (MMRSA) created a statewide regulatory framework for licensing and enforcing rules governing the medical marijuana industry in California. The new law assigns various state agencies responsibility to develop regulations implementing the provisions of MMRSA. CSAC, in collaboration with the Regional Council of Rural Counties (RCRC) and the Urban Counties of California (UCC), has already initiated discussions with the affected state agencies to ensure that counties remain an active partner throughout the MMRSA regulatory administrative process.

The Governor’s budget proposes the following allocations to the state agencies with regulatory and/or licensing responsibilities under MMRSA:

- Department of Consumer Affairs: \$1.6 million in 2015-16 and \$3.8 million from the Medical Marijuana Regulation and Safety Act Fund (MMRSA Fund) and 25 positions in 2016-17 to create the Bureau of Medical Marijuana Regulation within the Department of Consumer Affairs. The Bureau will be responsible for overseeing the MMRSA multiagency licensing and regulatory effort.
- Department of Public Health (DPH): \$457,000 in 2015-16 and \$3.4 million from the MMRSA Fund and 14 positions in 2016-17. DPH is responsible for developing the regulations affecting medical marijuana product manufacturing and testing.
- Department of Food and Agriculture (CDFA): \$3.3 million in 2015-16 and \$3.4 million from the MMRSA Fund and 18 positions in 2016–17. CDFA will be responsible for developing regulations concerning the cultivation of medical marijuana.

- Department of Pesticide Regulation (DPR): \$700,000 Pesticide Regulation Fund and 3 positions in 2016-17. MMRSA requires DPR to develop guidelines for the use of pesticides in the cultivation of medical marijuana.
- Department of Fish and Wildlife (DFW): \$7.6 million General fund and 31 positions in 2016-17. The proposed budget indicates that these funds will be used by DFW to fulfill their role in regulating water diversions related to marijuana cultivation, and to expand and make permanent the statewide multi-agency task force established in 2014 to address environmental impacts of medical marijuana cultivation.
- State Water Resources Control Board (Water Board): \$5.7 million (\$5.2 million General fund and \$472,000 Waste Discharge Permit Fund) and 35 positions in 2016-17. These funds are to be utilized by the Water Board to develop and implement regulations that address the environmental impacts of medical cannabis cultivation, including water diversions related to marijuana cultivation.

Parks and Recreation

The Governor’s budget continues to strengthen the state park system. The proposed budget includes several proposals that build on these existing efforts to address outstanding issues, including repayment of the Off-Highway Vehicle loan, an increase of \$60 million General fund for high-priority deferred maintenance projects and outreach to urban communities to help facilitate better relationships with community-based organizations to ultimately increase urban access to parklands.

Government Finance and Operations

Unlike previous years, there was little proposed in the Governor’s budget related to local government organization, authority, or operations. Similar to other areas, however, the Governor is focused on implementing programs and systems already enacted in statute through previous sessions or adopted budgets.

EMPLOYEE RELATIONS

Once again, the Governor’s proposal directs focus to unfunded liabilities associated with retirement costs of state and University of California employees, which comprise over 98 percent (\$220 billion) of the state’s long-term debt.

State Employees and Retirees

The Governor's budget proposal provides \$5.5 billion (\$3.2 billion General fund) in state employee pension contributions. This includes the final phase-in of rate increases due to changes in demographic assumptions that were adopted by the California Employees' Retirement System (CalPERS) Board in 2014. The budget proposal additionally focuses attention on the state's \$72 billion in unfunded retiree health care obligations, citing the Governor's plan to eradicate that debt through collectively bargaining the following: 1) equal sharing in the prefunding of normal costs for future retiree health care benefits, and 2) making changes to contribution and vesting schedules for retiree health care for future employees.

Public Employment Relations Board (PERB)

The Governor proposes an increase of \$885,000 and five positions to reduce backlogs within PERB, is a quasi-judicial administrative agency that administers the eight collective bargaining statutes covering employees of California's public schools, colleges and universities, employees of the State of California, employees of local public agencies (cities, counties and special districts), trial court employees, trial court interpreters, employees covered by the In-Home Supportive Services Employer-Employee Relations Act, and supervisory employees of the Los Angeles County Metropolitan Transportation Authority.

REVENUE AND TAXATION

Redevelopment Dissolution Work Continues

Following the passage of last year's Senate Bill 107, the redevelopment agency (RDA) dissolution budget trailer bill, the Administration anticipates carrying out the changes to ensure the proper return of tax increment to counties, cities, and other taxing entities. The budget proposal anticipates that in 2015-16 and 2016-17, counties will receive an additional \$684 million in general-purpose revenues,

The proposed budget anticipates Proposition 98 General fund savings resulting from the dissolution of RDAs will be \$1.1 billion in 2015-16. For 2016-17, Proposition 98 General fund savings are expected to be \$1 billion. This amount should grow over the next three decades as the former RDAs' debts and other legal obligations are paid off and property tax revenues grow.

Elections Funding Limited to "Motor Voter" Program

Last year the Legislature enacted an automatic voter registration program upon application for, or renewal of, a drivers' license through the Department of Motor Vehicles. The Governor proposes to appropriate \$3.9 million to bring the system online. No additional allocations are made for other elections reform efforts, such as the SB 450 (Allen) "vote center" model supported by CSAC now before the Legislature.



Mandate Reimbursement and Reform

As anticipated, the January budget did not address the outstanding payments for state mandated services and programs already delivered by counties and other local agencies. CSAC will work with the Administration and Department of Finance in 2016 to determine a workable plan to pay down the debt, as well as future steps that will secure timely, dependable payments and reduce the possibility of future backlogs.

The prior year funded and suspended mandate status is proposed to continue in the next fiscal year for all mandates, including the Interagency Child Abuse and Neglect Investigation Reporting mandate and several important elections-related services.

Other Local Finance Provisions

- The Governor proposes to fully fund the state's insufficient ERAF backfill to the counties of Alpine, Amador, and San Mateo, totaling \$393,000.
- The proposal would also continue the Pilot Program to Improve Property Tax Administration in the third and final year with review of the program to determine if continuation or expansion is warranted.

Sales and Use Tax Projections

Sales and use tax is one of the state's "Big Three" revenues and is of particular importance to counties as the primary source of funding for realignment, Proposition 172 funds for public safety, transportation, and other local programs. Wholesale trade, motor vehicle and parts dealer sales, and food service sales are significant contributors to the sales tax base.

The Governor's budget estimates that the sales tax will generate \$25.2 billion in General fund revenues in 2015-16 and \$25.9 billion in 2016-17. Taxable sales increased by an estimated 6.1 percent in 2014-15 and the budget estimates growth of 5.7 percent in 2014-15 and 5.8 percent in 2016-17. However, the budgeted revenue projections do not mirror these increases due to the expiration of temporary Proposition 30 taxes at the end of calendar year 2016.

Property Tax Projections

Property taxes are primarily a source of local revenue, but estimates are included in the state budget because of the complex interactions with school funding. The Governor's budget estimates 5.6 percent increases in both 2015-16 and 2016-17 for statewide property tax revenues.

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Also of note: the August 2015 final payment on the 2004 Economic Recovery Bonds resulted in the end of the notorious “Triple Flip,” a complicated shift among local government revenue streams to pay debt service on the Economic Recovery Bonds.

Health and Human Services

MEDI-CAL

The state’s Medi-Cal costs continue to rise, with increased enrollment and decreases in federal funding beginning in 2017. However, while the net Medi-Cal budget of \$85.1 billion represents more than 60 percent of the overall health and human services budget, the state’s General fund obligation is estimated to be \$19.1 billion in 2016-17. The budget also estimates that Medi-Cal caseload will increase by 727,000 recipients in the current year and 62,000 in 2016-17. Total caseload is expected to top 13.5 million in 2016-17.

County Medi-Cal Administration Costs

The Governor’s budget includes \$169 million in the current year for county Medi-Cal administration costs, plus that amount over baseline in the 2016-17 budget year. The County Welfare Directors Association has indicated that this amount is reasonable for county costs. Once the state has stabilized the CalHEERS portal and automated the eligibility system, Governor Brown indicates that the state will conduct a time-study to create a Medi-Cal county administration budgeting methodology.

Expansion for Undocumented Children

The 2016-17 budget includes \$145 million General fund (\$182 million total funds) for the expansion of full-scope Medi-Cal to undocumented children in the state. Children will be eligible starting May 1 2016, and the budget estimates that up to 170,000 children will become eligible. This expansion was signed into law last year under SB 75 (Lara).

MANAGED CARE ORGANIZATION TAX

The Managed Care Organization (MCO) tax currently provides roughly \$1.1 billion for Medi-Cal services, including administrative funding for the Coordinated Care Initiative (\$130 million) and other critical health care services. The Governor is proposing a new three-year tiered MCO tax plan based on the type of health plan (either commercial, closed-system such as Kaiser, or Medi-Cal). Some plans, including local health plans, would fall under both the commercial and Medi-Cal tiers. To help plans with the costs



associated with the new proposed tax, the state is offering concurrent relief in the Gross Premiums Tax and Corporations Tax that some plans pay.

The Governor's new proposal would raise about \$1.7 billion total, but after the other tax policy changes are taken into account, would net the state about \$1.3 billion.

This funding would be placed into a special fund and be used to fund current Medi-Cal activities, including parts of the Coordinated Care Initiative plus the full-year restoration of the 7 percent across-the-board cuts in In-Home Supportive Services hours (\$236 million). Not included yet in that funding picture are additional priorities that have been discussed during the Second Extraordinary Session on Health Care: increases for Medi-Cal providers and developmental services providers.

AFFORDABLE CARE ACT IMPLEMENTATION/AB 85

County Reimbursements

The Governor indicates that the state will need to reimburse counties \$151.7 million in 2016-17 for AB 85 redirections from 2013-14. How and when those reimbursements are made are still under discussion.

Redirection Estimate

The estimate for county AB 85 redirections is \$741.9 million for the current year (2015-16) and \$564.5 million in the budget year (2016-17).

CalWORKs Grant Costs

As for the AB 85 redirections that help fund the cost of state CalWORKs grants, the state estimates that it will need \$319.8 million total for 2016-17. The Governor projects \$302.4 million in AB 85 deposits into the Child Poverty and Family Supplemental Support Subaccount in 2016-17, with the state backfilling \$17.4 million General fund for the increased grant costs.

COORDINATED CARE INITIATIVE

The Governor has opted to maintain the Coordinated Care Initiative (CCI) dual-eligible project for 2016-17, but continues to strike a cautious note regarding the project's future. The fact that participation continues to vary, with an average 69 percent opt-out rate, and the lack of clarity on a new MCO tax, are both threats to the project's continuation past calendar year 2017. CSAC will continue to work with the Administration, health plans, and counties to increase CCI enrollment and efficiencies, as well as support a new MCO tax.

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CONTINUUM OF CARE REFORM (AB 403 Group Home Reform)

The Governor's budget proposal includes \$94.9 million (\$60.9 million General fund) for the Department of Social Services (DSS), Department of Health Care Services (DHCS), county child welfare agencies, and county probation departments to implement the Continuum of Care Reform as set forth by last year's AB 403 (Stone; 2015). County behavioral health plans will also be part of the implementation efforts.

Last January, DSS released their [report on the Continuum of Care Reform](#), which outlined a comprehensive approach to improving the experience and outcomes of children and youth in foster care. Since then, DSS' sponsored legislation AB 403 was signed into law. The new law reclassifies juvenile treatment facilities and transitions from the use of group homes for children in foster care and probation to the use of short-term residential treatment centers. CSAC, along with our county affiliates—CWDA, CBHDA, and CPOC—worked collaboratively with DSS on the language of AB 403 and also conveyed the need for reasonable timelines and upfront investments to efficiently and effectively implement this reform.

CSAC is pleased with the Governor's recognition of these reforms as a massive undertaking by proposing funding to aid in implementation efforts. While the Governor's budget did not specifically earmark funding for the various state and county entities involved, CSAC and our county affiliates will continue to work with the Administration to ensure counties receive sufficient funding to build capacity and implement the new practice requirements.

IN-HOME SUPPORTIVE SERVICES

The Governor's budget includes \$9.2 billion (\$3 billion General fund) in 2016-17 for the In-Home Supportive Services (IHSS) program, which has grown due to caseload growth.

Additionally, the Governor is proposing to restore the 7 percent cut in service hours—estimated to cost \$236 million in fiscal year 2016-17—with proceeds from the pending Managed Care Organization (MCO) tax in lieu of General fund (see MCO tax section above).

The Governor's budget estimates that IHSS overtime will cost \$700.4 million (\$331.3 million General fund) in fiscal year 2015-16 and \$942 million (\$443.8 million General fund) ongoing beginning in fiscal year 2016-17. In August 2015, the U.S. Court of Appeals upheld the U.S. Department of Labor regulations requiring overtime pay for domestic workers. The Administration is anticipating the implementation of federal overtime rules to begin February 1, 2016. Increased rates for these providers took effect December 1, 2015.



2011 REALIGNMENT

For the latest estimates for 2011 Realignment revenues, please see the table at the end of this document for the Department of Finance’s “2011 Realignment Estimate at 2016-17 Governor’s Budget” chart.

HUMAN SERVICES

Supplemental Security Income/State Supplementary Payment

Governor Brown included \$2.9 billion General fund for the Supplemental Security Income/State Supplementary Payment (SSI/SSP) program. Also included is \$40.7 million General fund for cost-of-living increases to the SSP portion of the grant equivalent to the California Necessities Index (estimated at 2.96 percent). This is the first SSI/SSP grant increase proposed since the Great Recession. The Legislature may seek additional SSI/SSP increases.

CalWORKs

Despite an estimated 5.5 percent decline in the average monthly CalWORKs caseload from the 2015 Budget Act, the Governor’s budget proposal still estimates \$7.5 billion in expenditures for the federal Temporary Assistance for Needy Families (TANF) program in fiscal year 2016-17. Of the \$7.5 billion, \$5.4 billion is for CalWORKs program expenditures and \$2.1 billion is for other programs.

CalFresh Assistance and Training

The Governor proposes \$804,000 (\$261,000 General fund) for the Department of Social Services to provide CalFresh assistance and training to California’s 19 largest counties. The training will be coordinated with the Medi-Cal and Women, Infants, and Children (WIC) programs to provide appropriate nutrition assistance for young children.

BEHAVIORAL HEALTH

The Governor’s budget projects \$32.5 million General fund (\$90.9 million total funds) for expanded residential treatment services under the new Drug Medi-Cal Organized Delivery System waiver. The Department of Health Care Services is basing that projection on at least 50 counties opting into the waiver.

The 2016-17 budget also includes \$11.9 million General fund for implementation of a new Performance Outcomes System to track outcomes in mental health services for children and youth. This will help with some county costs related to data collection and training for the new system.

ACTION

CALIFORNIA'S SECTION 1115 FEDERAL WAIVER RENEWAL

The Governor's budget highlights the agreement between the Centers for Medicare and Medicaid Services (CMS) and California on the latest iteration of the Section 1115 Waiver, deemed "Medi-Cal 2020." CMS approved another five-year waiver effective January 1, 2016 through December 31, 2020. The waiver will provide \$6.2 billion in federal funding, with the potential for additional funding within the new Global Payment program.

The Governor noted core elements of the waiver agreement in his budget release, including:

- A delivery system transformation and alignment incentive program (PRIME), which will draw down roughly \$3.3 billion for county public hospitals and district and municipal hospitals.
- A Global Payment program for the county public hospitals to serve the remaining uninsured. Federal funds for this program include \$1 billion in Disproportionate Share Hospital Funding annually and an initial \$276 million uncompensated care funding.
- Whole Person Care county-based pilots for high-risk, vulnerable populations. CMS has agreed to \$1.5 billion in funding over the 5 years.
- A dental transformation incentive program totaling \$750 million in federal funds.

PUBLIC HEALTH

Disease Detection and Prevention

The Governor's budget includes \$1.6 million General fund and 14 positions to build laboratory capacity and increase disease surveillance and testing.

CHILD CARE

2015 Budget Act Investments

The Governor's budget proposes an increase of \$16.9 million General fund outside of Proposition 98 and \$30.9 million Proposition 98 General fund to reflect the full-year implementation of child care and preschool investments made in the 2015-16 Budget Act. These investments include:

- 7,030 additional full-day slots for State Preschool (starting January 1, 2016).
- An increase of 4.5 percent to the Regional Market Reimbursement Rate (starting October 1, 2015).
- A five percent rate increase for license-exempt providers (starting October 1, 2015).



Stage 2 Child Care

The Governor's budget proposes an increase of \$1.8 million non-Proposition 98 General fund in fiscal year 2016-17, bringing the total costs for Stage 2 to \$422.3 million.

Stage 3 Child Care

The Governor increased CalWORKs Stage 3 funding by \$33.4 million non-Proposition 98 General fund in 2016-17, bringing the total costs for Stage 3 to \$315.9 million.

Child Care and Development Funds

The Governor's budget includes a net increase of \$10.4 million in federal funds in 2016-17 to reflect a projected increase in the base grant amount. Total federal funding is projected to be \$593.2 million.

DEVELOPMENTAL SERVICES

Advocates for developmental services have waged a raucous campaign over the last year to secure additional funding for service provider rates, which have not been raised in more than ten years. Increases in these rates have also been a topic within the Health Care Special Session, but to no avail. The Governor's revised MCO tax proposal does not specifically include funds for raising these rates, but leaves the door open to potentially using some MCO funding for this purpose. However, the Governor included \$50 million General fund to establish four-bed Alternative Residential Model rates, increase case managers, and ensure compliance with the Home and Community-Based Services Waiver.

Housing, Land Use and Transportation

TRANSPORTATION

The Governor's 2016 January Budget Proposal continued to emphasize reinvesting in California's infrastructure, particularly in the transportation sector. This is a positive starting point for our efforts to secure new, robust, and sustainable funding for local streets and roads in the Special Session on Transportation and Infrastructure Development still underway. For his part, the Governor noted his optimism that the special session conference committee will be able to reach consensus on a transportation package that reflects his top six principles, including:

- A "fix-it-first" approach to repairing state highways and local streets and roads.
- Investing in key trade corridors.
- Providing funds to match locally generated funds for high-priority projects.

ACTION

- Improving performance, accountability, and efficiency at Caltrans.
- Investing in passenger rail and public transit.
- Avoiding an impact on the “precariously balanced” General fund.

While consistent with the Administration’s earlier position, the last priority is particularly interesting, as Republican members in both houses and some moderate Democrats continue to push transportation funding solutions that include returning truck weight fees to transportation projects—a direct \$1 billion General fund hit.

Transportation funding remains a top priority for CSAC in 2016 and we will continue to work with a broad coalition of partners to find consensus points among the various parties to see a comprehensive and robust package come to fruition.

Governor Brown Reintroduces 2015 Transportation Funding and Reform Package

The budget proposal included a reintroduction of the [Governor’s September 2015 transportation funding and reform package](#). That proposal would spend an additional \$3.6 billion annually for ten years on maintenance and rehabilitation of state and local transportation systems and investments in transit. The proposal also includes a number of reforms and accountability measures including project delivery and environmental streamlining, innovative procurement methods, and reforms at Caltrans related to workload and hiring.

The plan stabilizes the gas excise tax by eliminating the complicated adjustment process from the fuel tax swap and instead indexing it to inflation, spends \$500 million a year from cap and trade funds, increases the excise tax on diesel fuel, and adds a \$65 per year “highway user fee” per vehicle. In addition to supporting local street and road maintenance and rehabilitation through approximately \$1.05 billion in new subventions allocated to jurisdictions by formula, the plan would provide \$250 million for a state-local partnership program for those counties that have passed sales tax measures to fund transportation projects.

Finally, the Governor proposes additional investments in transportation from the Greenhouse Gas Reduction Fund. Specifically, his plan would provide \$100 million for local complete streets projects and an additional \$400 million for transit. For more information on the Governor’s comprehensive cap and trade proposal, please see the Agriculture, Environment, and Natural Resources section.

The Governor’s plan serves as a solid baseline from which to continue discussions on how much additional funding the state should raise, and how best we can invest it in statewide transportation infrastructure. The [Senate Republican Caucus](#) and [Assembly](#)

[Republican Caucus](#) have funding proposals on the table, as does [Senator Jim Beall](#). Most recently, Assembly Member Jim Frazier introduced a [nearly \\$8 billion transportation funding plan](#). CSAC will continue to evaluate the various proposals and potential compromises against our [adopted coalition principles](#).

Gas Tax Trends and Anticipated 2016-17 Funding for Counties

While overall state revenues continue to improve, funding to maintain and repair state highways and local roads will continue to deteriorate in 2016-17 without an infusion of new funding. Due to low prices, the Department of Finance estimates that the gasoline excise tax will be reduced 2.2 cents in July to maintain revenue neutrality with the former sales tax on gasoline. The overall state excise rate would decrease to 27.8 cents from a high of 39.5 cents in 2013-14.

CSAC will continue to advocate for an administrative fix to the price-based excise tax rate-setting process to incorporate historical gasoline price data and increase revenue stability. This adjustment would decrease the magnitude of this year's reduction, but it would also slow the revenue increases when gasoline prices inevitably rise.

Increases in fuel consumption will partially offset decreases in the tax rate. Gasoline consumption was up 2 percent in 2014-15, and the Department of Finance estimates further increases of 1.5 percent in 2015-16 and 0.5 percent in 2016-17. Diesel consumption is projected to increase even more: 2.3 percent in 2015-16 and 1.3 percent in 2016-17.

Despite consumption increases, revenues in the Highway User Tax Account, the primary source of funding for local street and road maintenance, will decrease by more than 25 percent in only two years. County shares of this revenue have decreased by an even greater amount, as the funding transferred out to pay for transportation bond debt service has continued to grow as overall gas tax revenue decreases.

CSAC staff has requested detailed budget information to create county-by-county fuel tax revenue estimates. We will share this information with public works departments as soon as it is available.

If you would like to receive the Budget Action Bulletin electronically, please e-mail Amanda Yang, CSAC Senior Legislative Assistant at ayang@counties.org.

ACTION

CALIFORNIA STATE ASSOCIATION OF COUNTIES

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Figure HHS-03
2011 Realignment Estimate at 2016-17 Governor's Budget
(Dollars in Millions)

	2014-15	2014-15 Growth	2015-16	2015-16 Growth	2016-17	2016-17 Growth
Law Enforcement Services	\$2,078.3		\$2,289.1		\$2,418.2	
Trial Court Security Subaccount	518.1	14.5	532.5	12.9	545.4	13.8
Enhancing Law Enforcement Activities	489.9	57.8	489.9	80.5	489.9	99.3
Community Corrections Subaccount	934.1	173.4	1,107.5	96.8	1,204.3	103.4
District Attorney and Public Defender	15.8	8.5	24.3	6.5	30.8	6.9
Juvenile Justice Subaccount	120.4	14.5	134.9	12.9	147.8	13.8
<i>Youthful Offender Block Grant Special Account</i>	(113.8)	(13.7)	(127.5)	(12.2)	(139.6)	(13.0)
<i>Juvenile Reentry Grant Special Account</i>	(6.6)	(0.8)	(7.4)	(0.7)	(8.2)	(0.8)
Growth, Law Enforcement Services		268.7		209.6		237.2
Mental Health²	1,120.6	13.4	1,120.6	12.0	1,120.6	12.8
Support Services	3,022.1		3,277.6		3,505.2	
Protective Services Subaccount	1,970.7	138.5	2,109.2	107.8	2,217.0	115.2
Behavioral Health Subaccount ³	1,051.4	117.0	1,168.4	119.8	1,288.2	128.0
<i>Women and Children's Residential Treatment Services</i>	(5.1)	-	(5.1)	-	(5.1)	-
Growth, Support Services		268.9		239.6		256.0
Account Total and Growth	\$6,758.6		\$7,136.5		\$7,537.2	
Revenue						
1.0625% Sales Tax	6,210.9		6,566.1		6,948.0	
Motor Vehicle License Fee	547.7		570.4		589.2	
Revenue Total	\$6,758.6		\$7,136.5		\$7,537.2	

This chart reflects estimates of the 2011 Realignment subaccount and growth allocations based on current revenue forecasts and in accordance with the formulas outlined in Chapter 40, Statutes of 2012 (SB 1020).

¹ Base Allocation is capped at \$489.9 million. Growth does not add to the base.

² Base Allocation is capped at \$1,120.6 million. Growth does not add to the base.

³ The Early and Periodic Screening, Diagnosis, and Treatment and Drug Medi-Cal programs within the Behavioral Health Subaccount do not yet have a permanent base.